



THE COMMONWEALTH OF MASSACHUSETTS

**OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION**

Division of Insurance

Report on the Comprehensive Market Conduct Examination of

Fitchburg Mutual Insurance Company

Dedham, Massachusetts

For the Period January 1, 2004 through June 30, 2005

NAIC COMPANY CODE: 13943

NAIC GROUP CODE: 144

EMPLOYER'S ID NUMBER: 04-1328790



COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

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March 30, 2007

Honorable Nonnie S. Burnes
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
One South Station
Boston, Massachusetts 02110-2208

Dear Commissioner Burnes:

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

FITCHBURG MUTUAL INSURANCE COMPANY

at its home office located at:

222 Ames Street
Dedham, MA 02026-9109

The following report thereon is respectfully submitted.

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SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (“Division”) conducted a comprehensive market conduct examination of Fitchburg Mutual Fire Insurance Company (“Fitchburg” or “Company”) for the period January 1, 2004 through June 30, 2005. The examination was called pursuant to authority in Massachusetts General Laws Chapter (M.G.L. c.) 175, Section 4. The 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 RSM McGladrey, Inc. (“RSM”) 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 *NAIC Market Conduct Examiner’s Handbook* (“the 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, control and general supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed by the Division’s concurrent financial examination of the Company. For those objectives, market conduct examination staff discussed, reviewed and used procedures performed by the Division’s financial examination staff to the extent deemed necessary, appropriate and effective to ensure that the objective was adequately addressed. The following describes the procedures performed and the findings for the work plan steps thereon.

The functional areas examined follow the standards outlined in the Handbook and include:

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

This examination included testing the Company’s compliance in the following areas:

- 18 U.S.C. §§ 1033 and 1034
- Review previous prior market conduct examinations performed by Massachusetts and any other jurisdiction to determine if any findings were applicable to current business practices.

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 run their 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 VI A. of the Handbook.

FOR INFORMATION PURPOSES ONLY

EXECUTIVE SUMMARY

This summary of the comprehensive market conduct examination of the Company is intended to provide a high-level overview of the report results. The body of the report provides details of the scope of the examination, tests conducted findings and observations, recommendations 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 is also 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 should be provided to the Division.

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 the Company. All Massachusetts laws, regulations and bulletins cited in this report may be viewed on the Division’s website at www.mass.gov/doi.

The comprehensive market conduct examination resulted in no findings or negative observations with regard to Policyholder Service, 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.

I. COMPANY OPERATIONS/MANAGEMENT

STANDARD I-1

Findings: None.

Observations:

- The internal audit manager’s market conduct audit reports are designed to separately track and respond to deficiencies, rather than doing so as part of the report.
- Although all were ultimately completed, some internal audit recommendations were not completed by initial deadlines.

Recommendations:

- The Company should enhance its market conduct auditing and reporting processes so that compliance with audit recommendations can be verified by the person who performed the audit, and any other compliance monitor assigned to review the audited function.
- The Company should monitor compliance plans to assure timely completion of audit recommendations.

STANDARD I-3

Findings: None

Observations:

- RSM confirmed that the Company's employment application requires that applicants disclose felony convictions.
- Once hired, the Company does not monitor employees for felony convictions on an ongoing basis.
- The Company appears to have policies and procedures that are reasonably calculated to detect, prosecute and prevent fraudulent claims activities.

Recommendations: The Company should conduct a criminal background check for any employee for whom a background check has not already been conducted, and should monitor employees for felony convictions on an ongoing basis subsequent to hiring.

STANDARD I-9

Findings: The inability of the Company to produce timely, accurate and reconcilable data listings negatively impacted the progress of the market conduct examination.

Observations: None.

Recommendations: The Company should implement procedures and controls to ensure that it provides information required for an examination in a timely and accurate manner.

II. COMPLAINT HANDLING

STANDARD II-1

Findings:

- The Company's initial response date to each complaint is tracked in the log as the "Disposition Date." However, this response date is not necessarily the "disposition" date, as required by Massachusetts law.
- The Disposition column of the Log does not explain how the complaint was resolved. Further, a complaint register is maintained for Norfolk and Dedham Group complaints, but is not broken down for each specific company within the Group.

