

# **Market Conduct Examination**

**Maine Employers' Mutual Insurance Company**

**P O Box 11409**

**Portland, ME 04104**

**Examination Period**

**3/1/03 thru 11/1/04**



## STATE OF MAINE

### *BUREAU OF INSURANCE*

***IT IS HEREBY CERTIFIED THAT THE ANNEXED REPORT OF  
EXAMINATION FOR***

**Maine Employers' Mutual Insurance Company**

has been compared with the original on file in this bureau and that it is a correct transcript therefrom and of the whole of said original.

***IN WITNESS WHEREOF,***

I have hereunto set my hand and affixed the official seal of this Office at the City of Augusta this

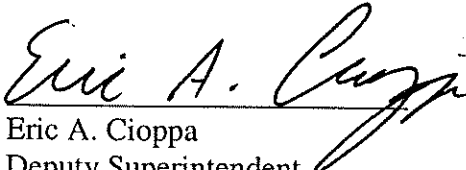
17<sup>th</sup> day of May, 2005

A handwritten signature in cursive script, appearing to read "Alessandro A. Iuppa", written over a horizontal line.

Alessandro A. Iuppa  
Superintendent  
Bureau of Insurance

I hereby certify that the attached report of examination dated February 25, 2005 of Maine Employers' Mutual Insurance Company, Portland, Maine has been filed in the Bureau of Insurance as a public document.

This report has been reviewed.

  
Eric A. Cioppa  
Deputy Superintendent

This 17 day of May, 2005

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February 25, 2005

Honorable Alessandro Iuppa  
Superintendent of Insurance  
State Of Maine  
Bureau of Insurance  
State House Station #34  
Augusta, ME 04333

Dear Sir:

Pursuant to of Title 24-A M.R.S.A. § 221 and in accordance with your instructions, a targeted market conduct examination has been made of:

**Maine Employers' Mutual Insurance Company**

hereinafter referred to as the "Company". The examination covered underwriting files issued between March 1, 2003 and November 1, 2004 that contained schedule debit ratings.

**PURPOSE AND SCOPE OF EXAMINATION**

The purpose of this targeted examination was to determine if the Company participates in a systematic practice of applying schedule debits without maintaining sufficient documentation to support the schedule debits. Specifically, as noted in the Decision and Order of *Support Solutions, Inc. v. MEMIC* No. 04-104 dated September 2, 2004; the Company conceded that the narrative portion of the schedule rating worksheet was not completed. This examination was conducted to arrive at a conclusion as to whether or not the Company's documentation, or lack thereof, was systematic relative to applying schedule rating debits. Ancillary to the review was

the examiner's task of determining if the documented evidence supporting the schedule debit rating appeared logical for the risk underwritten.

### COMPANY HISTORY

The Company was established through legislative action as an assessable mutual by the State of Maine on November 13, 1992 and commenced business effective January 1, 1993. The Company was established to replace the State of Maine Workers' Compensation Residual Market Pool and to add stability to the Maine worker's compensation insurance market. The Company writes workers' compensation insurance and employers' liability insurance incidental to and written in connection with workers' compensation coverage exclusively for employers in the state of Maine.

In 1996, the Company established a wholly owned, non-insurance subsidiary, MEMIC Services, Inc. This subsidiary sells loss control services to the Company and to other unrelated companies.

In 1998, the Company was given authority by the Bureau to apply for licensure in Massachusetts to write coverage for Maine employers with risks in Massachusetts. On August 12, 1999, the Company became licensed in Massachusetts.

In 1999, the Company obtained approval from the New Hampshire Insurance Department to form a New Hampshire domestic subsidiary, MEMIC Indemnity Company, to write workers' compensation insurance in New Hampshire. On May 1, 2000, the State of New Hampshire authorized the MEMIC Indemnity Company to write workers' compensation insurance. MEMC Indemnity is licensed to sell workers' compensation in the states of Connecticut, Massachusetts, New Hampshire, New York, Pennsylvania and Vermont. The Company has submitted

applications to transact business in Florida, Georgia, New Jersey, North Carolina, Rhode Island, South Carolina and Virginia.

### **SAMPLING**

The Company provided all underwriting files that contained schedule rating debits for the period of March 1, 2003 through November 1, 2004. In accordance with the NAIC Market Conduct Examiners Handbook, a random sample of 50 underwriting files was selected for testing. Random sampling is a concept meaning all items in the population (before selection) have an equal chance of appearing in the sample. Examiners utilized Audit Command Language to generate the 50 random samples.

