



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

Andover, Massachusetts

For the Period January 1, 2004 through December 31, 2004

NAIC COMPANY CODE: 19763

EMPLOYERS ID NUMBER: 04-2200004



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DIVISION OF INSURANCE

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JULIANNE M. BOWLER
COMMISSIONER OF INSURANCE

September 20, 2005

The Honorable Julianne M. Bowler
Secretary, Northeastern Zone
Commissioner of Insurance
The Commonwealth of Massachusetts
Office of Consumer Affairs and Business Regulation
Division of Insurance
One South Station
Boston, Massachusetts 02110-2208

Dear Commissioner Bowler:

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

BAY STATE INSURANCE COMPANY

at its home office located at 95 Old River Road, Andover Massachusetts 01810. The following report thereon is respectfully submitted.

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SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (hereinafter "Division") conducted a comprehensive market conduct examination of Bay State Insurance Company (hereinafter "Bay State" or "Company") for the period January 1, 2004 through December 31, 2004. The examination was called pursuant to authority in Massachusetts General Laws Chapter 175, Section 4. The current market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Eide Bailly, LLP (hereinafter "Eide") were engaged to complete certain agreed-upon procedures.

EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of Bay State using the guidance and standards of the *National Association of Insurance Commissioners Market Conduct Examiners Handbook* (hereinafter "Handbook"), the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. All procedures were performed under the management and control of the market conduct examination staff of the Division. The following describes the procedures performed and the findings for the workplan steps thereon.

The basic business areas that were reviewed under this examination were Company Operations/Management. Other areas normally included in a comprehensive market conduct examination including: Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Services, Underwriting and Rating, and Claims were not required of this examination since the Company does not underwrite any business in the Commonwealth of Massachusetts.

In addition to the processes' and procedures' guidance in the Handbook, the examination included a review of the Company's policies and procedures regarding compliance with 18 U.S.C. §§ 1033 and 1034, as well as 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 run their business and to meet key business objectives, including complying with applicable laws, regulations and bulletins 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 VI A. of the Handbook.

All systems and personnel of the Company are shared with Merrimack Mutual Fire Insurance Company and Cambridge Mutual Fire Insurance Company through an inter-company pooling arrangement. Therefore, the control environment, systems environment and policies and procedures are shared amongst these entities. We conducted our testing on the overall operating environment, while maintaining an understanding of each company within the organization.

EXECUTIVE SUMMARY

The comprehensive examination was conducted concurrently with the Division's statutory financial examination of Bay State. The financial examination performed limited compliance testing since the market conduct examination was also being conducted.

This summary of the examination is intended to provide a high-level overview of the reported results of the examination. The body of the report provides details of the scope of the examination, tests conducted, findings and conclusions, recommendations and 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. When applicable, corrective action should be taken by the Company for any finding contained herein. Any corrective action requires agreement of both the Company and the Division prior to implementation.

All Massachusetts insurance laws, regulations and bulletins cited in this report may be viewed on the Division's website at www.state.ma.us/doi.

The following is a summary of all substantive issues found, along with related recommendations and, if applicable, subsequent Company actions made, as part, of the comprehensive market conduct examination of Bay State.

SECTION I – COMPANY OPERATIONS / MANAGEMENT

Standard I-3

Finding(s): The Company does not perform criminal background checks on new employees, nor does it have procedures in place to ensure that existing employees are compliant with 18 U.S.C. §1033 on an ongoing basis.

Observation(s): The Company requires all new and existing employees to annually sign an affidavit stating whether that they have been convicted of a felony.

Recommendation(s): Eide recommends that the Company conduct criminal background checks for all current and prospective employees.

COMPANY BACKGROUND

The Andover Group is comprised of three property and casualty companies connected through an inter-company pooling arrangement. Merrimack Mutual Fire Insurance Company, the founding company, began operations in 1828. Cambridge Mutual Fire Insurance Company was incorporated in 1833, and was acquired by Merrimack Mutual Fire Insurance Company in 1913. Bay State Insurance Company was added in 1955, and is organized as a stock company.

All three entities within the Andover Group specialize in providing homeowners, fire and commercial multiple peril lines. The majority of business is written in the Northeast region. Major direct written premium percentages by state during 2004 include: Massachusetts – 40.6%, New York – 16.5%, New Jersey 13.7%, Illinois – 10.6%, Connecticut – 5.6% and three other jurisdictions – 13.0%. The Company does not underwrite any direct business in the state.