Observations:

- The Company's complaint log and its files for complaints received from the Division were consistent with the Division's logs and files.

- The Company's initial response to a consumer complaint is reasonable and timely, usually 1 – 2 workdays.
- The Complaint Log headings comply with Massachusetts law, but the information tracked under the headings may not comply with the law.

Recommendations:

- The Company should consider adding two columns to the Complaint Log to track the final action by the Company, and the date of that action, to meet the specific requirements of Massachusetts' law regarding complaint disposition and processing time.
- The Company's complaint log should separately record the number of complaints made against Fitchburg Mutual, rather than recording this number only as part of an aggregate figure on the log for all complaints made against the Norfolk and Dedham Group.

STANDARD II-2

Findings: None

Observations:

- The Company appears to have adequate complaint procedures in place, and provides policyholders with the information needed to contact the company.
- The Company's claim examiners appear to consistently follow its complaint procedures.
- The Company's procedures state that each division manager is responsible for identifying any complaint trends, and taking any necessary action. Interviews with staff and file records do not indicate that complaints are reviewed for trends or analyzed for root cause.

Recommendations: The Company should take steps to ensure that its Division Managers follow the Company's complaint procedures by identifying complaint trends and taking necessary action. Further, the Company should consider enhancing its documentation of the executive management's periodic discussions of complaint matters. Such documentation could include, but should not necessarily be limited to, identifying common complaints, and documenting the results of complaint investigations and subsequent Company actions taken to resolve or eliminate the causes of complaints.

III. **MARKETING AND SALES**

STANDARD III-1

Findings:

- The Company uses the "Norfolk and Dedham Group" as the primary defining name on its web site, rather than stating the names of each of the group's insurers licensed in Massachusetts. (Division Bulletin 2001-02).

- The home office address is not displayed on the Company's website, as required by Division of Insurance Bulletin 2001-02.
- A Company newsletter offered a discount on homeowners insurance for the purchase of a "Freeze Alarm" sold by The Newbury Corporation, a Norfolk & Dedham Group affiliate company. The offer does not make clear that the discount is available for the Freeze Alarm and other similar devices purchased elsewhere.

Observations: The results of RSM's testing showed that advertising and sales materials comply with Massachusetts M.G.L. c. 176D, § 3.

Recommendations:

- RSM recommended that the Company clearly identify the names of the licensed entities in any advertising materials representing those companies. The names of the three licensed insurance companies in the Norfolk and Dedham Group have been added to the Group's website.
- The Company should more clearly state in its marketing materials for the "Freeze Alarm" that it and other similar alarms may be used to obtain insurance premium discounts.
- RSM recommended that the Company include its Home Office address on the home page of the Company's website, and the Company complied with this recommendation.

IV. PRODUCER LICENSING

STANDARD IV-1

Findings: The Company paid commission to two of three producers it appointed who were not licensed by the Division.

Observations: Based on the results of RSM's testing, RSM noted that the Company paid commission to two producers who were not licensed by the Division.

Required Action: The Company should develop and implement procedures to ensure that all producers representing the Company are appropriately licensed and appointed, and that it does not issue commission payments to producers who are not appropriately licensed.

VII. CLAIMS

STANDARD VII-2

Findings: None.

Observations: The Company's lack of formal written claim processing time standards, except those CAR standards it follows for Massachusetts automobile claims, creates the possibility of disparate standards used by individual claims personnel.

Recommendations: The Company should create formal written claim handling procedures that include claim processing time standards.

STANDARD VII-3

Findings: None.

Observations: Based on the results of RSM's testing, it appears that the Company's processes for settling claims in a timely manner are functioning in accordance with statutory and regulatory requirements.

Recommendations: RSM recommends that the Company develop written guidelines for non-automobile claims processing, similar to the CAR time standards it uses for personal automobile claims.

STANDARD VII-5

Findings: None.

Observations: It appears from RSM's testing that the Company's documentation of claim files is adequate.

Recommendations: The Company should develop written claim procedures that specify the required claim file documentation, and include the use of standard language in the "Annotations" section of the claim system.

STANDARD VII-6

Findings: None.

