

# Report of Examination

## Maine Employers Mutual Insurance Company

261 Commercial Street  
Portland, Maine 04104

NAIC Company Code: 11149  
NAIC Exam Tracking System: M008-M26

**Examination Period:**  
October 1, 2006 through September 30, 2007

STATE OF MAINE

COUNTY OF KENNEBEC, SS

Van E. Sullivan, being duly sworn according to law, deposes and says that in accordance with the authority vested in him by Mila Kofman, Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, he has made an examination on the condition and affairs of the

### Maine Employers Mutual Insurance Company

of Portland, Maine for the period October 1, 2006 through September 30, 2007, 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:

Paul Greenier  
Carolee M. Bisson

Subscribed and sworn to before me

This \_\_\_\_\_ day of \_\_\_\_\_, 200\_\_\_\_\_

\_\_\_\_\_  
Van E. Sullivan  
Market Conduct Supervisor

\_\_\_\_\_  
Notary Public      My commission expires:

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August 21, 2008

The Honorable Mila Kofman  
Superintendent of Insurance  
Bureau of Insurance  
34 State House Station  
Augusta, ME 04333-0034

Dear Superintendent Kofman:

Pursuant to the certification of findings in accordance with 39-A M.R.S.A. § 359(2) from the State of Maine Workers' Compensation Board ("WCB") and under the authority of 24-A M.R.S.A. § 221 and in conformity with your instructions, a targeted market conduct examination has been made of::

**Maine Employers Mutual Insurance Company**  
**NAIC Entity Number: 11149**

hereinafter referred to as the "Company". The examination covered indemnity claims that were open during the period from October 1, 2006 through September 30, 2007, for employees residing in the State of Maine or claimants involved in losses in the State of Maine.

The onsite phase of the examination was conducted at the Company's facility located at 261 Commercial Street, Portland, Maine 04104.

The following report is respectfully submitted.

**HISTORY OF ENGAGEMENT**

Pursuant to 39-A M.R.S.A. § 153(9), the WCB established a monitoring, audit and enforcement ("MAE") division. The functions of the MAE division include but are not limited to certain audits of payment timeliness and claims-handling practices of insurers in accordance with 39-A M.R.S.A. § 359. The WCB audited selected a sample of 100 claims of the Company with dates of injury from January 1, 2004 through December 31, 2004 in part to determine whether the company had violated the questionable claims-handling provision of 39-A M.R.S.A. § 359(2). The results of this audit are reported in a Compliance Audit Report dated June 9, 2006. Findings relevant to section 359(2) were limited to issues under Section 205(6), failure to pay interest. The WCB determined that the pervasiveness and magnitude of this issue constituted a "pattern of questionable claims-handling techniques". In June 2006, the WCB and the Company entered into a Consent Decree which established patterns of questionable claims-handling techniques and assessed fines therefor.

In accordance with 39-A M.R.S.A. § 359(2), the WCB certified the audit findings to the Superintendent of Insurance. Section 359(2) requires the Superintendent of Insurance to take appropriate action to bring such practices to a halt.

## SCOPE OF EXAMINATION

In order to meet the responsibilities set forth in section 359(2), the Superintendent of Insurance had to determine whether or not the patterns of questionable claims-handling techniques found by the WCB still existed. Therefore, an examination was planned in accordance with the National Association of Insurance Commissioners' ("NAIC") Market Conduct Examiners' Handbook and Guidelines ("Handbook"). Bureau examiners developed compliance verification procedures based on the Handbook to measure whether the Company had brought themselves into compliance with Section 205(6). Specifically, the scope of the examination was limited to review of a sample of open indemnity claims for the period October 1, 2006 through September 30, 2007.

## METHODOLOGY

The limited scope of this examination presented a unique challenge in determining the appropriate population of claims to be considered for the sample to be drawn from. Working closely with Company representatives and members of the WCB Audit Unit, examiners attempted to define those types of claims that could possibly have been subject to Section 205(6) during the examination period. It was finally determined that the population consisted of 1,667 claims. A sample size of 50 claims files was determined. Unfortunately, no electronic means were available from either Company or WCB files to allow automated sorting or sample selection. Therefore, a large random number table was generated and applied to the population. This required individual file review of 475 WCB files to arrive at the required 50 files for the sample.

## STANDARDS

Because of the very limited scope of this examination, the typical standards that have been applied to previous section 359(2) examinations were not utilized. The standard was whether the Company paid interest as required by 39-A M.R.S.A. § 205(6).

## APPLICATION OF TEST

This section outlines the application of the test to the claims selected.

**Test 1: Determine if interest payments were made in accordance with 39-A M.R.S.A. § 205(6):**

	<b>Paid</b>	<b>Not Paid</b>	<b>Compliance %</b>
<b>Interest</b>	<b>48 claims</b>	<b>2 claims</b>	<b>96%</b>

## **CONCLUSION**

This examination reviewed a sample of 50 claims that met the requirement of interest payment under Section 205(6). All but two claims of the sample were compliant. Based on the results of this examination, Bureau examiners found that the pattern of questionable claims handling techniques established by the WCB has ceased.

## **ACKNOWLEDGMENT**

The courtesy and cooperation extended by the officers and employees of the Company during the examination is hereby acknowledged.