



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

Report on the Comprehensive Market Conduct Examination of
Barnstable County Mutual Insurance Company and
Barnstable County Insurance Company

Yarmouth Port, Massachusetts

For the Period January 1, 2021, through December 31, 2021

NAIC COMPANY CODES: 13463 and 41955

EMPLOYER ID NUMBERS: 04-1063730 and 04-2747990

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COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

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GOVERNOR

KEVIN P. BEAGAN
ACTING COMMISSIONER OF INSURANCE

KIMBERLEY DRISCOLL
LIEUTENANT GOVERNOR

July 1, 2024

The Honorable Kevin P. Beagan
Acting Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Dear Acting Commissioner Beagan:

Pursuant to former Commissioner Gary D. Anderson's instructions and in accordance with Massachusetts General Laws, Chapter 175, § 4, a comprehensive examination has been made of the market conduct affairs of

Barnstable County Mutual Insurance Company Barnstable County Insurance Company

The Companies' home office is located at:

915 Route 6A
Yarmouth Port, Massachusetts 02675

The following Report thereon is respectfully submitted.

Acronyms

Barnstable County Insurance Company ("BCIC")
Barnstable County Mutual Insurance Company ("BCMIC")
Barnstable County Insurance Company and Barnstable County Mutual Insurance Company ("Barnstable" or "the Company")
Board of Directors ("Board")
Commonwealth of Massachusetts Division of Insurance ("the Division")
Division's On-Line Producer Appointment ("OPRA")
Fair Credit Reporting Act ("FCRA")
Federal Specially Designated Nationals ("SDN")
First Notice of Loss ("FNOL")
Insurance Services Office ("ISO")
Market Conduct Annual Statement ("MCAS")
Massachusetts Insurance Fraud Bureau ("IFB")
National Association of Insurance Commissioners ("NAIC")
NAIC Market Regulation Handbook ("the Handbook")
Notice of Intent to Cancel ("Intent Notice")
Office of Foreign Asset Control ("OFAC")
Online Producer Renewal Appointment ("OPRA")¹
Risk & Regulatory Consulting, LLC ("RRC" or "Examiners")

Scope of Examination

The Massachusetts Division of Insurance (the "Division") conducted a comprehensive market conduct examination ("examination") of the Barnstable County Mutual Insurance Company ("BCMIC") and Barnstable County Insurance Company ("BCIC") ("Barnstable" or "the Company") for the period January 1, 2021, to December 31, 2021, with a focus on the homeowners line of operations which is the predominate line Barnstable writes. The examination was called pursuant to authority in Massachusetts General Laws Chapter ("M.G.L. c.") 175, § 4. In addition, the Division engaged representatives from the firm of Risk & Regulatory Consulting, LLC ("RRC" or "Examiners") to complete the examination under the direction, management, and control of the market conduct examination staff of the Division.

Examination Approach

The examination employed a tailored approach using the guidance and standards of the *2021 NAIC Market Regulation Handbook* ("the Handbook"), the examination standards of the Division, the Commonwealth of Massachusetts' insurance laws, regulations, bulletins, and applicable Federal laws and regulations. Examiners performed all procedures under the supervision of the Division's market conduct examination staff, including systems more efficiently addressed in the Division's financial examination of the Company. To ensure that they adequately addressed the market conduct objective, where appropriate, RRC and the Division staff relied on procedures performed by the Division's financial examination staff as part of the statutory financial examinations.

¹ Replaced with State Based Systems ("SBS") on March 18, 2022

The operational areas reviewed under this examination include company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, and claims. This examination report describes the procedures performed in these operational areas and the results of those procedures.

The Handbook provides guidance on optional processes and procedures for use during the examination and includes an approach designed to detect incidents of deficiency through transactional testing. The review also has an operational and management assessment component.

The review promotes an understanding of the critical controls used to operate the business and to meet essential business objectives, including measures designed to ensure compliance with applicable laws and regulations to market conduct activities.

This examination report constitutes a "Report by Test," as described in Chapter 15, Section A of the Handbook. An examination "finding" represents a violation of Massachusetts insurance laws, regulations, or bulletins. While an "observation" recognizes a departure from industry best practice. The recommendations accompanying the observation provide acceptable alternative practices. The Division recommends that Company management evaluate any "finding" or "observation" for applicability to other jurisdictions. When applicable, the Company should take corrective actions in all jurisdictions. All unacceptable or non-compliant practices may not have been discovered or noted in this Report. Failure to identify improper or non-compliant business practices does not constitute acceptance of such practices. The Company shall report to the Division any such corrective actions taken.

Interested parties can review all Massachusetts laws, regulations, and bulletins cited in this Report on the Division's website at <http://www.mass.gov/doi>.

Executive Summary

The examination did not result in any findings. The body of the Final Report provides additional details on many areas within the examination scope, including several observations, related recommendations, and any of the Company's subsequent actions. The Company's managerial and supervisory personnel from each operational area should review the examination report for results relating to their specific responsibilities.