The companies share in premiums, losses and expenses, which are distributed among the member companies based on the following percentages: Merrimack Mutual Fire Insurance Company – 50%, Cambridge Mutual Fire Insurance Company – 35% and Bay State Insurance Company – 15%. For ease of operations, a majority of the Group's third party transactions are handled through Merrimack Mutual Fire Insurance Company. Ultimately, the other two companies receive their share of business through the pooling agreement.

The Andover Group's breakout by line of business for direct written premium during 2004 is shown in Table 1:

TABLE 1

Line of Business	Andover Companies	Percent of Total
Homeowners	\$ 217,999,000	53%
Commercial Multi Peril	109,262,000	26%
Fire	32,873,000	8%
Other Liab Occur	22,752,000	6%
Allied Lines	19,691,000	5%
Inland Marine	9,420,000	2%
Total Direct Business	\$ 411,997,000	100%

Table 1 shows that the Andover Group primarily writes homeowners and commercial multiple peril lines. The Andover Group has approximately 1,100 licensed local independent producers who distribute the various products throughout the Northeast region. The Company does not underwrite any business in the Commonwealth, and therefore does not have any producers licensed in Massachusetts.

The Company is rated A+ (Superior) by AM Best Company and ratings were stable over the examination period.

The key objectives of this examination were determined by the Division utilizing the Handbook. The remainder of this report outlines the testing and results by each major risk area defined by the Handbook.

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 company has an up-to-date, valid internal, or external, audit program.

Objective: This Standard is concerned with whether there is an audit program function that provides meaningful information to management.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company does not have an internal audit function, but is audited annually by an independent accounting firm that tests internal controls.
- Formal procedure records are kept for the major areas of the company and are updated on an annual basis.
- The Company uses a job rotation system within the accounting department to mitigate fraud.
- The Company responds to external audit recommendations to correct, modify and implement 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: Due to the nature of this Standard, no transaction testing was performed.

Transaction Testing Results: Not applicable.

Recommendation(s): None.

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

Eide reviewed work performed by Division financial examination team and found adequate coverage. All required activity for this Standard was included in the scope of the statutory financial examination of the Company.

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

18 U.S.C. § 1033; Division Bulletins 98-11 and 2001-14.

Objective: This Standard is concerned with whether the Company has an antifraud plan that is adequate, up-to-date, in compliance with applicable statutes and appropriately implemented

Pursuant to 18 U.S.C. § 1033, the Violent Crime Control and Law Enforcement Act of 1994, it is a criminal offense for anyone “engaged in the business of insurance” to willfully permit a “prohibited person” to conduct insurance activity without written consent of the primary insurance regulator. A “prohibited person” is an individual who has been convicted of any felony involving dishonesty or a breach of trust or certain other offenses, who willfully engages in the business of insurance as defined in the Act. In accordance with Division Bulletins 98-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and producers who are affected by this law. Individuals “prohibited” under the law may apply to the Commissioner for written consent, and must not engage in the business of insurance unless and until such consent is granted.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has a written antifraud plan.
- With the help of the Massachusetts Insurance Fraud Bureau, the Company has a continuing education program in place for all claims and underwriting personnel.
- Company claims and underwriting personnel, on average, have over ten years of industry experience.
- Potentially fraudulent claims are brought to the attention of the Claims Examiner, and then referred to outside experts if the Claims Examiner determines further investigation is necessary.
- The underwriting department ensures the accuracy of applications through physical inspections of property, random field examinations, credit checks and information from outside sources.
- The Company does not perform criminal background checks for prospective employees, nor does it have procedures in place to ensure that existing employees are compliant with 18 U.S.C. § 1033 on an ongoing 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: Eide interviewed individuals with responsibility for ensuring that the Company does not willfully employ prohibited persons as defined in 18 U.S.C. § 1033, and reviewed procedures followed by the Company to ensure compliance.

Transaction Testing Results:

Finding(s): The Company does not perform criminal background checks on prospective employees, nor does it have procedures in place to ensure that existing employees are compliant with 18 U.S.C. § 1033 on an ongoing basis.

Observation(s): The Company requires all new and existing employees to annually sign an affidavit stating whether they have been convicted of a felony.

Recommendation(s): Eide recommends that the Company conduct criminal background checks for all current and prospective employees.

* * * * *

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

Eide reviewed work performed by the Division's financial examination team and found adequate coverage. All required activity for this Standard was included in the scope of the statutory financial examination of the Company.

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Standard I-5. The company is adequately monitoring the activities of the Managing General Agents (MGAs).

Eide performed no work on this standard, as the Company does not utilize MGAs.

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Standard I-6. Company contracts with MGAs comply with applicable statutes, rules and regulations.

Eide performed no work on this standard, as the Company does not utilize MGAs.

* * * * *

Standard I-7. Records are adequate, accessible, consistent and orderly and comply with record retention requirements.

Objective: This Standard is concerned with the organization, legibility and structure of files, as well as with determining if the Company is in compliance with its record retention requirements. The objective of this Standard was included for review in each Standard where such policy or procedure for the retention of records exists or should exist.

Controls Assessment: Company policy requires that its producers keep complete records and accounts of all insurance transactions. 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 the Company's right to examine producers' accounts and records of all insurance transactions for as long as the Company deems reasonable, including a reasonable time after the termination of a producer contract.

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: No further testing was performed due to lack of underwriting in Massachusetts.

Transaction Testing Results: None.

Recommendation(s): None

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

M.G.L. c. 175, §§ 32 and 47.

Objective: This Standard is concerned with whether the Company is operating within the requirements of its Certificate of Authority. According to M.G.L. c. 175 § 32, a company must first obtain a certificate of authority from the commissioner before any contract or policy may be issued. A company may issue a policy and contract for lines of business allowed by M.G.L. c. 175 § 47.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company operates within the lines of business approved under its existing Certificate of Authority.

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: Eide traced each line of business written in Massachusetts, as listed on the annual statement, to the Certificate of Authority obtained from the Division. Eide also met with the Division's financial examination team to discuss any notable issues that arose during the course of the financial exam.

Transaction Testing Results:

Finding(s): None.

Observation(s): The Company operates within the lines of business approved under its existing Certificate of Authority.

Recommendation(s): None.

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

M.G.L. c. 175, § 4.

Objective: This Standard is concerned with the Company's cooperation during the course of the exam. M.G.L. c. 175, § 4 sets forth the Commissioner's authority to conduct examinations of an insurer.

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:

Finding(s): None.

Observation(s): The Company's level of cooperation and responsiveness to examiner requests was excellent.

Recommendation(s): None.

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Standard I-10. The company 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 maintains privacy of consumer information.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders using standard mail.
- The Company stated that it has developed and implemented information technology security practices to safeguard nonpublic personal 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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The Division's financial examination team conducted a review of the Company's privacy policies, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Finding(s): None.

Observation(s): It appears from our review of the Company's privacy notice that its privacy policy minimizes any improper intrusion into the privacy of applicants and policyholders, and is disclosed to policyholders in accordance with their policies and procedures.

Recommendation(s): None.

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Standard I-11. The company had developed and implemented written policies, standards and procedures for the management of insurance information.

The objective of this Standard was included for review in each Standard where such policy or procedure for the management of insurance information exists or should exist.

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

Gramm-Leach-Bliley Act § 504 (a) and 16 CFR Part 313.

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of consumer information.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, § 504 (a), and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- Company policy allows for the sharing of policyholder and personal information with insurance company affiliates.
- The Company stated that it does not sell personal information to third parties.
- Company policy is to disclose personal information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders using standard mail.

- The Company stated that it has developed and implemented information technology security practices to safeguard nonpublic personal 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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of the Company's privacy notice, it appears that the Company's privacy policy minimizes any improper intrusion into the privacy of policyholders, former policyholders and consumers that are not policyholders, and is disclosed to policyholders in accordance with their policies and procedures.

Recommendation(s): None.

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

Gramm-Leach-Bliley Act § 504 (a) and 16 CFR Part 313.

Objective: This Standard is concerned with the Company's policies and procedures to ensure it provides consumers proper notification of privacy information.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, § 504 (a), and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- Company policy allows for the sharing of policyholder and personal information with affiliates.
- The Company stated that it does not sell personal information to third parties.
- Company policy is to disclose personal information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders using standard mail.

- The Company stated that it has developed and implemented information technology security practices to safeguard nonpublic personal 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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the privacy policies of the Company, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of the Company's privacy notice and discussion with Company personnel, it appears that the Company disclosed privacy information to policyholders in accordance with its policies and procedures.

Recommendation(s): None.

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Standard I-14. If the company 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 policyholder has opted out, and the company provides opt out notices to its policyholders and other affected consumers.

Gramm-Leach-Bliley Act § 504 (a) and 16 CFR Part 313.

Objective: This Standard is concerned with the Company's policies and procedures to provide consumers with an opt out option as required in the Gramm Leach Bliley Act.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, § 504 (a), and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- The Company stated that it does not sell personal information to third parties.
- Company policy is to disclose personal information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders using standard mail.
- The Company stated that it has developed and implemented information technology security practices to safeguard nonpublic personal 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: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of the Company's privacy notice and discussion with Company personnel, it appears that the Company provides consumer information to business partners or other third parties only to help provide essential services to the consumer, and therefore is not required to provide an opt out option.

Recommendation(s): None.

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

Gramm-Leach-Bliley Act § 504 (a) and 16 CFR Part 313.

Objective: This Standard is concerned with ensuring that the Company's policies and procedures regarding nonpublic personal financial information are in compliance with applicable statutes.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, § 504 (a), and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- The Company stated that it does not sell personal information to third parties.
- Company policy is to disclose personal information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders using standard mail.
- The Company stated that it has developed and implemented information technology security practices to safeguard nonpublic personal 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: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of the Company's privacy notice and discussion with Company personnel, it appears that the Company's policies and procedures are adequate to protect nonpublic personal financial information.

Recommendation(s): None.

* * * * *

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

Objective: This Standard is concerned with ensuring the Company's policies and procedures regarding nonpublic personal health information are in compliance with applicable statutes.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company stated that it does not sell any personal consumer information to third parties.
- The Company policy is to disclose personal information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions for its policyholders.
- The Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders using standard mail.
- The Company stated that it has developed and implemented information technology security practices to safeguard nonpublic personal 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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of the Company's privacy notice and discussion with Company personnel, it appears that the Company's policies and procedures are adequate to protect nonpublic personal health information.

Recommendation(s): None.

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Standard I-17. Each licensee shall implement a comprehensive written information security program for the protection of nonpublic policyholder information.

Gramm-Leach-Bliley Act § 504 (a) and 16 CFR Part 313.

Objective: This Standard is concerned with ensuring that the Company has written policies and procedures regarding the protection of nonpublic policyholder information.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, § 504 (a), and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- Company has written policies and procedures in place for security of nonpublic policyholder and consumer information.
- The Company stated that it does not sell personal information to third parties.
- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders using standard mail.
- The Company stated that it has developed and implemented information technology security practices to safeguard nonpublic personal 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: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the privacy policies of the Company, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of the Company's privacy notice and written documentation, it appears that the Company's policies and procedures for the protection of nonpublic policyholder and consumer information are adequate.

Recommendation(s): None.

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FOR INFORMATION PURPOSES ONLY

SUMMARY

Based upon the procedures performed in this comprehensive examination, Eide has reviewed and tested Company Operations/Management as set forth in the *NAIC Market Conduct Examiners Handbook*, in the market conduct examination standards of the Division, and in the Commonwealth of Massachusetts insurance laws, regulations and bulletins. Other areas normally included in a comprehensive market conduct examination including; Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Services, Underwriting and Rating, and Claims were not required of this examination since the Company does not underwrite any business in the Commonwealth of Massachusetts. Eide has made recommendations to address various concerns related to company operations and management.

FOR INFORMATION PURPOSES ONLY

ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with Eide Bailly LLP, applied certain agreed-upon procedures to the corporate records of the Company in order for the Division of Insurance of the Commonwealth of Massachusetts to perform a comprehensive market conduct examination (“comprehensive 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 National Association of Insurance Commissioners (NAIC) and the *NAIC Market Conduct Examiners’ 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. In addition, Dorothy K. Raymond, of the Division’s Market Conduct Section, participated in the examination and in the preparation of this report.

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

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