

April 9, 2010

Honorable Mila Kofman  
Superintendent of Insurance  
State of Maine  
Bureau of Insurance  
State House Station #34  
Augusta, ME 04333

Dear Superintendent:

Under the authority of Title 24-A § 221 and in conformity with your instructions, a targeted market conduct examination has been made of:

**Varney Agency Inc.**  
**(Federal Id #01-0379093)**  
**(Maine License #AGR12271)**

(hereinafter, "Varney"). The examination covered personal and commercial lines in force business and cancelations for the time period of January 1, 2008, through December 31, 2008.

The following report is respectfully submitted.

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## FOREWORD

This report is a report by test. All tests applied during the examination are reported regardless of whether or not improprieties were noted.

## EXECUTIVE SUMMARY

This summary of the targeted market conduct examination of Varney is intended to provide a high-level overview of the examination results. The body of the report provides details of the scope of the examination, tests conducted, findings and observations and recommendations. Managerial or supervisory personnel from each functional area of Varney should review report results relating to their specific area.

The Bureau considers a substantive issue as one in which corrective action on part of the company is deemed advisable, or one in which a “finding” or violation of Maine insurance laws, regulations or bulletins were found to have occurred. All Maine laws, regulations and bulletins cited in this report may be viewed on the Bureau’s website at [www.maine.gov/pfr/insurance](http://www.maine.gov/pfr/insurance).

Several instances were observed where Varney’s record of appointed agents for the examination period did not agree with information on file with the Bureau.

## SCOPE OF EXAMINATION

The targeted market conduct examination of Varney was initiated under Title 24-A §§ 223, 232 (1) and 1447. The targeted examination was performed in order to determine if Varney had appropriately handled new business and cancellations and whether or not any of the practices used by Varney resulted in harm to Maine consumers.

This examination consisted of developing and employing procedures to enable the Superintendent of Insurance to arrive at a reasonable conclusion as to Varney’s handling of personal lines and commercial business. The examination was conducted in accordance with Title 24-A M.R.S.A. and the National Association of Insurance Commissioners Market Conduct Examiners Handbook and Guidelines (hereinafter, “Handbook”) for purposes of sample determination and overall guidance. Specific procedures from the Handbook that applied to verifying Varney’s compliance with Title 24-A M.R.S.A. were performed. Specifically, the scope of the examination consisted of selecting statistical samples of both commercial and personal lines inforce business for the period of January 1, 2008 through December 31, 2008, as well as cancellations occurring during the same time period. The files that were selected for review were examined to determine if the business written and canceled by Varney was appropriately handled and adequately documented in accordance with Title 24-A M.R.S.A.

Samples were selected using the Audit Command Language software based on a 95 percent confidence level. Failure to identify or criticize improper or noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

## PROFILE FACTS

Varney is an insurance agency established in 1982 whose principle office is located in Bangor, Maine. Varney also has 15 branch offices located throughout the state. Varney places both commercial lines and personal lines business and is licensed in Maine as a resident producer agency.

Due to the targeted nature of this examination, not all of the standards in the Handbook were deemed to be applicable or tested for compliance. Due to there not being a specific section of the Handbook for performing an examination of a property and casualty agency many of the tests performed did not specifically come from the Handbook and therefore will not reference a standard before the objective.

The key objectives of this examination were determined by the Bureau with emphasis on the following areas.

### **Company Operations/Management**

Evaluation of the standards in this business area is based on an assessment of the Company's policies and procedures and the Company's response to information requests.

**Standard I-7.** Records are adequate, accessible, consistent and orderly and comply with record retention requirements.

*Objective:* This standard addresses the organization, legibility and structure of files, as well as the determination of the Company's compliance with record retention requirements.

*Transaction Testing Procedure:* The Bureau performed various procedures throughout this examination which related to review of documentation and record retention. Such testing results are noted in the various examination areas, with any exceptions noted in the Executive Summary along with the applicable standard.

*Findings:* None.

*Observations:* Varney's record retention policies appear reasonable.

*Recommendations:* None.

**Standard I-9.** The regulated entity cooperates on a timely basis with examiners performing the examinations.

*Objective:* This standard addresses Varney's cooperation during the course of the examination.