### **STANDARDS**

As previously noted in the Purpose and Scope of Examination section, this examination is a result of the order of the Superintendent in *Supports Solutions, Inc. v. MEMIC*, No. 04-104. Specifically, the order states that the terms and conditions of the Rating Plan require the Company to base its application of schedule rating debits on documentation and evidence contained in the insured's file and to include a completed schedule rating worksheet.

The examiners reviewed the underwriting files for evidence of documentation, including a completed schedule rating worksheet supporting any schedule rating debit applicable to the sample underwriting file to support a reasoned application of schedule debits

### **TESTING RESULTS**

**Test 1: Review the underwriting file to determine if documentation contained within the file appeared to support the schedule debit rating.**

|               | <b>Yes</b> | <b>No</b> | <b>PCT%</b> |
|---------------|------------|-----------|-------------|
| <b>Test 1</b> | <b>49</b>  | <b>1</b>  | <b>98%</b>  |

The one file that did not appear reasonable was a schedule rating debit applied to a bagel shop with the justification that shop employees are cutting bagels manually and has loss potential. Review of the job classification indicates that ergonomics/cuts are built into the premium rating and the Company has only \$2 in losses the last three years. (See Comments and Recommendations #1)

**Test 2: Verify the underwriting files contain supporting documentation to include a completed schedule rating worksheet.**

|        | Yes | No | PCT% |
|--------|-----|----|------|
| Test 2 | 36  | 14 | 72%  |

Of the fourteen (14) underwriting files that did not contain a completed schedule rating worksheet, seven (7) underwriting files contained incomplete schedule rating worksheets and six (6) underwriting files did not contain a schedule rating worksheet; and one file was erroneously renewed automatically. (See Comments and Recommendations #2)

### **COMMENTS AND RECOMMENDATIONS**

1) **Comment:** It appears that one policy was charged a schedule debit rating inappropriately as the documentation contained within the underwriting file did not justify the debit.

**Recommendation:** The Company needs to ensure that all schedule debit ratings are supported by adequate documentation and that debits are not applied when factors considered in applying the debit are already built into the premium rates.

2) **Comment:** As noted during the testing, the Company had either incomplete or missing schedule worksheets in fourteen (14) of the underwriting files. It should be noted that further review of the underwriting files revealed the Company maintained additional documentation which supported the schedule debit rating.

**Recommendation:** The Company is required to maintain a completed schedule rating worksheet that provides a narrative description and justification for the debit rating.

### **CONCLUSION**

Although a schedule rating debit should not have been applied in Test 1, the Company does not appear to be applying schedule debit ratings in an arbitrary or capricious manner. It should be noted that during the policy years 1999-2004, for experience-rated policies, the Company applied three dollars in schedule rating credits for every one dollar in schedule rating debits; and on a policy count basis, the Company credited more than double the number of policyholders than were debited.

The Company does not consistently complete the schedule rating worksheet as required. However, it is noted that all of the Company underwriting files contained adequate documentation to support the schedule debit rating with the exception of one file as described in Test 1. The Company is scheduled to undergo a comprehensive financial examination in 2006 to include a follow-up review of schedule debit rating policies for completion of the schedule rating worksheet.

STATE OF MAINE

COUNTY OF KENNEBEC, SS

James C. Williams, CPA, CFE, being duly sworn according to law, deposes and says that in accordance with the authority vested in him by Alessandro Iuppa, Superintendent of Insurance, pursuant to the Insurance Laws of the State Of Maine, he has made a targeted market conduct examination of the condition and affairs of

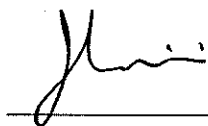
**Maine Employers' Mutual Insurance Company**

of Portland, Maine for underwriting file with schedule debit ratings for the period of March 1, 2003 through November 1, 2004 and that the foregoing report of examination subscribed to by him is true to the best of his knowledge and belief.

The following examiners from the Bureau of Insurance assisted:

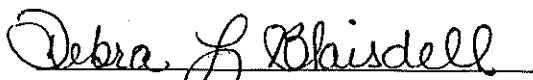
Bradford L. Brown

Faith Talbot



James C. Williams CPA, CFE  
Director of Financial Affairs and Solvency

Subscribed and sworn to before me this 17<sup>th</sup> day of May, 2005

  
Notary Public

My Commission Expires:

**DEBRA L. BLAISDELL**  
**NOTARY PUBLIC • MAINE**  
**MY COMMISSION EXPIRES JULY 29, 2010**