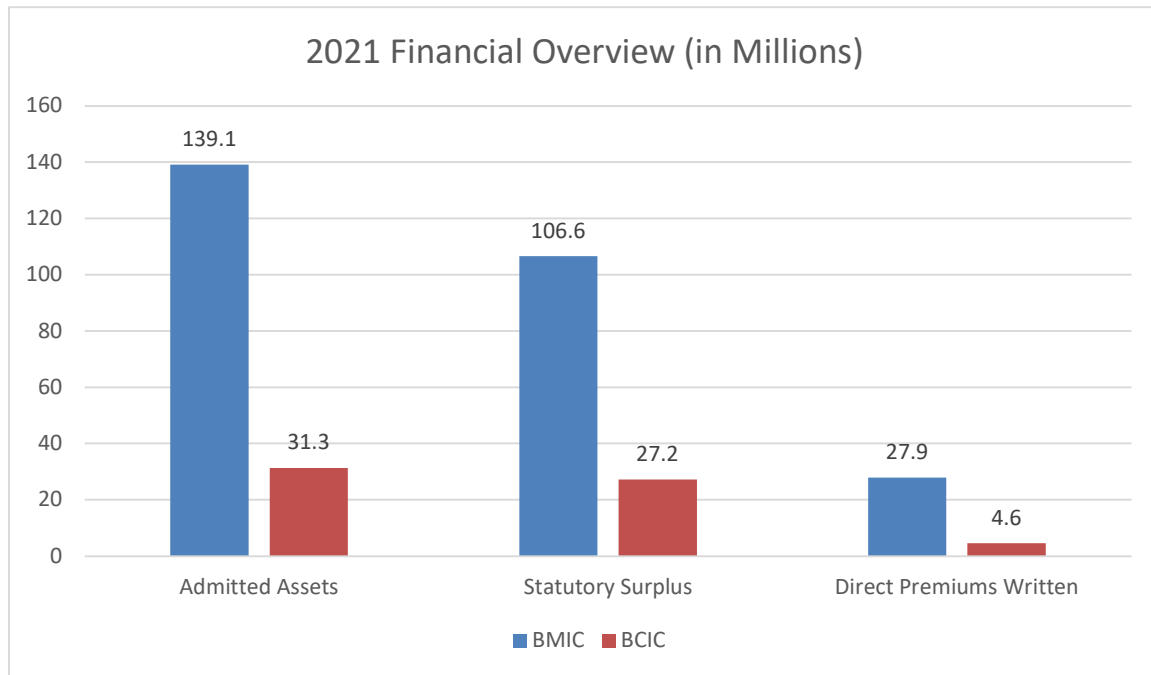
Company Background

The Company was founded in 1833 and comprises BCMIC, a mutual insurer, which owns 100% of BCIC, a stock insurer. BCMIC was incorporated in 1833 to provide the Cape Cod area with fire insurance. In 1994, "Fire" was removed from the name to reflect BCMIC's homeowner, dwelling fire, and personal umbrella liability products portfolio.

Barnstable provides individuals with homeowner insurance products for Cape Cod and the surrounding counties. The Company has approximately 15 employees and works with 28 independent agencies in the Commonwealth of Massachusetts, one of which is a wholly owned subsidiary of the Company. The Company also owns an independent adjusting firm.

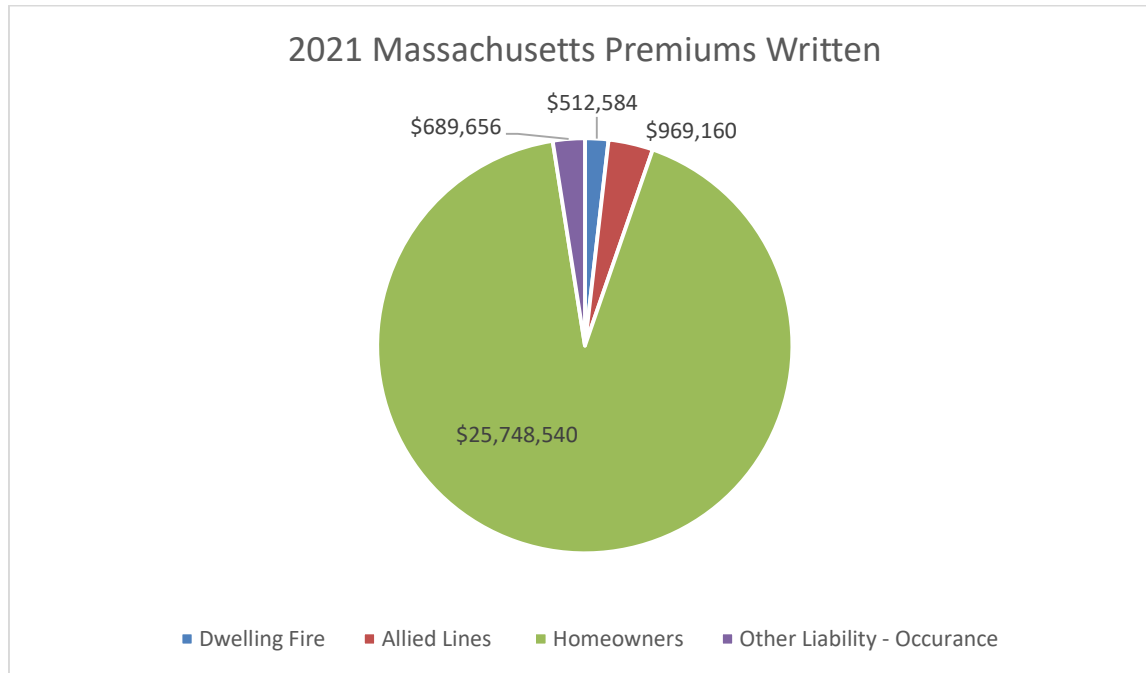
REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

As of the end 2021, the Company maintained a financial strength rating of A (Excellent) with a negative outlook from A.M. Best. A Negative market segment outlook indicates that A.M. Best expects market trends to negatively influence companies operating in the market over the next 12 months. However, a Negative outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Negative. As of July 5, 2023, A.M. Best revised the outlook from negative to stable and affirmed the financial strength rating of A (Excellent) and the Long-Term Issuer Credit Rating of "A" (Excellent). A Stable market segment outlook indicates that AM Best expects market trends to neutrally influence companies operating in that market segment over the next 12 months. The following financial information is as of or for the year ended December 31, 2021:

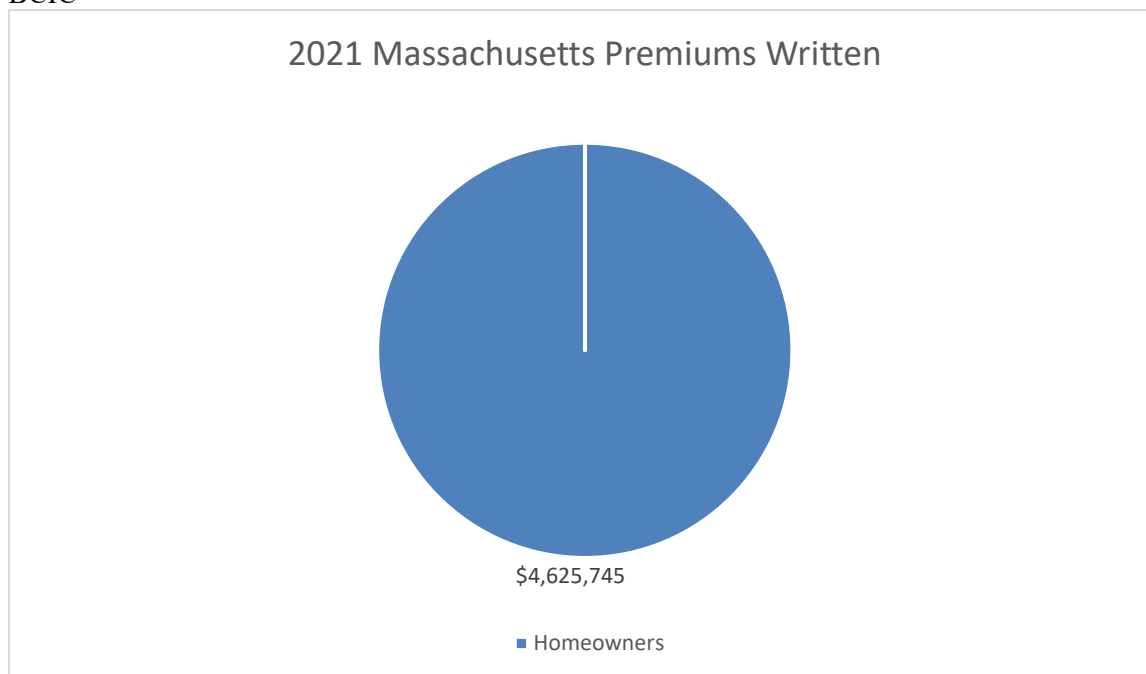


REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

BCMIC



BCIC



The Division determined the key objectives of this examination with emphasis on the following areas.

I. Company Operations/Management

Corporate Governance:

Summary of Company Policies and Procedures:

- An independent auditor audits the Company's statutory financial statements annually.
- The BCMIC's Board and Audit Committee are responsible for compliance matters.
- The Board comprises eleven members, including the President / Chief Executive Officer, Executive Vice President / Chief Financial Officer, and nine independent directors.
- The Board has established Audit, Investment, Compensation, and Nominating Committees. The Audit Committee includes four independent directors responsible for market conduct compliance matters and financial oversight duties. The Audit Committee meets four times a year and often includes participation by the Company's independent auditor.

Examination Procedures Performed: RRC interviewed Company personnel responsible for corporate governance, external audit, compliance risk assessment, and quality assurance processes. RRC also reviewed the minutes of Board meetings.

Conclusions: The Board minutes provide detailed information on corporate governance, decisions, and general oversight.

Antifraud Efforts:

Summary of Company Policies and Procedures:

- The Company's systems interface with software provided by ISO. The software checks all payees, policy applicants, and vendors against the SDN database as OFAC requires. To address exceptions noted through the SDN database, the Company developed policies and procedures following guidelines promulgated by OFAC and the Division.
- While the Company does not have an antifraud plan or a Special Investigation Unit function, the Company has developed procedures that identify claim "red flags" for special investigation. Independent Adjusters provide fraud investigation services when needed, and if fraud is suspected, the Company reports the incident to the IFB.
- All managers of the Company are annually required to attest that they meet the Conflict-of-Interest Policy and Code of Ethics.
- The Company conducts background checks on all key agency personnel.

Examination Procedures Performed: RRC interviewed Company personnel responsible for antifraud initiatives, compliance procedures, and code of ethical conduct policies. In addition, RRC reviewed Company policies and procedures to address antifraud initiatives as part of claims and underwriting testing.

Conclusions: The Company has adopted reasonable procedures for antifraud initiatives, compliance procedures, and a code of ethical conduct policies. Based on underwriting and claims testing, the Company has reasonably designed antifraud initiatives to detect, prevent, and investigate fraudulent insurance acts.

Third-Party Outsourcing:

Summary of Company Policies and Procedures:

- The Company's sales distribution is through independent agencies. The Company verifies that agencies have appropriate Massachusetts producer licenses before contracting with them. The Company's standard agent contract addresses agent authorities, premium accounting and remittance, contract termination, commissions, expense reimbursement limitations, and expirations in ownership.
- The Company outsources certain information technology services to maintain its communication networks and application systems.
- The Company outsources its claims investigation duties to independent adjusters and outsources inspection duties to qualified firms.
- The Company also outsources legal duties to various law firms and attorneys, who provide general corporate law assistance and claims litigation defense.

Examination Procedures Performed: RRC interviewed management about using third parties to perform Company functions and the monitoring procedures conducted over these third parties. Further, RRC reviewed such documentation, as applicable, in connection with producer compliance, new and renewal business, and claims testing.

Conclusions: Based upon review and testing, it appears that the Company's contracts with entities assuming a business function on its behalf comply with statutory and regulatory requirements.

Record Retention:

Summary of Company Policies and Procedures:

- The Company has adopted record retention requirements for various documents and records.
- The record retention requirements include the time the Company must retain specific documents.

Examination Procedures Performed: RRC obtained a summary of the Company's record retention policies and procedures and evaluated them for reasonableness and compliance with Massachusetts laws.

Conclusions: The Company's record retention policies appear reasonable. The Report discusses testing results about documentation evidence below.

Privacy Compliance:

Summary of Company Policies and Procedures:

- The Company provides a short-form privacy notice with each new policy and again annually during renewal. When questions about privacy arise, the Company has a long-form privacy notice, which they provide to the customer, further explaining privacy policies and procedures. The Company also provides its internet privacy policy on its website.
- The Company does not share information with outside parties for marketing purposes; thus, no customer opt-out notices are necessary.

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- The Company has developed an information security plan, which discusses privacy duties, safeguards, and procedures for privacy breaches.
- The Company's management states that it does not obtain investigative consumer reports on customers as part of underwriting and does not conduct pretext interviews.
- The Company's policy requires that its information technology security practices safeguard non-public personal financial and health information.
- Individuals cannot access the Company's key electronic and operational areas containing non-public personal, financial, and health information unless approved by Company management.

Examination Procedures Performed: RRC interviewed Company personnel responsible for privacy compliance and reviewed supporting documentation. The Examiners also performed the following:

- a) Selected 41 homeowner policies issued and renewed during the examination period to test whether the Company provided a consumer privacy notice,
- b) Reviewed underwriting and claims documentation for any evidence that the Company improperly collected, used, or disclosed non-public personal financial information and
- c) Reviewed underwriting and claim records for evidence demonstrating that the Company improperly disclosed non-public personal health information for any reason.

Conclusions: Based upon RRC's review and testing, the Company's privacy practices appear to meet Massachusetts and Federal statutory and regulatory requirements.

Annual Market Conduct Reporting:

Summary of Company Policies and Procedures:

- The Company's policy administration and claims systems compile and retain homeowner underwriting and claim data for inclusion in the annual homeowner's data submission to the Division.
- The Company's policy administration and claims systems compile and retain underwriting and claim data for inclusion in the MCAS. The Company reviews the draft MCAS filings for unusual items and changes the draft filings as appropriate before submitting the MCAS to the NAIC.

Examination Procedures Performed: RRC interviewed Company personnel responsible for underwriting and claims processing. In addition, RRC reviewed the statutorily required 2020 homeowner underwriting and claims data submitted to the Division, the examination data, and the 2020 Massachusetts MCAS data submitted to the NAIC for any unusual results and concerns.

Conclusions: The Division reviewed and analyzed the Company's MCAS report and determined that no further analysis was required.

II. Complaint Handling

Summary of Company Policies and Procedures:

- The Company defines a complaint as any verbal or written communication from a policyholder or applicant for insurance alleging that they have been harmed or suffered hardship from a Company action or inaction. When complaints do occur, they are handled promptly and professionally. The team member receiving the complaint will first attempt to resolve the matter to the complainant's satisfaction. If they are unable to resolve the matter with the complainant, they escalate the issue to a supervisor for further review and resolution. For all complaints that concern a corporate policy, procedure, or guideline, team members bring the matter to the attention of senior leadership for consideration of change. The President of the Company must handle all complaints filed against the Company with a regulatory body.
- The Company maintains a complaint log with the necessary information to record, track, investigate, and resolve the complaint. The Company's policy is to address all complaints immediately and to meet the Division's response time directives. Agents may also provide complaints when their customers have concerns.
- While there is no formal tracking of complaint statistics, any significant complaints or indications of systemic concerns are reported to the Audit Committee.
- The Company does not use social media and does not use surveys to solicit comments from insureds and third-party claimants.
- The Company provides a telephone number and address in its written responses to complaints and consumer inquiries and on its website.

Examination Procedures Performed: RRC interviewed management and staff responsible for complaint handling and examined evidence of the Company's related processes and controls. Further, RRC:

- a) Reviewed the Company's complaint log for the examination period to evaluate the Company's compliance with statutory requirements and determine if the log included all of the complaints initially submitted to the Division.
- b) Reviewed the five (5) complaints listed on the Complaint log to evaluate the adequacy of documentation supporting the facts and resolution of the complaints, the disposal of the complaints, and the timeliness of the complaint responses.
- c) Reviewed the Company's website and communications to consumers to determine if the Company provides contact information for consumer inquiries.

Observations: Discussions with the senior management made it clear that the Company takes the complaint process, including responding to policyholders, very seriously; however, in one instance tested, the complaint log was inaccurate as the date the Company received the complaint did not match the received date listed in the complaint log.

Recommendations: The Company should refine its guidelines for defining a complaint to ensure that only complaints and not general inquiries are included in the Complaint Log. In addition, the Company should issue written guidance to staff responsible for complaint handling to ensure that complaints are responded to in a timely manner. The Complaint Log general format is acceptable but should include only complaints.

Subsequent Company Actions: The Company submitted documentation of the written guidance provided to staff defining what constitutes a complaint and the correct procedures for logging complaints to ensure accurate tracking and timely response to the complainant.

Conclusions: Based on testing, the Company's complaint logs and procedures meet Massachusetts statutory and regulatory requirements.

III. Marketing and Sales

Summary of Company Policies and Procedures:

- The Company did not create any advertising for general public use; the Company did not use new advertisements during the examination period.
- Outreach to independent agencies is through newsletters, quarterly postcards, and emails.
- The Company prohibits independent agencies from using the Company's name or logo in their sales and marketing efforts without prior approval from the Company's President.
- The Company discloses its name and address on its website.
- Producer sales and marketing training meets the needs of the Company's independent agencies under contract with the Company.
- The Company provides training to the independent agents through monthly and quarterly sessions.
- The Company's underwriters manage the relationship with each agency under contract and act as the single point of contact for all facets of the business, including underwriting, claims examination, billing, and customer service. The underwriting manager supports the underwriters by addressing problems unresolved by the underwriters. In addition, the underwriting manager and underwriters will periodically visit each agency to address training needs.
- The Company employs a multi-pronged approach to agency communication, including daily phone conversations between the agency producers and underwriters, postings to the agency portal, emails, and newsletters.

Examination Procedures Performed: RRC interviewed Company personnel responsible for sales and marketing and providing training and communications to independent agents. RRC also looked for unapproved sales and marketing materials identified as part of new and renewal business testing.

RRC reviewed the Company's website for disclosure of its name and address. Additionally, RRC evaluated any agent communications for reasonableness as part of the testing for new and renewal business.

Conclusions: Based on the testing conducted by RRC, the Company's marketing practices meet Massachusetts statutory and regulatory requirements.

IV. Producer Licensing

Summary of Company Policies and Procedures:

- The Company's sales distribution is through independent agencies. The Company verifies that agencies are licensed insurance producers in Massachusetts before contracting with them.
- Any prospective new agency appointments undergo thorough investigations, including background checks. New agents are appointed using the Division's OPRA system.
- The Company's standard agency contract addresses agent authorities, premium accounting and remittance, contract termination, commissions, expense reimbursement limitations, and expirations ownership.
- Although agency errors and omissions coverage is not contractually required, coverage is verified at the initial appointment and annually by obtaining a copy of the policy declarations page.
- The Company completes an annual reconciliation of agency appointments with Division appointment data contained in OPRA. Any differences are investigated and addressed.
- Independent agencies are solely responsible for maintaining their producer licensing and continuing education requirements.
- All Massachusetts agency terminations are processed through the Division's OPRA.
- The Company's policy is to give adequate written notice to all agencies when terminating appointments.
- The Company's policy is to give additional information to the Division about agencies whose appointments are terminated "for cause," including the reason for the termination.

Examination Procedures Performed: RRC interviewed individuals responsible for producer contracting and processing agent appointments and terminations. Further, RRC:

- a) Tested 41 homeowner policies issued or renewed during the examination period to determine whether the agency appeared in the Division's record of Company-appointed agencies.
- b) Reviewed the standard independent agency contract to evaluate compliance with the Division's continuing education requirements.

Conclusions: Based on testing, the Company's producer licensing, agent appointment, and agent termination practices meet Massachusetts statutory and regulatory requirements.

V. Policyholder Service

Insured-Requested Cancellations and Service Requests:

Summary of Company Policies and Procedures:

- The Company's policy is to cancel a policy upon notification from the agency producer of the policyholder's cancellation request and promptly process premium refunds.
- The Company refunds all unearned premiums to the policyholder pro rata.
- Policyholders must request policy coverage changes through the agency producer, who will bind the

endorsement.

- Calls received from policyholders that require the agency producer's involvement are transferred to the agency to provide the policyholder with prompt service.
- Requests for a loss history are provided to the customer by the Company or the agency when requested.
- The Company will respond to mortgagee requests and correct errors in the policyholder's record with notice to the agency.
- The Company expects staff to respond immediately to phone calls and emails from policyholders during business hours. Staff will respond on the next business day to inquiries received from policyholders after hours.

Examination Procedures Performed: RRC interviewed individuals responsible for policyholder service transaction processing. RRC also tested four (4) homeowner-insured-requested cancellations from the examination period to determine whether the Company and agents processed the cancellations accurately and in a timely manner. Further, RRC obtained documentation showing customer service correspondence with new and renewal business and claims testing.

Conclusions: Based on testing, the Company's handling of insured-requested cancellations and service requests meets Massachusetts statutory and regulatory requirements.

Premium Billing and Reinstatement Practices:

Summary of Company Policies and Procedures:

- According to the Company policy, premiums are generally direct billed to customers, who may pay the premium in full or make payments in installments. Payments are accepted using a check, money order, a credit card processed through the Company's website, or electronic funds transfer ("EFT"). A down payment of 20% is generally required.
- The 2021 direct billed options include five-pay (over the first 120 days of coverage) and, for EFT, a 20% down payment for new business with ten (10) remaining installments, with 12 monthly installments for renewal policies.
- Customers receive bills for directly billed premiums approximately 18 days before the due date. The Company will send an Intent Notice to the customer, agent, and other required parties within three days of the due date if no payment is received. The Intent Notice advises that unless payment is received, the Company will cancel the coverage in 25 days; if payment is not received the policy cancels without further notice to the policyholder.
- Policy reinstatement requires review and approval by underwriting, an adequate payment history, and receipt of a signed no-loss letter.
- The Company does not use premium finance for its customers.
- The Company's employees are available to answer questions from policyholders about billing.

Examination Procedures Performed: RRC interviewed individuals responsible for premium billing and reinstatements and reviewed billing notice dates in conjunction with new and renewal business testing.

Conclusions: Based on the review, the Company's premium billing and reinstatement handling meet Massachusetts statutory and regulatory requirements.

Returned Mail, Unclaimed Checks and Escheatment Practices:

Summary of Company Policies and Procedures:

- The Company has implemented procedures to locate lost owners via Company records, inquiries of agencies, and searches of public databases.
- For returned mail, the Company contacts the agencies for updated information and researches the address using Company records or public information sources to ensure the address is correct.
- The Company's accounting department periodically reviews its outstanding checklist when completing the monthly bank reconciliation.
- When a check has been outstanding for 90 days, a letter is sent to the payee at the last known address encouraging the payee to cash the check before it becomes stale-dated. After contacting the agency for updated mailing information, a follow-up letter is sent 180 days later to inform the payee that the check is no longer valid and ask the payee to contact the Company for a replacement check. The Company sends the final letter when the check has been outstanding for three years, notifying the payee that the Company will escheat the check amount if the payee fails to contact the Company immediately for a replacement check.
- The Company annually reports escheatable funds to the Massachusetts State Treasurer by November 1 as required by statute.

Examination Procedures Performed: RRC interviewed individuals responsible for returned mail, unclaimed checks, and escheatment and reviewed supporting information.

Conclusions: Based on the review, the Company's handling of returned mail, unclaimed checks, and escheatment meet Massachusetts statutory and regulatory requirements.

VI. Underwriting and Rating

Personal Insurance Sales, Underwriting, and Rating Practices:

Summary of Company Policies and Procedures:

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating as well as acceptance/rejection of risks on a proper, consistent, and fair basis.
- The Company designs written policies and procedures to ensure consistency when applying underwriting guidelines, rating classifications, premium discounts, and surcharges determined at or near the inception of coverage.
- The Company will accept any Acord Massachusetts-approved application forms or the Company's application form for its homeowner, dwelling fire, and umbrella liability policies.
- The Company requires its agencies to prequalify potential applicants for insurance by submitting the applicant's name, address, and risk location on the Company's web-based portal. The applicant's name, mailing address, and risk location are submitted through the agency portal to evaluate the distance to the coast, loss history, and the applicant's credit-based insurance score. The Company

notified agencies of unacceptable risks, and the agency may appeal to the underwriter for an exception and reconsideration.

- The Company uses credit-based insurance scores for Massachusetts homeowner underwriting. Agents cannot bind homeowner coverage without underwriting approval if an applicant lacks the minimum required credit-based insurance score. The Company's underwriting personnel will send the applicant a FCRA Adverse Action Notice when the insurance application is denied based on the credit-based insurance score.
- If the Company declines to write a policy due to the past loss history, the applicant will receive a letter explaining the decision and how to correct inaccuracies.
- The appointed independent agencies generate and bind new business at the application date. A Company underwriter reviews the signed application and supporting information when received.
- The Company employs three (3) underwriters who underwrite and service business equally on a rotational basis. Every risk is reviewed by underwriting, either through a rules-based automated review or through manual review by an underwriter to identify any remaining concerns about the prequalified and bound risks.
- All new business, including rentals, is subject to external inspections within the first 60 days of coverage. Rental properties are also subject to internal inspections. In addition, oil or kerosene-heated homes are subject to a heating inspection.
- Homeowner rating criteria include territory, coverage amount and type, property age, protection class, structure type, property age, discounts for security features, safety features, and higher deductibles. The Company does not use price optimization software to underwrite or price policies.
- The Company files its rates with the Division for approval to comply with statutory and regulatory requirements. Before implementing rate changes, new rates are subject to user testing.
- The Company's policy prohibits unfair discrimination in applying premium discounts and surcharges and in using its general rating methodology, following statutory and regulatory requirements.
- The Company's supervisory procedures and system controls ensure that new business submissions are accurate and complete, including using all Company-required forms and instructions.
- The Company's insurance policies and endorsements provide disclosures as required by statutory and regulatory guidelines.
- The Company has procedures for paying agency commissions following written agency contracts.
- As designed, the Company's agency contracts, policies, and procedures comply with statutory underwriting and rating requirements, prohibiting special inducements and rebates.

Examination Procedures Performed: RRC interviewed Company personnel responsible for the underwriting and rating processes.

RRC selected 41 homeowner policies issued or renewed during the examination period to verify that each application was timely and correctly processed and that the policy's premium and discounts complied with statutory and regulatory requirements. In addition, RRC recalculated the premium for 10 of the 41 homeowner policies.

Observations: In 16 of the 19 homeowner non-renewals the Examiners tested, the non-renewal notice did not always adequately track the reasons as listed in the Company's underwriting guidelines.

Recommendations: The Company should maintain a Deviation or Exception Log documenting the reason for deviations from written underwriting practices for new policies and non-renewals. In addition, the Company should update the written underwriting practices as needed.

Subsequent Company Actions: The Company submitted a copy of the revised Exception Log and the related guidelines distributed to staff. The Company has always maintained an Exception Log for new business. However, the revised log will include any deviation or exception from underwriting guidelines for non-renewals, cancellations, and new business. The Company continues its efforts to monitor all non-renewal notices to ensure the notice includes a specific reason explaining why the policy is not renewed, thus allowing the policyholder to understand the reason for non-renewal and apply this understanding in the acquisition process for an alternative insurer.

Conclusions: Based on testing, the Company issues personal lines policies following statutory and regulatory requirements. The premium rates charged and the discounts applied for the tested policies complied with its policies, procedures, and statutory requirements.

Underwriting Declination Practices:

Summary of Company Policies and Procedures:

- The Company maintains a declination log for any risks underwriting declines.
- The Company uses credit-based insurance scores for Massachusetts homeowner underwriting. Agents cannot bind homeowner coverage without underwriting approval if an applicant lacks the minimum required credit-based insurance score. The Company's underwriting personnel will send the applicant a FCRA Adverse Action Notice when the insurance application is denied based on the credit-based insurance score.
- If the Company declines to write a policy due to the applicant's past loss history, a letter is mailed to the applicant explaining the decision and providing information about how to correct inaccuracies.

Examination Procedures Performed: RRC interviewed Company personnel responsible for the underwriting and rating processes. RRC selected 20 homeowner applications to verify that the Company's underwriting guidelines supported each declination. RRC's testing also confirmed that the Company provided FCRA Adverse Action Notices to all declined applicants due to unacceptable insurance scores.

Conclusions: Based on testing, the Company's underwriting of declinations in personal lines policies is in accordance with statutory and regulatory requirements.

Underwriting Cancellation and Non-Renewal Practices:

Summary of Company Policies and Procedures:

- The Company's policy requires written homeowner Company-initiated cancellation notices and the specific reasons for the cancellations to be sent to policyholders and agents at least 21 days before the cancellation effective date.
- According to the Company's policy, written homeowner non-renewal notices, which include the specific reasons for the non-renewal, are sent to policyholders and agents at least 45 days before the

non-renewal effective date.

Examination Procedures Performed: RRC interviewed Company personnel responsible for the underwriting process. Additionally, RRC tested four (4) homeowner policy company-initiated underwriting cancellations and 19 homeowner non-renewals to comply with the Company's underwriting guidelines and statutory requirements.

Conclusions: Based on the testing performed, the Company provided insureds with underwriting cancellation and non-renewal notices following regulatory and statutory requirements.

VII. Claims

Claims Handling Practices:

Summary of Company Policies and Procedures:

- Written policies and procedures govern the claims handling process. The claims manager manages the Company's claims function. The Company's underwriting assistants serve as claims examiners, who equally take ownership of each claim task rotationally.
- The Company receives new claims and correspondence for current claims via fax, email, and the Company website. Policyholders typically contact their agency producer to report property claims, and the agency producer completes and submits the FNOL through the Company's website, detailing policy and loss information.
- The Company maintains relationships with several independent adjusting firms and two disaster response firms to ensure it has sufficient capacity to handle storms or catastrophes. The Company provides written service standards to its loss-adjusting partners. The service standards define Company expectations regarding the scope and timeliness of work.
- The independent adjusters must make initial contact with claimants within 24 hours of receiving the FNOL. Adjusters investigate claims to determine the cause of loss and provide an initial liability determination with an estimate for the reserve.
- The claims manager monitors claims activity throughout its processing using diaries, email, and verbal contact with the underwriters and independent adjusters.
- The independent adjusters provide any required notices to local building inspectors when property damage exceeds \$1,000 and provide copies of the notices to the Company in the independent adjusters' report.
- Independent adjusters are qualified and trained to evaluate bodily injury estimations and damages. The independent adjuster then submits documented damages analyses in summary narratives and as part of the estimates of fair settlement ranges.
- The Company engages outside counsel when counsel represents claimants or if served, with a legal summons or complaint.
- The Company uses ISO Claim Search to screen all third-party claim payments against the OFAC SDN list. The Company has developed procedures identifying claim "red flags" for investigating potential fraud. Independent adjusters also provide fraud investigation services when needed.
- The Company matches bodily injury claims against the ISO Claim Search, and if fraud is strongly

suspected, the Company reports the claim to the IFB. Reservation of rights and excess loss letters are issued when potential coverage issues arise.

- Any necessary Massachusetts Department of Revenue intercept checks, Medicare and Medicaid checks, and ISO ClaimSearch delinquent child support checks are completed by the Company and documented in the claim's files.
- The Company requires third-party property damage and third-party bodily injury claimants to sign a liability release.
- The Company monitors claim status using status reports from independent adjusters and defense counsel. The Company also uses claims aging diaries, which remind management of specific action steps needed to complete the claims processing cycle.
- The Company's policy is to report complete and accurate loss data to ISO on time and in the required format.
- Claim statistical data is provided quarterly from the claim system to ISO.
- The Company has processes to reconcile statistical and financial data, correct data coding errors, and make subsequent reporting changes.

Examination Procedures Performed: RRC interviewed Company personnel responsible for claims handling. RRC selected homeowner claims, including 53 paid claims and 30 denied or closed-without-payment claims for testing. RRC evaluated if the Company adequately investigated, adjudicated, and paid or denied all claims following contract provisions and statutory requirements. RRC also reviewed the Company's complaint log for claim-related complaints, noting no such complaints.

Conclusion: Based on testing, the Company's claim-handling procedures are in accordance with statutory and regulatory requirements.

Claims Handling Delays:

Observation: In reviewing the testing sample of 30 homeowners' claims, the Examiners identified nine (9) claims where the Company delayed sending the policyholder written notice of denied claim by more than 30 days and in one instance, the Company could not produce any record of a written notice. In all cases, however, the Company contacted policyholders by phone the day the claim was received and, in most instances, conducted an initial inspection within one or several days.

The delays occurred due to the significant damages incurred due to the 2021 October Nor'easter – the unexpected storm brought hurricane-strength winds to the impacted area and resulted in hundreds of property damage claims – many involving down-tree *no property damage or blocked access*, which is a type of claim typically not covered by the underlying coverage.

The large claim volume resulting from the October storm and the early but significant effects of the COVID-19 pandemic placed an extraordinary strain on Company resources, including timely access to independent adjusters and in-house claims staff. Although the Company spoke with the claimant within approximately twenty-four hours advising the claimant of potential coverage issues, the claimant did not always receive timely written notice due to previously mentioned reasons.

Recommendation: The Company should identify ways to increase access to adjusters to improve response times to policyholder-denied claims and review procedures and policies to ensure the timely issuance of written notice of claim denials.

Company Response and Subsequent Actions: The Company acknowledged that the weather and pandemic-related problems combined to negatively impact the Company's staffing levels and claim handling procedures for a limited period. The Company recognizes that the resulting delays were unacceptable. The Company noted that in addition to the adjuster shortage, the Company experienced in-house staffing limitations due to illnesses and retirement. The staffing limitations required senior management to adjust specific assignments briefly, further contributing to the delays.

Before the October storm, the senior management reviewed and approved all claim denials. For a period after the October storm, however, due to a sudden and significantly increased claim volume, the Company delegated approval of storm-related debris damage claims to the staff claims examiners. During this period, although the claims staff was providing claimants with verbal notice of the status of non-covered claims within 24 hours, the Company experienced a delay in submitting the written denial to policyholders regarding specific fallen tree claims not covered by the policies. The Company recognized that the claims staff were not sufficiently familiar with the requirement of prompt written notice of claim denials for uncovered claims, as this responsibility was not part of their usual duties. As soon as possible, senior management resumed reviewing and approving all claim requests, and the Company provided all staff training on correct procedures for timely acknowledging and processing claims, including issuing and retaining written claim denials. The training also included a component on providing sufficient documentation of the reasons for denial.

In responding to the examiner's concerns about adjuster availability, the Company acknowledged that given its concentrated business profile, maintaining adequate adjuster resources to handle a spike in property claims from a catastrophic event is a key objective in the Company's Enterprise Risk Management plan. The Company is committed to continually investing in its adjusting capacities and capabilities, including securing partnerships with third parties, to meet time-service standards for settling claims after a catastrophe.

To ensure communications with policyholder claimants regarding adjuster activity, the Company now requires that all adjuster-related communications with the Company be shared in writing with policyholder claimants within five (5) days of the Company receiving communications from the adjuster. Also, all policyholder inquiries concerning coverage decisions and claim settlement issues, whether verbally or in writing or received directly by the Company or a third party, will result in a timely written response.

Conclusions: The Company's actions to increase access to adjuster services and update claim denial notification procedures along with staff training are significant steps to ensuring the Company's response to policyholder claims remains appropriate and timely in normal circumstances and unforeseeable catastrophic or challenging market conditions.

Summary

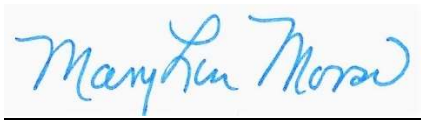
Based upon the procedures performed in this examination, RRC has reviewed and tested Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims as set forth in the *2021 Handbook*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations, and bulletins. RRC has provided recommendations to address Company Complaints, Underwriting and Rating, and Claims standards.

Acknowledgment

This acknowledgment is to certify that the undersigned is duly qualified and, in conjunction with RRC, applied specific agreed-upon procedures to the Company's corporate records for the Division to perform a comprehensive market conduct examination of the Company.

The undersigned's participation in this comprehensive market conduct examination as the Examiner-In-Charge encompassed responsibility for the coordination and direction of the examination performed, which was in accordance with, and substantially complied with, those standards established by the NAIC and the Handbook. In addition, this participation consisted of involvement in the planning (development, supervision, and review of agreed-upon procedures), communication, and status reporting throughout the examination, administration, and preparation of the Report.

The Division acknowledges the cooperation and assistance extended to all examiners by the officers and employees of the Company during the comprehensive market conduct examination.



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