

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

Report on the Comprehensive Market Conduct Examination of

Bay State Insurance Company
Cambridge Mutual Fire Insurance Company
Merrimack Mutual Fire Insurance Company

Andover, Massachusetts

For the Period January 1, 2022, through December 31, 2022

NAIC COMPANY CODES: 19763, 19771, 19798

EMPLOYER ID NUMBERS: 04-1614490

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COMMONWEALTH OF MASSACHUSETTS
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August 5, 2024

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

Dear Acting Commissioner Beagan:

Pursuant to your instructions (and the previous commissioners') and in accordance with Massachusetts General Laws, Chapter 175, § 4, a comprehensive examination has been made of the market conduct affairs of

Bay State Insurance Company
Cambridge Mutual Fire Insurance Company
Merrimack Mutual Fire Insurance Company

at their home offices located at:

95 River Rd
Andover, MA 01810

The following report thereon is respectfully submitted.

ACRONYMS

Automatic Clearing House ("ACH")
Agency Data Management ("ADM")
Amazon Cloud Services ("AWS")
Assistant Vice President ("AVP")
Guidewire InsuranceNow ("ACX")
Bay State Insurance Company ("BSIC")
Cambridge Mutual Fire Insurance Company ("CMFIC")
INS Regulatory Insurance Services, Inc. ("INS")
Insurance Services Office ("ISO")
Lexis Nexis Comprehensive Loss Underwriting Exchange ("CLUE")
Merrimack Mutual Fire Insurance Company ("MMFIC")
Market Regulation Handbook ("The Handbook")
National Association of Insurance Commissioners ("NAIC")
National Association of Mutual Insurance Companies ("NAMIC")
National Insurance Producer Registry ("NIPR")
Software as a Service ("SAAS")

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the "Division") conducted a comprehensive market conduct examination ("examination") of Bay State Insurance Company ("BSIC"), Cambridge Mutual Fire Insurance Company ("CMFIC"), and Merrimack Mutual Fire Insurance Company ("MMFIC"), collectively, (the "Company"), for the period January 1, 2022, to December 31, 2022, with focus on personal lines operations. The examination was called pursuant to authority in Massachusetts General Laws Chapter ("M.G.L. c.") 175, § 4. In addition, the Division engaged representatives from the firm of INS Regulatory Insurance Services, Inc. ("INS") to complete the examination under the direction, management, and control of the market conduct examination staff of the Division.

EXAMINATION APPROACH

The examination employed a tailored approach using the guidance and standards of the 2022 NAIC Market Regulation Handbook ("the Handbook"), the examination standards of the Division, the Commonwealth of Massachusetts' insurance laws, regulations, bulletins, and applicable Federal laws and regulations. Examiners performed all procedures under the supervision of the Division's market conduct examination staff, including procedures more efficiently addressed in the Division's financial examination of the Company. To ensure that they adequately addressed the market conduct objective, where appropriate, INS and the Division staff relied on procedures performed by the Division's financial examination staff as part of statutory financial examinations. The operational areas reviewed under this examination include company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, and claims. This examination report describes the procedures and results of those procedures performed in these operational areas.

The Handbook provides guidance on optional processes and procedures for use during the examination and includes an approach designed to detect incidents of deficiency through transactional testing. The examination also has an operational and management assessment component. The assessment promotes an understanding of the key controls used to operate the business and to meet essential business objectives, including measures designed to ensure compliance with applicable laws and regulations to market conduct activities.

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

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

EXECUTIVE SUMMARY

This summary provides a high-level overview of the examination results, while the remaining text summarizes all observations and conclusions noted during the examination, highlighting recommendations, or required actions. The examination did not include any recommendations or required actions concerning company operations, management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting, rating, or claims. Moreover, the examination indicated that the Company complies with all tested Company policies, procedures, and statutory requirements addressed in these areas. The Division recommends that Company managerial and supervisory personnel from each operational area review the examination report for results relating to their specific responsibilities.