Varney's level of cooperation and responsiveness to examiner requests was assessed throughout the examination.

*Findings:* None.

*Observations:* Varney's level of cooperation and responsiveness to examiner requests was acceptable.

*Recommendations:* None.

## **Producer Licensing**

**Standard IV-1.** Regulated entity records of licensed and appointed (if applicable) producers agree with department of insurance records.

*Objective:* The Standard addresses licensing and appointment of Varney's producers.

*Transaction Testing Procedure:* The examiners reconciled Varney's list of licensed producers to the Bureau's licensing database. Agent licensing was also tested during the detailed testing of personal lines and commercial business detailed in the policyholder service section.

*Findings:* Several instances were observed where Varney's record of appointed agents for the examination period did not agree with the information on file with the Bureau. No issues were noted with the licensing of Varney's agents.

*Observations:* None.

*Recommendations:* Varney should adopt policies and procedures to ensure that the Bureau is notified when a producer becomes affiliated with the agency or when a producer's affiliation is terminated.

## **Policyholder Service**

*Objective:* Determine if commercial policies processed by Varney were adequately documented and appropriately handled.

*Transaction Testing Procedures:* Examiners selected a random sample of commercial policies processed by Varney to determine if the files were adequately documented and appropriately handled. The selected files were reviewed to determine if the agent was licensed, documentation was adequate to support the transaction and that funds were handled appropriately. If the policy was a surplus lines policy examiners verified that surplus lines taxes were calculated correctly and remitted to the State of Maine.

*Findings:* None.

*Observations:* A review of the sample selected did not note any systematic issues in the processing of commercial lines business.

*Recommendations:* None.

*Objective:* Determine if commercial policy cancelations processed by Varney were adequately documented and appropriately handled.

*Transaction Testing Procedures:* Examiners selected a random sample of commercial policy cancelations processed by Varney to determine if the files were adequately documented and appropriately handled.

*Findings:* None.

*Observations:* A review of the sample selected did not note any systematic issues in the processing of commercial lines cancelations.

*Recommendations:* None.

*Objective:* Determine if personal lines policy issuances processed by Varney were adequately documented and appropriately handled.

*Transaction Testing Procedures:* Examiners selected a random sample of personal lines policies processed by Varney to determine if the files were adequately documented and appropriately handled.

*Findings:* None.

*Observations:* A review of the sample selected did not note any systematic issues in the processing of personal lines policies.

*Recommendations:* None.

*Objective:* Determine if personal lines policy cancellations were adequately documented and appropriately handled.

*Transaction Testing Procedures:* Examiners selected a random sample of personal lines policy cancelations processed by Varney to determine if the files were adequately documented and appropriately handled.

*Findings:* None.

*Observations:* A review of the sample selected did not note any systematic issues in the processing of personal lines policy cancellations.

*Recommendations:* None.

## CONCLUSION

This examination reviewed a statistical sample of personal and commercial lines in force business and cancellations for the period of January 1, 2008, through December 31, 2008. The results of the examination did not indicate violations of Title 24-A M.R.S.A. Examiners did not document improper treatment of policyholders or harm caused to Maine consumers by Varney. Due to the absence of any significant adverse findings no regulatory enforcement action is being recommended.

## ACKNOWLEDGEMENT

The courtesy, hospitality and cooperation extended by the officers and employees of Varney during the course of the examination are gratefully acknowledged. The examination was conducted and is respectfully submitted by the undersigned.

STATE OF MAINE

COUNTY OF KENNEBEC, SS

Kendra L. Godbout, CPA, CFE, being duly sworn according to law, deposes and says that in accordance with the authority vested in her by Mila Kofman, Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, she has made a targeted market conduct examination on the condition and affairs of

Varney Agency Inc.

of Bangor, Maine as of December 31, 2008, and that the foregoing report of examination, subscribed to by her, is true to the best of her knowledge and belief.

The following examiners from the Bureau of Insurance assisted:

Stuart Turney, CPA

Graham Payne

Arthur Hosford, esq.

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Kendra L. Godbout, CPA, CFE  
Director of Financial Analysis

Subscribed and sworn to before me  
This \_\_\_\_ day of \_\_\_\_\_, 2010

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Notary Public  
My commission expires: