



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
Barnstable County Insurance Company

Yarmouth Port, Massachusetts

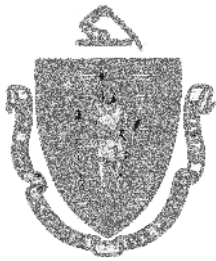
For the Period January 1, 2010 through December 31, 2010

NAIC COMPANY CODES: 13463 AND 41955
NAIC GROUP CODE: 0919

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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October 7, 2011

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Dear Commissioner Murphy:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, a comprehensive examination has been made of the market conduct affairs of

BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

at their home offices located at:

108 Hallet Street
Yarmouth Port, MA 02675

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination (“examination”) of Barnstable County Mutual Insurance Company (“BCMIC”) and Barnstable County Insurance Company (“BCIC”), collectively referred to as the “Company” for the period January 1, 2010 to December 31, 2010. The examination was called pursuant to authority in Massachusetts General Laws Chapter (“M.G.L. c.”) 175, Section 4. The examination was conducted concurrently as both companies are under common control and have common management, systems, processes and controls. The examination was conducted at the direction of, and under the overall management and control of, the examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC (“RNA”) were engaged to complete certain agreed upon procedures.

EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of the Company using the guidance and standards of the *2010 NAIC Market Regulation Handbook*, (“the Handbook”) the examination standards of the Division, the Commonwealth of Massachusetts’ insurance laws, regulations and bulletins, and selected Federal laws and regulations. All procedures were performed under the management, control and general supervision of the examination staff of the Division, including procedures more efficiently addressed by the concurrent Division financial examination. For those objectives, examination staff discussed procedures expected to be performed by the Division’s financial examination staff to the extent deemed necessary, appropriate and effective, to ensure that the objective was or would be adequately addressed. The following describes the procedures performed and the findings for the workplan steps thereon.

The business areas that were reviewed under this examination were as follows:

- I. Company Operations/Management
- II. Complaint Handling
- III. Marketing and Sales
- IV. Producer Licensing
- V. Policyholder Service
- VI. Underwriting and Rating
- VII. Claims

In addition to the processes and procedures guidance in the Handbook, the examination included an assessment of the Company’s internal control environment. While the Handbook approach detects individual incidents of deficiencies through transaction testing, the internal control assessment provides an understanding of the key controls that Company management uses to manage its business and to meet key business objectives, including complying with applicable laws and regulations related to market conduct activities.

The controls assessment process is comprised of three significant steps: (a) identifying controls; (b) determining if the control has been reasonably designed to accomplish its intended purpose in mitigating risk (i.e., a qualitative assessment of the controls); and (c) verifying that the control is functioning as intended (i.e., the actual testing of the controls). For areas in which controls reliance was established, sample sizes for transaction testing were accordingly adjusted. The form of this report is “Report by Test,” as described in Chapter 15, Section A of the Handbook.

EXECUTIVE SUMMARY

This summary of the examination of the Company 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, recommendations and required actions and, if applicable, subsequent Company actions. Managerial or supervisory personnel from each functional area of the Company should review report results relating to their specific area.

The Division 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 Massachusetts insurance laws, regulations or bulletins was found to have occurred. It also is recommended that Company management evaluate any substantive issues or “findings” for applicability to potential occurrence in other jurisdictions. When applicable, corrective action should be taken for all jurisdictions, and a report of any such corrective action(s) taken shall be provided to the Division.

The following is a summary of all substantive issues found, along with related recommendations and required actions and, if applicable, subsequent Company actions made, as part of the examination of the Company. All Massachusetts laws, regulations and bulletins cited in this report and Appendix A may be viewed on the Division’s website at www.mass.gov/doi.

The examination resulted in no recommendations or required actions with regard to company operations/management, marketing and sales, producer licensing, underwriting and rating, and claims. Examination results showed that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in these sections. Further, the tested Company practices appear to meet industry best practices in these areas.

SECTION II-COMPLAINT HANDLING STANDARD II-1

Findings: None.

Observations: RNA noted that the Company’s complaint registers included all statutorily-required database elements and included all 2010-2011 Division complaints. RNA noted one oral complaint from the Massachusetts Attorney General, which was responded to, but not properly included, on the complaint register in accordance with Company policy.

Required Actions: The Company shall ensure that its complaint register includes all written and oral complaints received from the Massachusetts Attorney General.

SECTION V-POLICYHOLDER SERVICE STANDARD V-6

Findings: None.

Observations: Based upon review, the Company appears to have processes for locating missing policyholders and claimants, and appears to make efforts to locate such individuals. Finally, the Company appears to report unclaimed items and escheat them as required by statute.

Recommendation: The Company should complete a timely inquiry of payees when checks become outstanding for six months.

Subsequent Action: In 2011, the Company implemented a new procedure when checks become outstanding for 12 months. For these checks, a letter is sent to the payee at the last known address and to the agent notifying them that the check is outstanding.

COMPANY BACKGROUND

The Company is comprised of BCMIC, a mutual insurer, which owns 100% of BCIC, a stock insurer. Barnstable County Mutual Fire Insurance Company was incorporated in 1833 to provide fire insurance to the Cape Cod Area. In 1994, "Fire" was removed from the name to reflect BCMIC's portfolio of homeowners and personal umbrella liability products. BCIC is writes business on Martha's Vineyard and Nantucket. The Company sells insurance only in Massachusetts.

BCMIC's statutory surplus as of December 31, 2010 is \$63.2 million with statutory admitted assets of approximately \$85.2 million. BCIC's statutory surplus as of December 31, 2010 is \$16.5 million with statutory admitted assets of \$19.3 million. The Group is rated A (Excellent) by A.M. Best.

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

I. COMPANY OPERATIONS/MANAGEMENT

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard I-1. The regulated entity has an up-to-date, valid internal, or external, audit program.

Objective: This Standard addresses the audit function and its responsibilities. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's statutory financial statements are audited annually by an independent auditor.
- The Company has engaged outside consultants to review significant information systems changes and proposed rating changes.
- The Company regularly conducts underwriting and rating quality assurance tests of significant transactions or process changes.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for information system changes, underwriting and rating processes.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have adopted policies and procedures to ensure that appropriate audits or reviews are conducted timely.

Recommendations: None.

Standard I-2. The regulated entity has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

No work performed. All required activity for this Standard is included in the scope of the ongoing statutory financial examination of the Company.

Standard I-3. The regulated entity has antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.

Objective: This Standard addresses the effectiveness of the Company's antifraud plan. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has adopted antifraud claims and underwriting procedures, which require management and employees to take reasonable precautions to prevent, detect and thoroughly

investigate potential insurance fraud and to report potential fraud to the Massachusetts Insurance Fraud Bureau.