COMPANY BACKGROUND

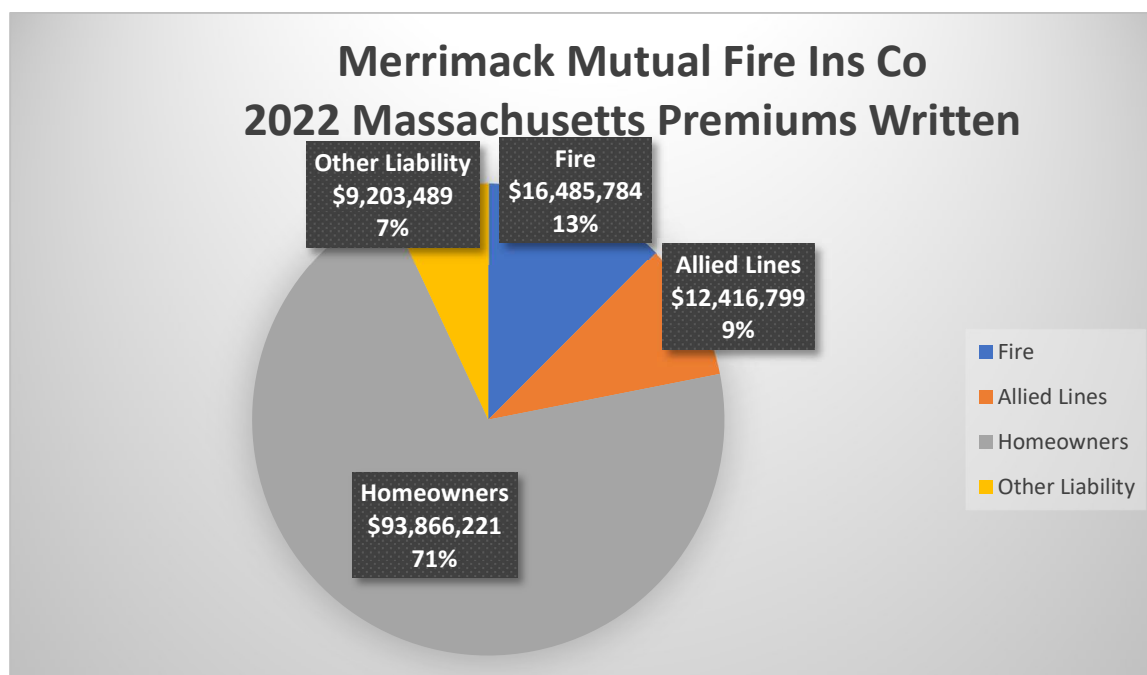
Merrimack Mutual Fire Insurance Company is the lead company of the Andover Group ("Andover"). MMFIC is a mutual company and was incorporated on February 11, 1828. The Bay State Mutual Fire Insurance Company and the Lynn Manufacturers and Merchants Insurance Company were absorbed in May 1932 and September 1933 respectively.

Bay State Insurance Company is a stock company that was incorporated on May 31, 1955, under the laws of the Commonwealth of Massachusetts. It commenced business on July 1, 1955. Under the same management are the Merrimack Mutual Fire Insurance Company and the Cambridge Mutual Fire Insurance Company.

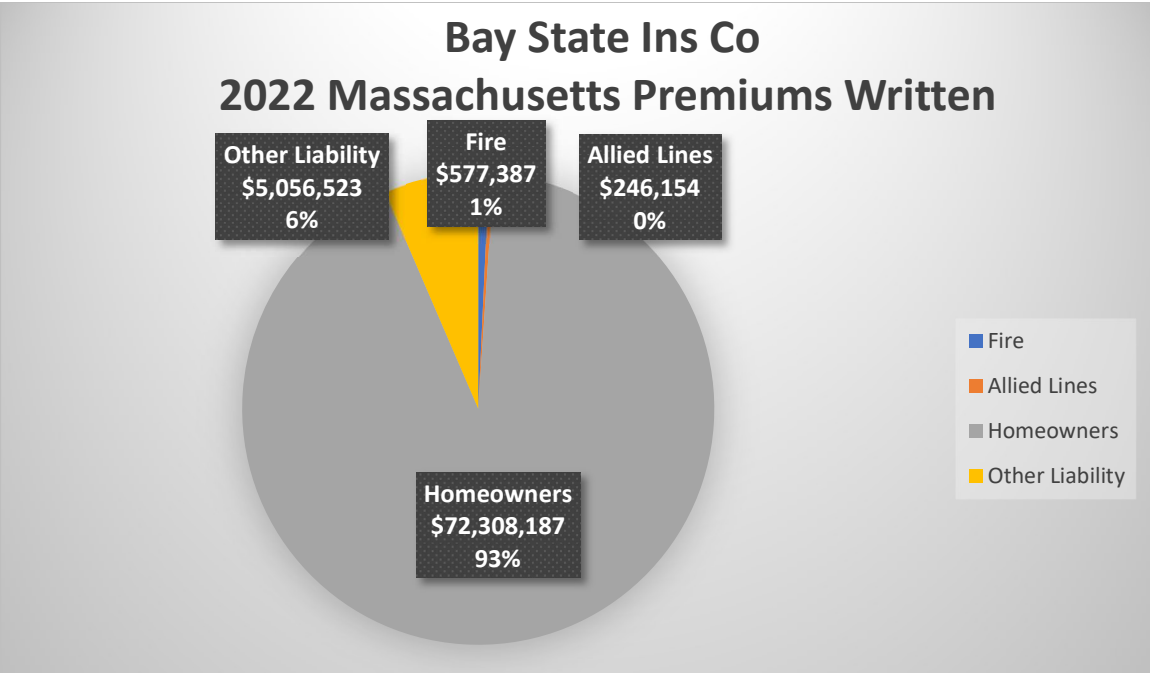
Cambridge Mutual Fire Insurance Company is a mutual company that was incorporated on March 14, 1833, and commenced business on January 1, 1834. On January 1, 1971, Traders and Mechanics Insurance Company of Lowell, Massachusetts was merged and absorbed into CMFIC.

The three companies are incorporated under the laws of Massachusetts.

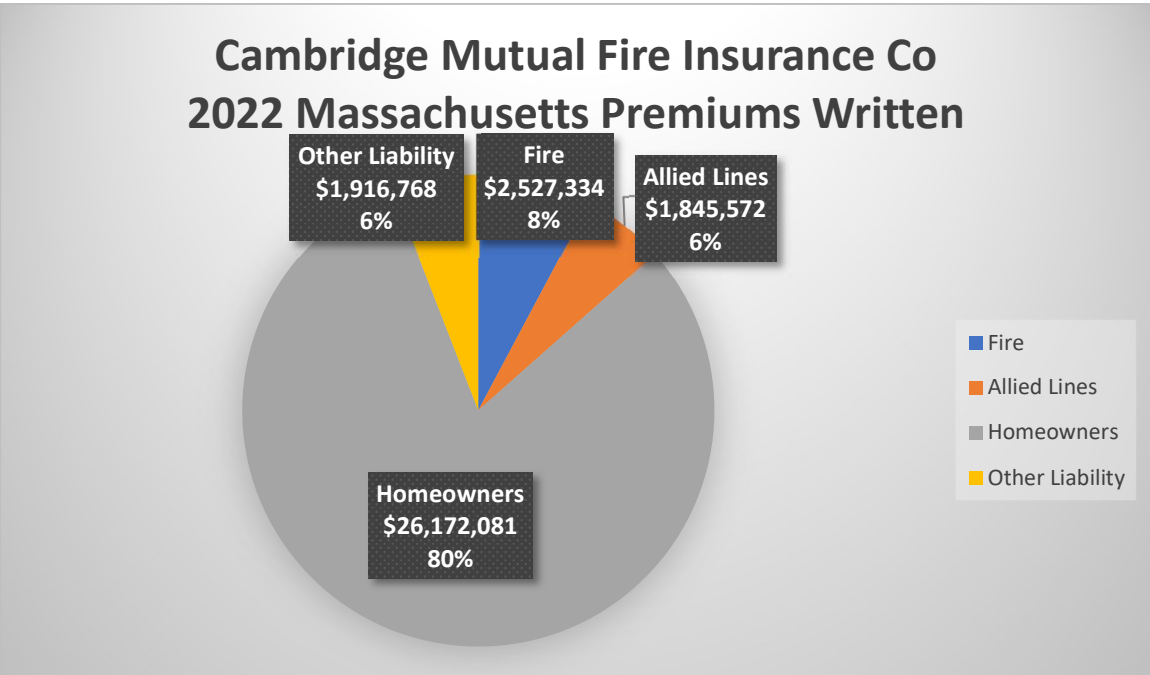
The companies write personal and commercial insurance in Connecticut, Illinois, Maine, Massachusetts, New Hampshire, New Jersey, New York, and Rhode Island. The Andover Companies utilize a pooling arrangement and share common management. All premiums, losses, and underwriting expenses are pooled and then retroceded 50% to MMFIC, 35% to CMFIC, and 15% to BSIC. On December 31, 2022, MMFIC owned 99,969 shares of the 100,000 shares authorized and issued of BSIC common stock. The direct premium written of \$736.1 million in 2022 increased \$72.7 million from \$663.4 million in 2021 or 11.0%. A combination of inflationary adjustments and increased rates drove growth. Direct premium written growth across all lines of business was positive in 2022.



Merrimack Mutual Fire Insurance Company is the 8th highest writer of homeowner's business with over \$93M in premiums and 3% of the business in the Commonwealth of Massachusetts in 2022.



Bay State Insurance Company is the 10th highest writer of homeowner's business with over \$72M in premiums and 2% of the business in the Commonwealth of Massachusetts in 2022.



Cambridge Mutual Fire Insurance Company is the 34th highest writer of homeowner's business with \$26M with less than 1% in the Commonwealth of Massachusetts in 2022.

The Company maintains a financial strength rating of A (Excellent) with a stable outlook from A.M. Best.

I. COMPANY OPERATIONS/MANAGEMENT

Corporate Governance:

Summary of Company Policies and Procedures:

- MMFIC and CMFIC have identical Boards of Directors. Two of the ten members of the MMFIC and CMFIC Boards of Directors are members of management, one is the recently retired Chief Executive Officer and seven are independent.
- The BSIC Board of Directors includes the ten members of the MMFIC and CMFIC Boards of Directors, plus five additional members of management. The Company's President & Chief Executive Officer and the Executive Vice President are the two management directors on all Boards of Directors.
- The Boards of Directors meet at least four times per year and are responsible for overseeing market conduct compliance, among other board duties.
- The Boards of Directors also have an Audit Committee, Investment Committee, Corporate Governance and Nominating Committee, and Compensation Committee, which meet regularly multiple times per year. MMFIC and CMFIC are mutual companies, while BSIC is a stock company.

Examination Procedures Performed: INS interviewed Company personnel responsible for corporate governance, internal and external audit, compliance risk assessment, and quality assurance processes.

Examination Conclusions: Andover appears to have adopted policies and procedures to ensure the Company conducts appropriate audits or reviews timely and documents the results.

Antifraud Efforts:

Summary of Company Policies and Procedures:

- The Assistant Vice President ("AVP") of Claims is responsible for the oversight of anti-fraud activities.
- Andover has developed a fraud program that addresses fraud risk given the nature and size of their organization.
- The anti-fraud policy applies to any irregularity involving employees, policyholders, consultants, vendors, contractors, and other parties with a business relationship with the Company.
- All employees must follow the Company policy and must immediately report any suspected fraudulent act to their department team lead.
- The claims department uses various methods to identify and investigate potentially fraudulent claims. As needed, third-party special investigation firms are engaged to bring in an outside resource.
- If a claims examiner has fraud concerns, a notation is made in the claims folder and recorded in the Fraudulent Claims Log. The examiner discusses the claim with the AVP of Claims or the Property Claim Manager, and the Claims Department or the Company investigates. The AVP of Claims refers fraudulent claims to the National Insurance Crime Bureau and state authorities.
- Claims staff also utilize the Insurance Services Office's ("ISO") Claim Search and Claim Director. ISO data provides loss history and a claim score that helps the Company determine suspicious claims.

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

Examination Conclusions: The Company has adopted reasonable anti-fraud procedures. Based upon underwriting and claims testing, the Company appears to have reasonably designed antifraud initiatives in place to detect, prevent, and investigate fraudulent insurance acts.

Third-Party Outsourcing:

Summary of Company Policies and Procedures:

- Andover's sales distribution in Massachusetts is through independent agents.
- Standard independent agent contracts between the agency and the Company specify the agency's rights and responsibilities, including licensing, receiving, and accepting proposals for insurance, record retention, termination, and privacy provisions.
- Independent claim appraisers and other claims services are utilized to provide on-site inspections, catastrophe services, and other services.
- Andover's claims department has an "Independent Adjustment Firm Program" which evaluates the performance of the independent adjusters. The review evaluates, amongst other areas, whether initial contact occurred within 24 hours, inspection within three (3) days, the estimate/offer or settlement was timely, and, if applicable, if the adjuster clearly explained the claim denial to the insured.
- Andover contracts with an actuarial firm to assist with actuarial services.
- Andover engaged a third-party firm to audit and provide an independent assessment of Andover's IT General Controls through interviews with management and a walk-through of systems.
- In 2021, Andover started managing the Data Warehouse internally. It was initially implemented using a Managed Service contract provided by a third party in 2018. The Data Warehouse is utilized to confirm the validity and accuracy of the data and is now self-hosted on Amazon Web Services.
- In 2023, an outside firm assisted Andover in setting up an internal audit program.

Examination Procedures Performed: INS interviewed management about its use of third-party administrators who perform Company functions and the monitoring procedures conducted over these third parties.

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

Record Retention:

Summary of Company Policies and Procedures:

- Andover has adopted record retention requirements for documents and records.
- The requirements include the following from their agency force contract:
 - Producers must keep complete records and accounts of all insurance transactions, including original signature documents from the policy issued.
 - The Company's standard producer contract requires that insurance records and accounts be kept current and identifiable.
 - The Company's standard producer contract also maintains our right to examine producers' accounts and records of all insurance transactions for as long as is deemed reasonable, including a reasonable amount of time after the termination of a producer contract.
- Since 2002, the Company's policy-related correspondence has been electronically imaged. This includes applications, change requests, inspections, and cancellation notices. All of these are kept indefinitely and remain on file after a policy is canceled.

The following represents the Company's methodology for the backup and storage of data in the event of data loss. These data files are stored either in a virtual tape library that is replicated to the Company's disaster recovery site or in database snapshots that are stored in the Company's Amazon Cloud Service ("AWS"). Details are:

- A. The Company uses a virtual tape emulation solution for the legacy policy management system. These virtual tapes are initially written to electronic storage on-premises and then replicated to a duplicate electronic storage device at our off-site disaster recovery location.
- B. For the document imaging system, which is cloud-based, the Company performs daily backups of the database and document repositories. Retention of these snapshots is seven (7) days, but since we do not purge any documents from these systems, this is sufficient to perform a recovery should a system become unavailable.
- C. The current policy management system is Software as a Service ("SAAS")-based and cloud-hosted. According to the SAAS vendor, full backups are performed daily, and incremental backups are performed every 15 minutes. All backups are replicated offsite to a separate cloud region.

Examination Procedures Performed: INS obtained a summary of the Company's record retention methodology and evaluated it for reasonableness.

Examination Conclusions: The Company's record retention methodology appears reasonable as the procedure requires all employees to ensure compliance.

Privacy and Information Security Compliance:

Summary of Company Policies and Procedures:

- The Assistant Secretary of the Company is the Chief Privacy Officer for the Company and ensures that the Company is up to date on all privacy updates and revises the forms as necessary.
- The Company provides applicants who are not yet insured a document that provides information on Andover's practices in collecting personal and privileged information, and when it is disclosed. When a new personal lines policy is issued and annually upon renewal, the Company provides a consumer privacy notice to insureds titled "The Andover Companies Notice of our Privacy Policy."
- Andover will disclose personal information to others only when it is necessary to conduct their business, or the disclosure is required by law.
- Andover has developed and implemented information technology security policies and practices to safeguard non-public personal and health information.
- Andover provides basic security awareness training to all information systems users. This training is part of the initial training for new users and annually thereafter. In addition, training is provided as required, by information system changes.
- Andover restricts access to electronic and operational areas to employees with specific job responsibilities necessitating the information available in these areas; if an employee with access changes positions, the Company will reevaluate the employee's needs for access to policyholder personal information.

Examination Procedures Performed: INS interviewed Company personnel responsible for privacy compliance and reviewed supporting documentation. As part of the review of files process INS:

- a) Randomly selected 25 homeowner policies, and 25 fire policies issued during the examination period to test whether the Company provided a consumer privacy notice.

- b) Reviewed underwriting and claims documentation for any evidence that the Company improperly collected, used, or disclosed non-public personal financial information.

Examination Conclusions: Based on INS review and testing, the Company's privacy practices meet Massachusetts and Federal statutory and regulatory requirements.

II. COMPLAINT HANDLING

Summary of Company Policies and Procedures:

- Complaints may come in through various means, including from a regulator (i.e., Attorney General's Office or Department of Insurance), the Better Business Bureau, or directly from a consumer.
- Andover has no specific department for handling customer service complaints/grievances and complaints. The claims department coordinates the processing of complaints received by all departments within the Andover Companies. If a complaint is received in a different business unit, it must be forwarded to the AVP of Claims for handling.
- The claims department's procedure is to record the complaint in the complaint register, coordinate the complaint response, and log the response in the register. Each department keeps a record of their answer to the complaint; however, all departments forward a copy of their answer and any attached material to the claims department complaint file.
- Andover's complaint register includes the date the complaint was received, the complainant's name, the nature of the complaint, the number of days to produce a response, the Division number, the date of response, and the disposition of each complaint.
- Managers in each business unit review the complaint history for their area of responsibility and make corrections as needed.
- Since the number of complaints tends to be low (a total of 5 reported for 2022) the Company does not require management reports or summaries.

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

- a) Reviewed the Company's complaint registers for 2022 to evaluate compliance with complaint requirements and ensure they contained all Division complaints.
- b) Reviewed all five (5) governmental complaints to assess the Company's compliance with statutory complaint requirements. INS reviewed the complaint handling for these complaints, including the adequacy of documentation supporting the facts and resolution of the complaints, the proper disposal of complaints, and the timeliness of the Company responses, and
- c) There were no direct consumer complaints within the examination period.

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

III. MARKETING AND SALES

Summary of Company Policies and Procedures:

- Andover's sales distribution in Massachusetts is primarily through independent agents.
- Andover has a process through which agents can pass their proposed communications to clients through the Company for approval before sending the message to the client. An agent should allow at least one week prior to the desired release date.
- Andover issues notifications to the agents through the agent portal of updates, training opportunities, changes of staffing, and other important matters.
- Andover will occasionally provide bulletins or documentation to producers highlighting our policies and new coverages that the state of Massachusetts has already approved.
- Andover will periodically post advertising in industry publications throughout the year.
- Andover has field representatives who manage the independent agency force. The field representatives conduct audits, and periodic agency visits to provide training and answer questions about the Company's products, processing requirements, and underwriting guidelines.
- Andover utilizes the Agent Portal and Agency Data Management ("ADM") systems to manage Field Marketing agency and producer licensing compliance. The ADM system feeds information to other underwriting systems to confirm the producers are properly licensed when they write the policies.
- Andover does not offer mass marketing plans.

Examination Procedures Performed: INS interviewed Company personnel responsible for reviewing, approving, and maintaining sales and advertising materials and obtaining supporting documentation. Further, INS:

- a) Reviewed a sample of the sales and marketing materials for any evidence of the use of unapproved sales and marketing materials, and
- b) Agent communications as part of new and renewal business testing for reasonableness.

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

IV. PRODUCER LICENSING

Summary of Company Policies and Procedures:

- Andover utilizes independent agents.
- The independent agent contracts contain the authority and duties of the parties, commission rates, premium accounting for agency billed business, termination responsibilities, cooperation with the Company, underwriting authority, indemnification, and confidentiality provisions. The contract also gives the agent exclusive control over expirations and the agent's records.
- Andover's field department conducts formal reviews of agents on a 3-year rotating basis.
- Additionally, from an underwriting standpoint, agency submissions are discussed as a team and feedback is shared with the Field Department. When appropriate, this results in conversations involving agency principals, underwriting management, and the marketing representative assigned to the agency. These conversations are frequently based upon feedback from our loss control department or a review of the dashboard in underwriting that tracks agency results.
- Andover appoints and terminates the agency through software developed by Cratchit LTX ("Cratchit"), a third-party vendor. Cratchit will then pass the data to the National Insurance Producer Registry ("NIPR") and the Division.
- Andover utilizes the Agent Portal and Agency Data Management ("ADM") systems to manage Field Marketing agency and producer licensing compliance. The ADM system feeds information to other underwriting systems to confirm that a producer is properly licensed when a policy is written.
- License menus, which are an internal file that is maintained, contain all license information. The Company reviews the menus weekly. Licenses due to be renewed within 30 days are highlighted and tracked via State Based Systems, NIPR, or license renewals. Andover plans to automate this process soon.
- Andover's agency terminations are provided through written notice to the agency at least 180 days before the effective termination date.
- Terminations "for cause" are rare and handled according to the agency contract with the termination reason provided to the Division.
- Andover is part of the Insurance Library's webinar sponsorship program that provides a monthly webinar series that allows employees and agents to earn continuing education credits.

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

- a) tested 25 homeowner policies and 25 fire insurance policies issued or renewed during the examination period to determine whether the sale agents held Massachusetts licenses by searching the National Association of Insurance Commissioners ("NAIC") licensing portal, and
- b) reviewed the completeness of the Company's register of agency terminations.

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

V. POLICYHOLDER SERVICE

Insured-Requested Cancellations and Service Requests:

Summary of Company Policies and Procedures:

- For the insured requested cancellation, the agent must produce a Loss Policy Release ("LPR") form. The form is emailed to the ACX cancellation folder or uploaded to the insured's policy file. This action will generate a task for the cancellation department to review and process. The LPR is occasionally received by fax or mail. The LPR form requires the insured's signature, contains the date of cancellation, and change of mailing address if needed.
- All personal line cancellations are processed on a pro-rata basis.
- A return premium check is printed and mailed approximately 10-14 days from the process date that the balance reaches overall credit status. Sometimes, the customer will contact the Company, and the refund is generated sooner. All refunds are made payable to the insured(s) as reflected on the policy and are mailed to the mailing address indicated on the policy.
- Andover has an audit process where auditors review a business sample semi-annually to confirm compliance with company guidelines.

Examination Procedures Performed: INS interviewed individuals responsible for policyholder service transaction processing. Further, INS tested ten (10) homeowner and dwelling fire-insured-requested cancellations from the examination period to determine whether the Company and agents processed the cancellations accurately and timely.

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

Premium Billing and Reinstatement Practices:

Summary of Company Policies and Procedures:

- For personal lines, Andover offers four (4) different installment plans plus a full pay and a mortgagee bill payment option. A \$5 service charge applies to each subsequent installment invoiced. No service charge will be assessed if an installment payment plan is selected but the premium due is paid prior to the invoice generating. Umbrella policies do not include a service charge. Installment plan options are not available for premium payments by mortgages, and the premium's full payment will be due on the policy's effective date.
- Policyholders can pay premiums via check, cash, Automatic Clearing House ("ACH"), or Credit Card. The Company accepts payments by mail, phone, or through online customer portals through the customer portal. The Company's independent agent representatives can process payments directly through the core systems
- In the case of a rejected automated payment, the policyholder must pay the amount due by an accepted non-EFT (electronic funds transfer) payment method, such as a check or an online payment via credit card. Failure to pay the amount due by the date stated in the cancellation notice will result in the cancellation of the policy. A returned payment fee of \$20.00 may be assessed for each rejected payment.
- Andover notifies the insured of rejected payments. If the Company applied the payment to the policy before the rejection the application will be reversed, and the Company may issue a cancellation notice for nonpayment of the premium. Policyholders receiving a cancellation notice must pay the amount due on or before the date stated in the cancellation notice.

- Andover's billing department, during business hours, answers all incoming phone calls and returns any voicemails within one (1) business day. The billing department reviews all received email correspondence and mailed correspondence daily and responds within two (2) business days.

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

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

Returned Mail, Unclaimed Checks, and Escheatment Practices:

Summary of Company Policies and Procedures:

In the underwriting services department, the following policy is in place for returned mail:

- Returned envelopes are delivered to personal lines services by the mail center.
- Returned envelopes are sorted by type of returned document (cancellation notices & memos, new business, renewal packages, invoices & billing, change request declarations, and generated notices).
- The corresponding policy is reviewed for any updates or errors in the mailing and mortgage company addresses. New billing invoices are then system-generated if located. The returned envelope for any updated policy is retained.
- If Andover does not have an updated address, they will forward it to the agent to request updated mailing information.

The accounting department is responsible for ensuring compliance with escheatment policies on behalf of the Company.

- Company policy requires that un-cashed checks, including claims, premium refunds, commissions, and vendor payments, be reported and escheated when the Company cannot locate the intended recipient.
- The Company annually reports escheatable funds to the Massachusetts State Treasurer by November 1st as required by statute.

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

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

VI. UNDERWRITING AND RATING

Personal Insurance Sales, Underwriting, and Rating Practices:

Summary of Company Policies and Procedures:

- When the agent has submitted new business applications through the ACX change portal, they are sent to the ACX Services Group for screening.
- The Personal Lines Services Department uses the legacy and ACX change systems to check for previous policy history and existing inspection reports, perform searches through the ACX database to see if any property clearing matches are found, and identify any related umbrella or excess policies.
- In instances where the application is complete, it is sent to the underwriter. Programmed approval rules built into ACX identify policies that require review. The underwriter reviews the application and the other information accompanying the file and decides whether the applicant risk meets the Company's underwriting guidelines as documented in the Company's Underwriting Manual, (and underwriting bulletins), if applicable. The underwriter then verifies the acceptability of the application based on a variety of factors, such as insurance value, loss experience, etc. at the particular risk. As needed property inspections are conducted of the risk.
- If the underwriter considers all application information acceptable, the application is deemed approved. Once approved and depending on the agent's instructions, the underwriter will either send the application back to the agent for issuance or they will issue it themselves. If changes are needed, the underwriter communicates considerations to the agent (e.g., prior inspection required, rating differences, insurance to value consideration, etc.).
- On rare occasions, the agent may submit a request for a quote via email on behalf of an applicant. Upon receipt, the Policy Examiner will enter basic quote information and perform the screening process described above.
- The Company's insurance policies provide disclosures as required by statutory and regulatory guidelines.
- For fire and homeowner forms, the Company utilizes ISO but does not utilize loss costs from any rating/advisory organization to develop their rates.
- Andover conducts an audit process where a sample of business is reviewed semi-annually to confirm compliance with Company guidelines.
- To ensure that underwriting practices are not discriminatory. The Company has guidelines and training to ensure compliance with the applicable rules, regulations, and policies. All active underwriters have either achieved the "CPCU" (Chartered Property Casualty Underwriter) designation or are in the process of obtaining the designation.
- A new underwriter is assigned a trainer for an extended period. The trainer supervises the work of the new underwriter until the newer employee is capable of carrying out responsibilities with the usual degree of supervision. The supervisor signs off on all letters and reviews all underwriting actions taken by the new underwriter.
- The Company uses credit-based scores as part of its underwriting process for Massachusetts homeowners/dwelling fire policies. If the Company declines the policy application due to an unacceptable credit score, the Company will send the applicant the Fair Credit Reporting Act Adverse Action Notice.
- Andover has dedicated compliance staff in the Underwriting Product Development Department for each business unit, who regularly receive and monitor compliance announcements for new or revised laws, regulations, or requirements. Various tools used include ISO circulars, "NAMIC" (National Association of Mutual Insurance Companies) Compliance 50 state research, and Wolters Kluwer alerts.

Examination Procedures Performed: INS interviewed Company personnel responsible for the underwriting and rating processes. In addition, INS selected 25 homeowners and 25 fire policies issued and 25 homeowners and 25 fire policies renewed during the examination period to verify that each application was timely and correctly processed and that the policy's premium and discounts complied with statutory and regulatory requirements and filed rates.

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

Underwriting Declination Practices:

Summary of Company Policies and Procedures:

- Company declination reasons for both homeowners and fire policies include inadequate insurance to replacement value, certain household pets, maximum building limits requested, coastal distance, distance to neighboring houses, vacant properties, underground storage tanks, and insurance score.
- Applications for homeowners' and fire coverage may be declined by the agent on the Company's behalf or by the underwriting department if there are questions from the agent about whether the risk meets the Company's underwriting guidelines.
- When Andover rejects an application for homeowners' insurance based on the credit score, Andover sends the required Fair Credit Reporting Act ("FCRA") adverse action notice directly to the applicant. The FCRA notice is system-generated and sent by email to the agent and by certificate of mailing to the applicant.

Examination Procedures Performed: INS interviewed Company personnel responsible for the underwriting and rating processes. In addition, INS reviewed the entire population of six (6) dwelling fire and eight (8) homeowners' rejected applications to verify that the Company's underwriting guidelines supported each declination.

Examination Conclusions: Based on testing, the Company declines homeowners and dwelling fire applications following statutory and regulatory requirements.

Underwriting Cancellation and Non-Renewal Practices:

Summary of Company Policies and Procedures:

- Andover has dedicated compliance staff in the Underwriting Product Development Department for each business unit that regularly receives and monitors compliance announcements for new or revised laws, regulations, or requirements. Various tools used include ISO circulars, NAMIC Compliance 50 state research, and Wolters Kluwer alerts.
- The reasons for Company-initiated underwriting cancellations within the first sixty days that a policy is in effect, and for non-renewals of homeowner policies include inadequate insurance to replacement value, coastal distance, dog breed, property occupancy, and insurance score. After a homeowner's policy has been in effect for sixty days or more, reasons for cancellation include nonpayment of premium or a material misrepresentation by an insured in obtaining the policy.
- The same procedure applies if a change happens midterm, the Director receives a OneSumX NILS Cancellation & Nonrenewal alert and follows the same procedure. Additionally, all allowable reasons

are listed in the Company's ACX operating system dropdown menu and only these reasons can be selected when issuing a cancellation or nonrenewal. Newer underwriters' notices are peer-reviewed by the department management for up to a year or until any erroneous cancellation reasons have been reviewed and ultimately eliminated.

- For non-renewals, all underwriters are provided with a document showing the statutory length of notice for homeowners and dwelling fire in Massachusetts (45 days). Our Guidewire operating system, the ACX system, is also programmed for notices to go out sixty days in advance. An underwriter can manually override the standard 60-day window; however, they cannot send a notice within 48 days to allow three days for mailing and remain in compliance.
- For cancellation notices, Guidewire and ACX change allow the Company to program state-specific cancellation requirements into our workflow procedures. Andover programmed the required minimum notice days for cancellation notices by state and line of business. Currently, in Massachusetts, the minimum notice days programmed for Company underwriting cancellation of homeowners and dwelling fire for underwriting reasons is 30 days, and nonpayment ten (10) days.
- In addition to the minimum day notice requirements for both non-renewals and cancellations, the Company adds another five (5) lead days to allow for mailing time.

Examination Procedures Performed: INS interviewed Company personnel responsible for the cancellation/non-renewal process. Additionally, INS tested 25 homeowners/fire company-initiated underwriting cancellations as well as 50 homeowner and 50 fire dwelling non-renewals to ensure compliance with the Company's underwriting guidelines and statutory requirements.

Examination Conclusions: Based on testing, the Company provided timely and adequate underwriting cancellation and non-renewal notices, with the specific reasons for the action disclosed correctly in the notice per statutory requirements. In addition, the specific reasons provided in the notices were reasonable and in compliance with the Company's underwriting guidelines.

VII. CLAIMS

Claims Handling Practices:

Summary of Company Policies and Procedures:

- Andover has an online portal where policyholders can notify the Company of a loss.
- Andover, in most cases, utilizes outside independent adjusters to conduct the claims investigation and contact the insured during the investigation and settlement portion of the examination.
- The independent adjusters should contact the policyholder within 24 hours of receipt of a claim. In addition, provide the Andover claims department with a copy of the ClaimSearch response details using the ISO website. The response details provide a list of all the policyholder losses.
- The independent adjusting firm should provide the Andover Claims Department with an initial report within 15 days and a full formal report within 30 days. Reports as to the status of the claim are expected every 30 days until settled.
- The independent adjusters are to provide notice as required by M.G.L 139, §3B to municipalities about the disbursement of insurance proceeds for loss, damage, or destruction of a building amounting to \$1,000 or more.
- Andover utilizes the Xactimate software from Verisk/ISO for pricing individual property estimates. The estimates from Xactimate are emailed with the independent adjuster reports so that the Company claim examiner can review and document the settlement amounts by scope, pricing, and adjustment.
- When the damage evaluation is complete, the independent adjuster must forward a copy of the detailed damage estimate and a statement of loss must be provided to the policyholder. If the damage evaluation includes recoverable depreciation, the adjuster must provide the Holdback Letter instructions to the policyholder. The adjuster must advise the policyholder that the damage estimate is subject to Company approval. The adjuster must notify the policyholder when a Municipal Lien Certificate is required under M.G.L. c. 175, § 97A.
- Once the claims investigation is complete and the correct amount determined, Andover will issue the payment.
- Andover's procedure is to report claims on a scheduled download to Lexis Nexis Comprehensive Loss Underwriting Exchange ("CLUE"). The claims department reviews any disputes or corrections in data and alterations to data are coordinated within the portal. Specific claims personnel have access to the CLUE portal workflow.
- The claims department evaluates subrogation potential on every property claim submitted to the company. A dedicated team of three subrogation examiners, two subrogation attorneys, and one support specialist open a subrogation file at the first notice of loss on claims presenting the high initial potential for subrogation as determined by analyzing the loss cause, initial reported facts, and historical subrogation handling data. As claims move through the adjustment process, the entire claims department is responsible for the subrogation initiative to recognize all potential subrogation opportunities by referring the claim to the subrogation group. The subrogation team oversees all subrogation efforts and recovery pursuits and assigns resources and investigative personnel to evaluate and pursue each opportunity fully.
- Claim file reserves are continually evaluated to reflect the maximum probable outcome and are set based on the individual claim circumstances of coverage, investigation details, and damage assessment.
- An Andover supervising general adjuster inspects large-value property losses, those with values above \$100,000. The supervising general adjuster collaborates with independent adjustment firms regarding damage appraisal, reserve adequacy, and claim settlement.
- The claims examiner has the authority to post liability claim file reserves of less than \$100,000. The claims examiner refers the claim file to the liability manager for reserves greater than or equal to

\$100,000. The liability manager reviews the claim file details and presents a reserve recommendation to the claims senior vice president for discussion and approval.

- In 2022, Andover created the Andover Companies Loss Control Team, which brought the loss control team in-house to provide loss control services to their insureds. In addition, they created the Loss Control Training Lab to provide hands-on training experience with real-life props.

Examination Procedures Performed: INS interviewed Company personnel responsible for handling claims. INS selected 25 paid homeowner and dwelling fire claims and 75 denied (or closed without payment) homeowner and dwelling fire claims. In addition, INS reviewed the total population of seven (7) paid umbrella claims (there were no denied umbrella claims during the examination period).

Examination Conclusions: INS verified that the Company properly investigated, adjudicated, and paid or denied all claims following contract provisions and statutory requirements.

SUMMARY

Based upon the procedures performed in this examination, INS 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 2022 *NAIC Market Regulation Handbook*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations, and bulletins.

ACKNOWLEDGEMENT

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

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

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



Commonwealth of Massachusetts
Division of Insurance
Boston, Massachusetts



The INS Companies
Market Regulation Division
Philadelphia, Pennsylvania



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Market Regulation Division
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