- The Company requires that the Board of Directors and officers annually certify compliance with the Company's conflict of interest policy and complete a questionnaire about related party transactions.
- The Company conducts criminal, financial and credit background checks prior to hiring prospective employees.
- The Company has implemented Office of Foreign Asset Control ("OFAC") compliance initiatives, including searches of the Specially Designated Nationals ("SDN") database for any payees, customers or vendors that might be included in the SDN database. The Company has developed policies and procedures to address exceptions noted through the SDN database in accordance with guidelines promulgated by OFAC and the Division.
- The Audit Committee of the Board of Directors has established a whistleblower mechanism for employees to report suspected fraud confidentially and without reprisal.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA reviewed Company policies and procedures to address antifraud initiatives as part of claims and underwriting testing and reviewed supporting documentation for the above noted controls.

Transaction Testing Results:

Findings: None.

Observations: RNA confirmed that the Company's documentation supports the above controls. Based upon underwriting and claims testing, it appears that the Company has antifraud initiatives that are reasonably designed to detect, report, and prevent fraudulent insurance acts.

Recommendations: None.

Standard I-4. The regulated entity has a valid disaster recovery plan.

No work performed. All required activity for this Standard is included in the scope of the ongoing statutory financial examination of the Company.

Standard I-5. Contracts between the regulated entity and entities assuming a business function or acting on behalf of the regulated entity, such as, but not limited to, MGAs, GAs, TPAs and management agreements must comply with applicable licensing requirements, statutes, rules and regulations.
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Objective: This Standard addresses the Company's contracts with entities assuming a business function and compliance with licensing and regulatory requirements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and Standard I-6:

- The Company's sales distribution is through independent agents. The Company verifies that agents are properly licensed as producers in Massachusetts prior to contracting with them. The

Company's standard agent contract addresses agent authorities, premium accounting and remittance, contract termination, commissions, expense reimbursement limitations and expirations ownership.

- The Company outsources certain information technology services to maintain the Company's communication networks and application systems.
- The Company outsources its claims investigation duties to independent adjusters and outsources inspection duties to qualified firms.
- The Company's legal duties are outsourced to various law firms and attorneys, who provide general corporate law assistance and claims litigation defense.
- The Company's payroll processing and investment management duties are outsourced to third parties.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed management about its use of third party contractual resources to perform Company functions, and the contract provisions of the agent contracts. Further, RNA reviewed documentation related to the above parties as part of new and renewal business and claims testing for compliance with statutory and regulatory requirements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard I-6. The regulated entity is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the regulated entity.
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Objective: This Standard addresses the Company's efforts to adequately monitor the activities of the contracted entities that perform business functions on its behalf. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-5.

Controls Reliance: See Standard I-5.

Transaction Testing Procedure: RNA interviewed management about its monitoring of third party contractual resources that perform Company functions. As part of new and renewal business testing, RNA reviewed agent documentation that supports the new or renewal business sold. As part of claims testing, RNA reviewed the work of claims adjusters and legal resources.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company is generally monitoring the activities of third party contractual resources assuming a business function on the Company's behalf, in compliance with statutory and regulatory requirements.

Recommendations: None.

Standard I-7. Records are adequate, accessible, consistent and orderly and comply with record retention requirements.
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Objective: This Standard addresses the adequacy and accessibility of the Company's records. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has adopted record retention requirements for various documents and records.
- The record retention requirements include the length of time specific documents must be retained.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA inquired about the Company's record retention policies and evaluated them for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's record retention policies appear reasonable. Testing results relating to documentation evidence are noted in the various examination standards.

Recommendations: None.

Standard I-8. The regulated entity is licensed for the lines of business that are being written.

Objective: This Standard addresses whether the lines of business written by the Company are in accordance with the lines of business authorized by the Division. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Due to the nature of this Standard, no controls assessment was performed.

Controls Reliance: Not applicable.

Transaction Testing Procedure: RNA reviewed the Company's certificate of authority, and compared it to the lines of business which the Company writes in the Commonwealth.

Transaction Testing Results:

Findings: None.

Observations: The Company is licensed for the lines of business being written.

Recommendations: None.

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

Objective: This Standard is concerned with the Company's cooperation during the course of the examination. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Due to the nature of this Standard, no controls assessment was performed.

Controls Reliance: Not applicable.

Transaction Testing Procedure: The Company's level of cooperation and responsiveness to examiner requests was assessed throughout the examination.

Transaction Testing Results:

Findings: None.

Observations: The Company's level of cooperation and responsiveness to examiner requests was very good.

Recommendations: None.

Standard I-10. The regulated entity has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions to minimize any improper intrusion into the privacy of applicants and policyholders.

Objective: This Standard is concerned with the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of individuals. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in conjunction with the review of this Standard and Standards I-11 through I-16:

- The Company shares personal information with business partners who perform a function on behalf of the Company. The Company does not share nonpublic personal financial information with anyone for marketing purposes.
- Company policy is to disclose nonpublic personal information only as required or permitted by law to regulators and law enforcement agencies.
- Company policy requires that its information technology security practices safeguard nonpublic personal financial information and health information. Only individuals approved by Company management are granted access to the Company's key electronic and operational areas where nonpublic personal financial information and health information is located.
- The Company provides a short-form privacy notice with each new policy and annually at renewal. When questions about privacy arise, the Company has a long-form privacy notice, which is provided to the customer further explaining privacy policies and procedures.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy and information security compliance. RNA further reviewed documentation supporting the Company's privacy and information security policies and procedures and sought any evidence of improper privacy practices as part of claims testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and claims testing, the Company's privacy and information security practices appear to minimize any improper intrusion into individuals' privacy in accordance with the Company's policies and procedures.

Recommendations: None.

Standard I-11. The regulated entity has developed and implemented written policies, standards and procedures for the management of insurance information.
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The objective of this Standard relates to privacy matters included in this section.

Standard I-12. The regulated entity has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.

Objective: This Standard addresses policies and procedures to ensure privacy of nonpublic personal information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. As part of underwriting and claims testing, RNA sought any evidence that the Company improperly provided personal information to inappropriate parties.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review, the Company's policies and procedures adequately protect consumers' nonpublic personal information. RNA noted no instances where the Company improperly provided personal information to inappropriate parties in conjunction with underwriting and claims testing.

Recommendations: None.

Standard I-13. The regulated entity provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.

Objective: This Standard addresses the Company's practice of providing privacy notices to customers and consumers. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, reviewed documentation its supporting privacy policies and procedures, and examined whether the privacy notice provided sufficient information and disclosures. RNA selected 25 homeowners policies issued or renewed during the examination period, to test whether a proper privacy notice was provided.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the Company provides a sufficient privacy notice to customers regarding its treatment of non-public personal financial information.

Recommendations: None.

Standard I-14. If the regulated entity discloses information subject to an opt out right, the company has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the company provides opt out notices to its customers and other affected consumers.

Objective: This Standard addresses policies and procedures with regard to opt out rights. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: The Company does not share nonpublic personal financial information with anyone for marketing purposes. Thus, the Company is not required to offer an opt out for such information sharing.

Recommendations: None.

Standard I-15. The regulated entity's collection, use and disclosure of nonpublic personal financial information are in compliance with applicable statutes, rules and regulations.

Objective: This Standard is concerned with the Company's collection and use of nonpublic personal financial information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy and information security compliance, and reviewed documentation supporting its privacy and information security policies and procedures. RNA also sought any evidence that the Company improperly collected, used or disclosed nonpublic personal financial information in conjunction with testing of underwriting and claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review and testing in conjunction with underwriting and claims, the Company's policies and procedures provide reasonable assurance that the Company properly collects, uses and discloses nonpublic personal financial information.

Recommendations: None.

Standard I-16. In states promulgating the health information provisions of the NAIC model regulation, or providing equivalent protection through other substantially similar laws under the jurisdiction of the insurance department, the regulated entity has policies and procedures in place so that nonpublic personal health information will not be disclosed except as permitted by law, unless a customer or a consumer who is not a customer has authorized the disclosure.

Objective: This Standard addresses efforts to maintain privacy of nonpublic personal health information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy and information security compliance, and reviewed supporting documentation. RNA also sought any evidence that the Company improperly disclosed nonpublic personal health information in conjunction with testing of claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no instances where the Company improperly disclosed nonpublic personal health information in conjunction with testing of claims.

Recommendations: None.

Standard I-17. Each licensee shall implement a comprehensive written information security program for the protection of nonpublic customer information.
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Objective: This Standard is concerned with the Company's information security efforts to ensure that nonpublic customer information is protected. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy requires that its information technology security practices safeguard nonpublic customer personal financial information and health information.
- Only individuals approved by Company management are granted access to the Company's key electronic and operational areas where nonpublic customer personal financial information and health information is located.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for information security compliance, and reviewed documentation supporting its information security policies and procedures. Review of information technology access and authorization controls is also included in the scope of the ongoing statutory financial examination of the Company.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's information security policies and procedures, it appears that the Company has implemented an information security program, which provides reasonable assurance that its information systems protect nonpublic customer information.

Recommendations: None.

Standard I-18. All data required to be reported to departments of insurance is complete and accurate.
--

Objective: This Standard is concerned with the Company's annual reporting of statutorily-required homeowners underwriting and claims data and the NAIC Market Conduct Annual Statement to the Division. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's policy administration and claims systems compile and retain underwriting and claims data for inclusion in the NAIC Market Conduct Annual Statement.
- The Company's policy administration and claims systems compile and retain homeowners underwriting and claims data for inclusion in the annual homeowners data submission to the Division.

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BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for underwriting and claims processing. RNA also reviewed the 2010 NAIC Market Conduct Annual Statement for Massachusetts data for unusual results and concerns. Finally, RNA reviewed the 2010 homeowners underwriting and claims data statutorily-required to be submitted to the Division.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's underwriting and claims processing, the 2010 homeowners underwriting and claims data, and the 2010 NAIC Market Conduct Annual Statement for Massachusetts, no unusual results and concerns were noted, and the data appears to be reasonably complete and accurate.

Recommendations: None.

II. COMPLAINT HANDLING

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard II-1. All complaints are recorded in the required format on the regulated entity's complaint register.

Objective: This Standard addresses whether the Company formally tracks complaints or grievances as required by statute. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of all complaint Standards:

- The Company defines a complaint as a written grievance from anyone, or an oral complaint from the Division or the Massachusetts Attorney General. The Company's policy is to attempt to resolve any customer questions or concerns to minimize the number of complaints.
- Complaints are directed to, and handled by, the Company's President.
- The Company's policy is to address all complaints immediately, and to meet the Division's response time directives whenever complaints are received from the Division.
- The Company maintains a complaint register with the necessary information to record, track, investigate and resolve the complaint.
- All significant complaints or indications of systemic concerns are to be reported to the Audit Committee of the Board of Directors.
- The Company provides a telephone number and address in its written responses to complaints and consumer inquiries and on its website.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed the Company's complaint registers for 2010-2011 to evaluate the Company's compliance with statutory complaint requirements. RNA also reviewed the Company's complaint registers from 2010-2011 for completeness to determine whether they properly contained all complaints.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company's complaint registers included all statutorily-required database elements and included all 2010-2011 Division complaints. RNA noted one oral complaint from the Massachusetts Attorney General, which was responded to, but not properly included, on the complaint register in accordance with Company policy.

Required Actions: The Company shall ensure that its complaint register includes all written and oral complaints received from the Massachusetts Attorney General.

Standard II-2. The regulated entity has adequate complaint handling procedures in place and communicates such procedures to policyholders.

Objective: This Standard addresses whether the Company has adequate complaint handling procedures, and communicates those procedures to policyholders and consumers. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed three Division complaints and one Massachusetts Attorney General complaint, from the 2010-2011 period, to evaluate the Company's compliance with statutory complaint requirements and Company policy. RNA reviewed the complaint handling for each of these complaints, including the adequacy of documentation supporting the facts and resolution of each complaint. In addition, RNA reviewed the Company's website, and various forms sent to policyholders, to determine whether the Company provides contact information for consumer inquiries as required.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted that the Company has adequate procedures in place to address complaints, and adequately communicates such procedures to policyholders and consumers.

Recommendations: None.

Standard II-3. The regulated entity takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language.

Objective: This Standard addresses whether the Company's response to the complaint fully addresses the issues raised, and whether policyholders or consumers with similar fact patterns are treated consistently and fairly. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed three Division complaints and one Massachusetts Attorney General complaint, from the 2010-2011 period, to evaluate the Company's efforts to properly dispose of complaints.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company fully addressed the issues raised in the complaints tested. It appears that complainants with similar fact patterns are treated consistently and fairly.

Recommendations: None.

Standard II-4. The time frame within which the regulated entity responds to complaints is in accordance with applicable statutes, rules and regulations.

Objective: This Standard addresses the time required for the Company to process each complaint. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed three Division complaints and one Massachusetts Attorney General complaint, from the 2010-2011 period, to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

Observations: The Company appeared to address timely each of the tested Division complaints within 14 days, unless additional time to respond was approved by the Division. The complaint from the Massachusetts Attorney General was also handled timely. The Company appears to respond to complaints in a timely manner in accordance with its policies, procedures, and regulatory requirements.

Recommendations: None.

III. MARKETING AND SALES

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard III-1. All advertising and sales materials are in compliance with applicable statutes, rules and regulations.

Objective: This Standard is concerned with whether the Company maintains a system of control over the content, form and method of dissemination for all advertising materials. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted as part of this Standard:

- The Company has adopted written policies and procedures for review and use of advertising and sales materials.
- The Company maintains copies of all of its advertising and marketing materials, which are reviewed and approved by the Company's President prior to use.
- The Company's advertising is limited and generally consists of advertisements in phone directories, loss mitigation brochures for policyholders, and use of the Company's name by agents in their sales efforts.
- The Company discloses its name and address on its website.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for reviewing, approving and maintaining sales and advertising materials. RNA reviewed the Company's website for disclosure of its name and address. Finally, RNA sought evidence of use of any unapproved materials as part of new and renewal business testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's website disclosure complies with Division requirements. RNA noted no evidence of the use of unapproved sales materials as part of new and renewal business testing.

Recommendations: None.

Standard III-2. Regulated entity internal producer training materials are in compliance with applicable statutes, rules and regulations.

Objective: This Standard is concerned with whether the Company's producer training materials are in compliance with state statutes, rules and regulations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted as part of this Standard:

- The Company provides training to agents focusing on Company policies, practices and procedures relating to underwriting and rating, policyholder service, and claims.
- The Company provides an agent portal via its website for agent access to Company policies, procedures, underwriting guidelines and the policy administration system.
- Periodic memos and emails are sent to the agents when policies or procedures change.
- Management conducts an annual site visit to each agency to address Company and agent concerns.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing agent training materials, and reviewed such materials in use during the examination period for accuracy and reasonableness.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company's agent training materials appear accurate and reasonable.

Recommendations: None.

Standard III-3. Regulated entity communications to producers are in compliance with applicable statutes, rules and regulations.
--

Objective: This Standard is concerned with whether the written and electronic communication between the Company and its producers is in accordance with Company policies and procedures. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard III-2.

Controls Reliance: See Standard III-2.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing agent communications, and reviewed examples of such communications for accuracy and reasonableness.

Transaction Testing Results:

Findings: None.

Observations: Based on review, procedures for communications to agents appear appropriate and reasonable.

Recommendations: None.

Standard III-4. The regulated entity's mass marketing of property/casualty insurance is in compliance with applicable statutes, rules and regulations.

No work performed. This Standard is not covered in the scope of examination because the Company does not mass market property and casualty insurance in Massachusetts.

IV. PRODUCER LICENSING

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

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

Objective: The Standard addresses licensing and appointment of the Company's producers. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's sales distribution is through independent agents. The Company verifies that agents are properly licensed as producers in Massachusetts, prior to contracting with them.
- Any prospective new agency appointments undergo thorough investigations including criminal and financial background checks. New agents are appointed using the Division's On-Line Producer Appointment ("OPRA") system.
- The Company's standard agent contract addresses agent authorities, premium accounting and remittance, contract termination, commissions, expense reimbursement limitations and expirations ownership.
- The Company completes an annual reconciliation of their agent appointments with Division appointment data contained in OPRA. Any differences are investigated and addressed.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and processing of agent appointments. RNA selected 25 homeowners policies issued or renewed during the examination period, to determine whether the agent for each policy was included on the Division's list of the Company's appointed agents.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's agents were properly licensed and appointed at the date of sale, and the agents' appointments were included in the Division's OPRA system.

Recommendations: None.

Standard IV-2. The producers are properly licensed and appointed and have appropriate continuing education (if required by state law) in the jurisdiction where the application was taken.

Refer to Standard IV-1.

Standard IV-3. Termination of producers complies with applicable standards, rules and regulations regarding notification to the producer and notification to the state, if applicable.

Objective: This Standard addresses the Company's termination of producers in accordance with applicable statutes requiring notification to the state and the producer. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's policy is to give written notice to all agents whose appointments are terminated and notice to the Division through the OPRA system.
- The Company's policy is to give additional information to the Division about agents whose appointments are terminated "for cause" including the reason for the termination.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for terminating agent contracts and reviewed supporting documentation for the sole agent termination, which occurred in January 2011. RNA compared that supporting documentation to information on the Division's OPRA system. Further, RNA reviewed evidence that notice to the agent complied with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company properly notified the Division of the agent termination through the OPRA system in compliance with statutory requirements. The notice to the agent was in compliance with statutory requirements.

Recommendations: None.

Standard IV-4. The regulated entity's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.

Objective: The Standard addresses the Company's policy for ensuring that agent appointments and terminations do not unfairly discriminate against policyholders. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standards IV-1 and IV-3.

Controls Reliance: See Standards IV-1 and IV-3.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting, appointments and terminations. In conjunction with testing of 25 homeowners issued or renewed during the examination period and one appointment termination in January 2011, RNA reviewed documentation for any evidence of unfair discrimination against policyholders resulting from the Company's producer appointment and termination policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, no evidence of unfair discrimination against policyholders was noted as a result of the Company's agent appointment and termination policies.

Recommendations: None.

Standard IV-5. Records of terminated producers adequately document the reasons for terminations.

Objective: The Standard addresses the Company's documentation of the reasons for producer terminations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and appointment termination processing. RNA reviewed the sole appointment termination in January 2011, and evaluated the reason for the appointment termination. RNA also inquired about any agent that was terminated "for cause" during the examination period or during 2011.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's internal records adequately document the reasons for the appointment termination, which was not "for cause" as defined by statute.

Recommendations: None.

Standard IV-6. Producer account balances are in accordance with the producer's contract with the insurer.
--

No work performed. This Standard is not covered in the scope of examination because the Company direct bills most premium, thus excessive debit account balances are not a significant issue. If material debit account balances existed, they would be evaluated in the scope of the ongoing statutory financial examination of the Company.

V. POLICYHOLDER SERVICE

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard V-1. Premium notices and billing notices are sent out with an adequate amount of advance notice.
--

Objective: This Standard is concerned with whether the Company provides policyholders with sufficient advance notice of premiums due. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Direct billed policyholders may pay their premiums in full, or in four or 10 installments.
- Premium direct bill notices are sent to customers approximately 20 days prior to the due date.
- When payments are not timely made, a notice of intent to cancel is sent to the customer, the agent and any other required parties within five days of the missed installment due date, noting that coverage will be cancelled in 25 days if payment is not made. If payment is not made during that period, a notice of cancellation is sent to the customer and all required parties.
- Some policies are agency billed, where the agent bills the policyholder and remits the payments to the Company. For payments not timely made by policyholders, agents request that the Company issue the notice of cancellation for non-payment in accordance with the agency's billing and collection policies.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and reviewed billing notice dates in conjunction with new and renewal business testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, billing notices appeared to be mailed with an adequate amount of advance notice.

Recommendations: None.

Standard V-2. Policy issuance and insured requested cancellations are timely.
--

Objective: This Standard is concerned with whether the Company has cancellation procedures to ensure that such policyholder requests are processed timely. Policy issuance testing is included in Standard VI-6. Return of premium testing is included in Standard V-7. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy is to cancel a policy upon notification from the agent of the policyholder's request, and to process premium refunds in a timely manner.
- All unearned premium is refunded to the policyholder on a pro-rata basis.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and tested five insured-requested cancellations from the examination period, to ensure that the cancellation requests were processed accurately and timely.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the insured-requested cancellations appeared to be processed accurately and timely.

Recommendations: None.

Standard V-3. All correspondence directed to the regulated entity is answered in a timely and responsive manner by the appropriate department.

Objective: This Standard addresses the Company's procedures for providing timely and responsive information to customers by the appropriate department. Complaints are covered in the Complaint Handling section, and claims are covered in the Claims section. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has underwriting representatives who assist agents with policyholders' general questions about their policies or billing matters.
- The Company considers its agents as having the primary relationship with the policyholder, who must request endorsements and policy changes through the agent. If a policyholder requests such changes directly with the Company, the policyholder will be referred to the agent for servicing.
- The Company has informal performance and work flow benchmarks that management monitors to ensure that adequate resources are available to address customer service needs.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed procedures with Company personnel and reviewed policyholder correspondence in conjunction with new and renewal business testing and claims testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon the review of the above information and review of general correspondence between policyholders and the Company in conjunction with new and renewal business testing and claims testing, the Company appears to have adequate resources and procedures to handle customer inquiries. Correspondence directed to the Company appears to be answered in a timely and responsive manner.

Recommendations: None.

Standard V-4. Whenever the regulated entity transfers the obligations of its contracts to another regulated entity pursuant to an assumption reinsurance agreement, the regulated entity has gained the prior approval of the insurance department and the regulated entity has sent the required notices to affected policyholders.

No work performed. The Company does not enter into assumption reinsurance agreements.

Standard V-5. Policy transactions are processed accurately and completely.

Objective: This Standard addresses procedures for the accurate and complete processing of policy transactions. Objectives pertaining to policy issuance, renewals and endorsements are included in Standard VI-6. Billing transactions are reviewed in Standard V-1, and insured-requested cancellations are tested in Standard V-2. Return of premium testing is included in Standard V-7. Company cancellations and non-renewals are tested in Standard VI-8. See Appendix A for applicable statutes, regulations and bulletins.

Standard V-6. Reasonable attempts to locate missing policyholders or beneficiaries are made.

Objective: This Standard addresses efforts to locate missing policyholders or beneficiaries, and to comply with escheatment and reporting requirements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy requires that un-cashed checks, including claims and premium refunds be reported and escheated when the owner cannot be located.
- The Company's accounting department periodically reviews its outstanding check list when completing monthly bank reconciliations. When a check has been outstanding for three years, a letter is sent to the payee at the last known address and to the agent notifying them that if the payee does not contact the Company immediately for a replacement check, the check amount will be escheated.
- The Company annually reports escheatable funds to the State Treasurer by November 1st as required by statute.
- For returned mail, the Company researches the address using Company records or public information to ensure that the address is correct.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed with Company personnel the Company's procedures for locating missing policyholders and claimants, and for escheating funds, and reviewed supporting documentation, including the 2010 escheatment report to the State Treasurer.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company appears to have processes for locating missing policyholders and claimants, and appears to make efforts to locate such individuals. Finally, the Company appears to report unclaimed items and escheat them as required by statute.

Recommendation: The Company should complete a timely inquiry of payees when checks become outstanding for six months.

Subsequent Action: In 2011, the Company implemented a new procedure when checks become outstanding for 12 months. For these checks, a letter is sent to the payee at the last known address and to the agent notifying them that the check is outstanding.

Standard V-7. Unearned premiums are correctly calculated and returned to the appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

Objective: This Standard addresses return of the correctly calculated unearned premium in a timely manner when policies are cancelled. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard V-2.

Controls Reliance: See Standard V-2.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and tested five insured-requested cancellations from the examination period, to test for proper premium refund calculation and timely payment, where appropriate.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, premium refunds appear to be calculated properly and returned timely.

Recommendations: None.

Standard V-8. Claims history and loss information is provided to the insured in timely manner.

Objective: This Standard addresses the Company's procedures to provide history and loss information to insureds in a timely manner. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's claims personnel and agents have access to claims filing history and paid loss information.
- When requested by the policyholder, the Company or the agent will provide the policyholder with its claims filing history and paid loss information.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed with Company personnel its policies and procedures for responding to policyholder inquiries regarding claims filing history and paid loss information and reviewed any evidence of the Company being non-responsive to policyholder inquiries on claim filing history and paid loss information in testing of underwriting and rating, claims, complaints and policyholder service.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing in underwriting and rating, claims, complaints and policyholder service, RNA noted no evidence of the Company being non-responsive to any policyholder inquiries. Policies and procedures relating to how the Company responds to policyholder inquiries on claims filing history and paid loss information appear adequate and reasonable.

Recommendations: None.

VI. UNDERWRITING AND RATING

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard VI-1. The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the regulated entity's rating plan.

Objective: This Standard addresses whether the Company is charging premiums using properly filed rates. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- Homeowners rating criteria include territory, coverage amount and type, property age, protection class, structure type, age of property, as well as discounts for security features, safety features and higher deductibles.
- The Company files its rates with the Division for approval to comply with statutory and regulatory requirements. Prior to implementing rate changes, new rates are subject to user testing.
- Agents submit applications and billing mode information to the Company for review and policy issuance. Coverage is bound by the agent at the time of application.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements. The Company regularly conducts underwriting and rating quality assurance tests of significant transactions or process changes.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and reviewed other rating information. In conjunction with new and renewal business testing, RNA selected 25 homeowners policies issued or renewed during the examination period, to test rate classifications and underlying policy information. In addition, RNA selected five of these policies to test the accuracy of premium rates charged to policyholders. RNA verified that each policy's premium agreed with the Company's rates filed with the Division.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company calculates policy premiums, discounts and surcharges in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division.

Recommendations: None.

Standard VI-2. All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations.

Objective: This Standard addresses whether all mandated disclosures for rates and coverages are timely provided to insureds in accordance with statutes and regulations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has written policies and procedures for processing new and renewal business.
- The Company's supervisory procedures are designed to ensure that new business submissions from agents are accurate and complete, including the use of all Company-required forms and instructions.
- The Company's insurance policies provide disclosures as required by statutory and regulatory guidelines.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 homeowners policies issued or renewed during the examination period, to test for timely disclosure of rates and coverages.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company provides required coverage disclosures to insureds upon initial application and renewal, in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VI-3. The regulated entity does not permit illegal rebating, commission cutting or inducements.

Objective: This Standard addresses illegal rebating, commission cutting or inducements, and requires that broker commissions adhere to the commission schedule. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has procedures for paying agents' commissions in accordance with written contracts.
- The Company's policies and procedures are designed to comply with statutory underwriting and rating requirements, which prohibit special inducements and rebates.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for commission processing and agent contracting. In connection with the review of agent contracts, RNA inspected new business materials, advertising materials, agent training materials and manuals for indications of rebating, commission cutting or inducements. Also, in conjunction with new and renewal business testing, RNA selected 25 homeowners policies issued or renewed during the examination period, to review commissions paid to agents and for indications of rebating, commission cutting or inducements.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the Company's processes for prohibiting illegal acts, including special inducements and rebates, are functioning in accordance with its policies, procedures and statutory requirements, and commissions paid appeared reasonable.

Recommendations: None.

Standard VI-4. The regulated entity underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and regulated entity guidelines in the selection of risks.

Objective: This Standard addresses whether unfair discrimination is occurring in insurance underwriting. See Standard VI-7 for testing of declinations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- Agents submit applications to the Company for review and policy issuance. Coverage is bound by the agent at the time of application.
- The Company does not use credit in underwriting and does not obtain the applicant's insurance score.
- In the event that the agent binds an unacceptable risk, the Company will accept the bound coverage and will ask the agent to replace the coverage as soon as possible.
- The Company regularly conducts underwriting and rating quality assurance tests of significant transactions.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 homeowners policies issued or renewed during the examination period, to test for evidence of unfair discrimination in underwriting.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no evidence that the Company's underwriting

practices are unfairly discriminatory.

Recommendations: None.

Standard VI-5. All forms including contracts, riders, endorsement forms and certificates are filed with the insurance department, if applicable.

Objective: This Standard addresses whether policy forms and endorsements are filed with the Division for approval. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy requires that all homeowners policy forms and endorsements be filed and approved by the Division prior to use.
- Agents are required to use approved forms and applications when providing quotes to customers.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 homeowners policies issued or renewed during the examination period, to test for the use of approved policy forms and endorsements in compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company is using approved policy forms and endorsements in compliance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VI-6. Policies, riders and endorsements are issued or renewed accurately, timely and completely.
--

Objective: This Standard addresses whether the Company issues policies and endorsements timely and accurately. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Agents submit applications to the Company for review and policy issuance. Coverage is bound by the agent at the time of application.
- Any changes in policy coverage must be requested through the agent, who must timely process such requests.
- Prior to policy renewal, the underwriting department evaluates all risks to determine whether to renew them based on loss activity and inspection results. Renewal policies are sent to the agents for delivery to insureds.
- The Company regularly conducts underwriting and rating quality assurance tests of significant transactions.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 homeowners policies issued or renewed during the examination period, to test whether new and renewal policies and endorsements were issued timely, accurately and completely.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company issues new and renewal policies and endorsements timely, accurately and completely.

Recommendations: None.

Standard VI-7. Rejections and declinations are not unfairly discriminatory.
--

Objective: This Standard addresses the fairness of application rejections and declinations including issuance of proper declination notices. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- Agents submit applications to the Company for review and policy issuance. Coverage is bound by the agent at the time of application.
- The Company does not use credit in underwriting and does not obtain the applicant's insurance score.
- In the event that the agent binds an unacceptable risk, the Company will accept the bound coverage and will ask the agent to replace the coverage as soon as possible. Thus, the Company and its agents do not provide declination notices.
- The Company regularly conducts underwriting and rating quality assurance tests of significant transactions.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected five transactions coded as declinations by the Company during the examination period, to ensure these transactions were not unfairly discriminatory and were not in violation of regulatory notice requirements.

Transaction Testing Results:

Findings: None.

Observations: For the transactions coded as declinations that were tested, the Company accepted the agents' bound coverage in four of the transactions, and asked the agents to replace the policies as soon as possible. For these risks, the agents replaced the coverage within the first 60 days of coverage. For the fifth transaction, the Company asked the agent to replace the coverage on a secondary residence, and the agent did so immediately, and thus no coverage was bound for that risk. Based upon testing, Company's transactions coded as declinations were not unfairly discriminatory and were not in violation of regulatory notice requirements.

Recommendations: None.

Standard VI-8. Cancellation/non-renewal, discontinuance and declination notices comply with policy provisions, state laws and regulated entity guidelines.

Objective: This Standard addresses notices to policyholders for company-initiated cancellations and non-renewals, including advance notice before expiration for cancellations and non-renewals. Declination notices are tested in Standard VI-7. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy requires that written homeowners company-initiated cancellation notices and the specific reasons for the cancellations be sent to policyholders and agents at least 10 days prior to the cancellation effective date.
- Company policy requires that written homeowners non-renewal notices and the specific reasons for the non-renewals be sent to policyholders and agents at least 45 days prior to the policy non-renewal effective date.
- The Company regularly conducts underwriting and rating quality assurance tests of significant transactions or process changes.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected five company-initiated cancellations and five non-renewal transactions for testing. All transactions were evaluated for compliance with statutory notice requirements.

Transaction Testing Results:

Findings: None.

Observations: For the company-initiated cancellations and non-renewal transactions tested, the Company provided timely notice to the policyholders and agents along with the specific reasons for the cancellations or non-renewals. Based upon testing, company-initiated cancellation and non-renewal notices appear to be timely provided with the specific reasons properly disclosed.

Recommendations: None.

Standard VI-9. Rescissions are not made for non-material misrepresentation.
--

Objective: This Standard addresses whether decisions to rescind and cancel coverage are made appropriately. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy requires compliance with underwriting guidelines in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- The Company's policy is not to rescind coverage. In cases of material misrepresentation or fraud, the Company would cancel coverage mid-term using standard cancellation notice procedures.
- The Company regularly conducts underwriting and rating quality assurance tests of significant transactions.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process and inquired about actions for addressing material misrepresentation or fraud.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, policies and procedures for addressing material misrepresentation or fraud appear reasonable.

Recommendations: None.

Standard VI-10. Credits, debits and deviations are consistently applied on a non-discriminatory basis.

Objective: This Standard addresses whether unfair discrimination is occurring in the application of premium discounts and surcharges. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VI-1.

Controls Reliance: Refer to Standard VI-1.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and reviewed other rating information. In conjunction with new and renewal business testing, RNA selected 25 homeowners policies issued or renewed during the examination period, to test rate classifications and underlying policy information. In addition, RNA selected five of these policies issued or renewed during the examination period to test the accuracy of premium rates charged to policyholders. RNA verified that policy credits and deviations were consistently applied on a non-discriminatory basis.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company consistently applies credits and deviations on a non-discriminatory basis in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VI-11. Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer commercial coverage.

Standard VI-12. Verification of use of the filed expense multipliers; the regulated entity should be using a combination of loss costs and expense multipliers filed with the insurance department.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation coverage.

Standard VI-13. Verification of premium audit accuracy and the proper application of rating factors.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer commercial coverage.

Standard VI-14. Verification of experience modification factors.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation coverage.

Standard VI-15. Verification of loss reporting.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation coverage.

Standard VI-16. Verification of regulated entity data provided in response to the NCCI call on deductibles.

No work performed. This Standard is not covered in the scope of examination because the Company is not subject to NCCI data calls.

Standard VI-17. Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.

Objective: This Standard addresses whether underwriting, rating and classification decisions are based on adequate information developed at or near inception of the coverage, rather than near expiration or following a claim. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company policies and procedures are designed to reasonably assure consistency in the application of underwriting guidelines, rating classifications, premium discounts and surcharges determined at or near the inception of coverage.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- The Company regularly conducts underwriting and rating quality assurance tests of significant transactions.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 homeowners policies issued or renewed during the examination period to test whether underwriting, rating and classification are based on adequate information developed at or near inception of coverage.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company is using underwriting, rating and classification guidelines based on adequate information developed at or near inception of coverage.

Recommendations: None.

Standard VI-18. Audits, when required, are conducted accurately and timely.
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See Standard I-1 for audits by the external auditor. See Appendix A for applicable statutes, regulations and bulletins.

Standard VI-19. All forms and endorsements, forming a part of the contract are listed on the declaration page and should be filed with the insurance department (if applicable).

Objective: This Standard addresses whether policy forms and endorsements are filed with the Division for approval. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VI-5.

Controls Reliance: See Standard VI-5.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 homeowners policies issued or renewed during the examination period, to test for the use of policy forms and approved endorsements in compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that the Company is using approved policy forms and endorsements in compliance with statutory requirements.

Recommendations: None.

Standard VI-20. The regulated entity verifies that the VIN number submitted with the application is valid and that the correct symbol is utilized.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer automobile coverage.

Standard VI-21. The regulated entity does not engage in collusive or anti-competitive underwriting practices.

Objective: This Standard addresses whether the Company has engaged in any collusive or anti-competitive underwriting practices. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy requires that the underwriting department apply consistent underwriting practices, and that no underwriter or agent shall engage in collusive or anti-competitive practices.
- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- The Company regularly conducts underwriting and rating quality assurance tests of significant transactions.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 homeowners policies issued or renewed during the examination period, to determine whether any underwriting practices appeared collusive or anti-competitive.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's underwriting policies and practices do not appear to be collusive or anti-competitive.

Recommendations: None.

Standard VI-22. The regulated entity underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations in application of mass marketing plans.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer mass marketing plans.

Standard VI-23. All group personal lines property and casualty policies and programs meet minimum requirements.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer group products.

Standard VI-24. Cancellation/non-renewal notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract.

See Standard VI-8 for testing of this standard. See Appendix A for applicable statutes, regulations and bulletins.

Standard VI-25. All policies are correctly coded.

Objective: This Standard addresses the accuracy of statistical coding. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has written underwriting policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The Company's policy is to report complete and accurate premium data timely in the required format to its statistical agent, Insurance Services Office ("ISO").
- Premium data is provided directly from the policy administration system to ISO, which has not conducted any audits of the Company's premium data.
- The Company has a process to correct data coding errors and to make subsequent changes, as needed.
- The Company regularly conducts underwriting and rating quality assurance tests of significant transactions or process changes.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process and discussed the procedures used by ISO to monitor submitted premium data. RNA selected 25 homeowners policies issued or renewed during the examination period, for any evidence of premium data coding errors.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, premium data determinants appear to be properly coded. The Company appears to have procedures to provide accurate premium data to ISO in a timely manner.

Recommendations: None.

Standard VI-26. Application or enrollment forms are properly, accurately and fully completed, including any required signatures, and file documentation supports underwriting decisions made.
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Objective: This Standard addresses whether policy file documentation adequately supports decisions made in underwriting and rating. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy requires that the underwriting files support underwriting and rating decisions.
- Agents submit applications to the Company for review and policy issuance. Coverage is bound by the agent at the time of application. Properly completed applications are to include applicant and agent signatures.
- The Company regularly conducts underwriting and rating quality assurance tests of significant transactions or process changes.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 homeowners policies issued or renewed during the examination period, to test whether the applications were properly completed and whether policy files adequately support the Company's decisions.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, applications were properly completed, and policy files adequately supported the Company's decisions.

Recommendations: None.

VII. CLAIMS

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard VII-1. The initial contact by the regulated entity with the claimant is within the required time frame.

Objective: This Standard addresses the timeliness of the Company's initial contact with the claimant. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard through Standard VII-13:

- Written policies and procedures govern the claims handling process.
- The Company encourages insureds to file claims with its agents, who may assign independent adjusters for property claims. Any claims filed with agents require them to provide immediate notice to the Company. Agents may not assign independent adjusters for liability claims.
- Insureds and third party claimants may also file claims directly with the Company by phone or through the Company's website. The Company assigns independent adjusters for all liability claims.
- The Company's independent adjusters must contact claimants within 48 hours. The independent adjusters confirm coverage and conduct claim investigations.
- The Company completes an SDN check for third party claims. Further, any necessary Massachusetts Department of Revenue intercept checks, Medicare and Medicaid checks and ISO delinquent child support checks are completed by the Company and documented in the claims files.
- The independent adjusters provide any required notices to local building inspectors when property damage exceeds \$1,000, and copies of the notices are provided to the Company in the independent adjusters' reports.
- Once property claim investigations are complete, for claims over \$5,000, the independent adjusters prepare a Proof of Loss ("POL") summarizing the claim and the settlement calculation. The POL is presented to the claimant for agreement. Any POL for \$20,000 or more must also be approved by the Company. The claimant has 60 days to sign the POL and file it with the Company for payment. When possible, claim checks for insured claimants are provided to the agents for delivery to insureds.
- If the claimant does not agree with the POL, the claimant may discuss the claim with the Company directly or request use of a public adjuster. When necessary, through negotiation, the Company may adjust the POL.
- Liability claims are investigated by the independent adjusters and defense counsel, and a settlement is proposed and provided to the Company for approval. A signed settlement agreement by the claimant is required noting that the settlement represents full payment for the claim.
- Independent adjusters provide fraud investigation services when needed, and claim investigation experts are used when needed for fire or other liability investigations.
- Subrogation is managed by the Company, and all claim case reserves are determined by the Company.
- Claim status is monitored by the Company through the receipt of status reports from independent adjusters and defense counsel and through use of claims aging diaries reminding management that specific action steps are due.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 19 homeowners claims paid or that remained open during the examination period; and six homeowners claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether its initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was reported and investigated according to the Company's policies and procedures, with timely initial contact from the Company. Based upon testing, it appears that the Company's processes for providing timely initial contact with claimants are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VII-2. Timely investigations are conducted.

Objective: The Standard addresses the timeliness of the Company's claim investigations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 19 homeowners claims paid or that remained open during the examination period; and six homeowners claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether its investigation was conducted in a reasonable and timely manner.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was timely reported and investigated according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for timely investigating claims are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VII-3. Claims are resolved in a timely manner.

Objective: The Standard addresses the timeliness of the Company's claim settlements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 19 homeowners claims paid or that remained open during the examination period; and six homeowners claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether its investigation was conducted and resolved in a reasonable and timely manner.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was reported and investigated according to the Company's policies and procedures, with timely claim resolutions. Based upon testing, it appears that the Company's processes for timely investigating and resolving claims are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VII-4. The regulated entity responds to claim correspondence in a timely manner.

Objective: The Standard addresses the timeliness of the Company's response to all claim correspondence. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 19 homeowners claims paid or that remained open during the examination period; and six homeowners claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether the Company timely responded to claim correspondence.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was reported and investigated according to the Company's policies and procedures, with timely responses to claims correspondence. Based upon testing, it appears that the Company's processes for providing timely responses to claims correspondence are functioning in accordance with its policies, procedures and statutory

requirements.

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

Objective: The Standard addresses the adequacy of information maintained in the Company's claim files. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 19 homeowners claims paid or that remained open during the examination period; and six homeowners claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was adequately documented according to the Company's policies and procedures. Based upon testing, it appears that the Company's claim handling processes for documenting claim files are functioning in accordance with its policies and procedures.

Recommendations: None.

Standard VII-6. Claims are properly handled in accordance with policy provisions and applicable statutes (including HIPPA), rules and regulations.

Objective: The Standard addresses whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 19 homeowners claims paid or that remained open during the examination period; and six homeowners claims that were closed without payment during the examination period, to evaluate the Company's compliance with policy provisions, statutory requirements, regulatory requirements and Company procedures.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was handled according to policy provisions, statutory requirements, regulatory requirements and Company procedures. Based upon testing, it appears that the Company's processes for handling claims are functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: None.

Standard VII-7. Regulated entity claim forms are appropriate for the type of product.
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Objective: The Standard addresses the Company's use of claim forms that are proper for the type of product. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 19 homeowners claims paid or that remained open during the examination period; and six homeowners claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA reviewed the file for each selected claim and verified that claim forms were appropriately used.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims appropriately used claim forms in accordance with the Company's policies and procedures and regulatory requirements.

Recommendations: None.

Standard VII-8. Claim files are reserved in accordance with the regulated entity's established procedures.

Objective: The Standard addresses the Company's process to establish and monitor claim reserves for reported losses. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 19 homeowners claims paid or that remained open during the examination period; and six homeowners claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner. The Division's financial examiners and actuaries also test reserving in conjunction with the ongoing financial examination of the Company.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that reserves for each of the tested claims were evaluated, established and adjusted according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for evaluating, establishing and adjusting reserves are functioning in accordance with its policies and procedures.

Recommendations: None.

Standard VII-9. Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.

Objective: The Standard addresses the adequacy of the Company's decision making and documentation of denied and closed-without-payment claims. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected six homeowners claims denied or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether the Company handled each claim timely and properly before closing or denying it.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was handled according to the Company's policies and procedures. Based upon testing, it appears that the Company's claim handling and denial practices are appropriate and are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VII-10. Cancelled benefit checks and drafts reflect appropriate claim handling practices.

Objective: The Standard addresses the Company's procedures for issuing claim checks as it relates to appropriate claim handling practices. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 19 homeowners claims paid or that remained open during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified that claim payment checks were appropriately issued.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was reported and investigated according to the Company's policies and procedures, with adequate claim payment documentation. Based upon testing, it appears that the Company's processes for issuing claim payment checks are appropriate, and functioning in accordance with its policies and procedures.

Recommendations: None.

<p>Standard VII-11. Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.</p>

Objective: The Standard addresses whether the Company's claim handling practices force claimants to (a) institute litigation for the claim payment, or (b) accept a settlement that is substantially less than due under the policy. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 19 homeowners claims paid or that remained open during the examination period; and six homeowners claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. When applicable, RNA verified the date each selected claim was reported to the Company, reviewed correspondence and investigative reports, and noted whether the Company handled the claims timely and properly.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims appeared complete and supported the Company's conclusions. Based upon testing, it appears that the Company's processes do not unreasonably deny claims or compel claimants to initiate litigation.

Recommendations: None.

Standard VII-12. Regulated entity uses the reservation of rights and excess of loss letters, when appropriate.

Objective: The Standard addresses the Company's use of reservation of rights letters, and its procedures for notifying an insured when it is apparent that the amount of loss will exceed policy limits. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 19 homeowners claims paid or that remained open during the examination period; and six homeowners claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA reviewed the file for each selected claim, and noted whether reservations of rights or excess loss letters were appropriately issued.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was reported and investigated according to the Company's policies and procedures, and claim file documentation was adequate. Based upon testing, it appears that the Company's processes for utilizing reservation of rights and excess loss letters are appropriate and functioning in accordance with its policies and procedures.

Recommendations: None.

Standard VII-13. Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.

Objective: The Standard addresses whether the Company accurately and timely issues deductible reimbursements upon subrogation recovery. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 19 homeowners claims paid or that remained open during the examination period; and six homeowners claims that were closed without payment during the examination period and noted whether deductible reimbursement to insureds upon subrogation recoveries were reasonably timely and accurate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that deductible reimbursement to insureds upon subrogation recoveries for all applicable tested claims were timely and accurate according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for making

deductible reimbursement to insureds upon subrogation recoveries are functioning in accordance with its policies and procedures.

Recommendations: None.

Standard VII-14. Loss statistical coding is complete and accurate.

Objective: The Standard addresses the Company's complete and accurate reporting of loss statistical data to appropriate rating bureaus. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy is to report complete and accurate loss data timely in the required format to ISO.
- Claim statistical data is provided directly from claim system to ISO, which has not conducted any audits of the Company's loss data.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes. RNA selected 19 homeowners claims paid or that remained open during the examination period; and six homeowners claims that were closed without payment during the examination period, to determine whether selected loss data was accurate and complete.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that selected loss data appears to be accurate and complete for tested claims. The Company appears to have processes for timely and accurately reporting loss statistical data to ISO in accordance with its policies and procedures, as well as statutory and regulatory requirements.

Recommendations: None.

SUMMARY

Based upon the procedures performed in this examination, RNA 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 2010 *NAIC Market Regulation Handbook*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. RNA has provided a required action to address a standard in Complaint Handling and a recommendation related to a standard in Policyholder Service.

ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with Rudmose & Noller Advisors, LLC, applied certain agreed-upon procedures to the corporate records of the Company in order for the Division of the Commonwealth of Massachusetts to perform a comprehensive market conduct examination of the Company.

The undersigned's participation in this comprehensive 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. This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), administration and preparation of the comprehensive examination report.

The cooperation and assistance of the officers and employees of the Company extended to all examiners during the comprehensive examination is hereby acknowledged.

Matthew C. Regan III
Director of Market Conduct &
Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance
Boston, Massachusetts