Observations:

- The Company has the required procedures in place for providing claimants with a list of registered repair shops, as well as those repair shops which qualify as referral repair shops. According to the Company's Claim Training Program manual, the Company performs the required re-inspections of repaired vehicles following completion of repairs.
- The lack of written claim handling procedures makes it difficult to determine whether the Company consistently complies with the applicable laws and regulations.
- It appears from RSM's testing that the Company's processes for handling claims in accordance with policy provisions, statutory and regulatory requirements are functioning in accordance with their policies and procedures.

Recommendations: The Company should develop written claim procedures to require that documentation of its compliance with specific Massachusetts laws and regulations be retained in the appropriate files.

STANDARD VII-7

Findings: None.

Observations: It appears from RSM review of claim files that the Company uses appropriate language regarding reservation of rights and excess losses in its claim payment

letters.

Recommendations: The Company should develop written claims procedures that include information regarding the use of reservation of rights and excess loss letters.

STANDARD VII-10

Findings: None.

Observations: Each claim file tested indicated a sufficient reserve amount.

Recommendations: The Company should develop written claims procedures that specify its methodology for calculating reserves and for establishing minimum amounts for any particular line of business or coverage combination, to ensure consistency in claims reserving.

STANDARD VII-11

Findings: None.

Observations:

- The Company's claim denials appeared reasonable and timely.
- The Company's lack of written claim procedures results in automobile claims that are often not closed for up to one year after the Company receives the claim. In these cases, the Company sends a contact letter allowing claimants the opportunity to file a claim. If no response is received by the Company after an extended time period, the Company will close the claim without payment. RSM observed that the Company took anywhere from 7 days to 1,110 days from the date of loss to close the tested claims, depending upon the claim examiner and the documentation needed to make a final claim decision.

Recommendations: The Company should consider documenting its claim denial procedures to ensure that the denial process is consistently handled by each examiner.

STANDARD VII-12

Findings: None.

Observations: In all the paid claims tested, the check amount, the payee and the check date matched the information on the Company's claim system.

Recommendations: The Company should develop claim procedures that include required documentation for claim payment checks to ensure that all examiners consistently handle claim payments and denials.

STANDARD VII-13

Findings: None.

Observations: RSM noted that complete records of litigated claims are kept on the Company's claim system. There was no indication in RSM's testing that the Company

unreasonably denies claims or compels claimants to initiate litigation.

Recommendations: The Company should develop written claim procedures for consistent handling of claim payments and denials.

STANDARD VII-14

Findings: None.

Observations: The Company appears to report data to various organizations as required.

Recommendations: The Company should develop written claim procedures including the various requirements for reporting loss statistical data.

FOR INFORMATION PURPOSES ONLY

COMPANY BACKGROUND

Fitchburg Mutual Fire Insurance Company is a member of The Norfolk and Dedham Group.

The Norfolk and Dedham Group, headquartered in Dedham, Massachusetts, is comprised of three mutual companies: Norfolk and Dedham Mutual Fire Insurance Company, Dorchester Mutual Insurance Company, and Fitchburg Mutual Insurance Company. Although their mutual structures do not allow for common ownership, the companies share common management and some common board members, offer complementary products through common distribution channels, and share underwriting and claims operations.

The Company is primarily a personal lines writer in the Northeast, offering both homeowners and inland marine coverage. The group also offers automobile and commercial lines coverage that includes package policies for business owners and small artisans, as well as commercial automobile and workers' compensation coverage. The group recently moved to deemphasize its automobile business in favor of commercial property business.

The Norfolk and Dedham Group companies writing property/casualty business operate under an inter-company reinsurance agreement entered into on January 1, 1995, whereby all business acquired by the members is pooled, the combined premiums distributed and losses and expenses prorated in accordance with specified percentages. Fitchburg Mutual was added to the pool in 2003. The participation rates are as follows: Norfolk and Dedham Mutual Fire Insurance Company, 70%; Dorchester Mutual Insurance Company, 13%; and Fitchburg Mutual Insurance Company, 17%.

During the examination period, the Company primarily wrote homeowners and commercial multiple peril lines. The Group has approximately 1,100 licensed local independent producers who distribute the various products throughout the Northeast region. The Company utilizes a standard agency contract to establish the business relationship with producers, with an automatic renewal so that the arrangement is perpetual until cancelled by one of the parties.

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.

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|---|
| 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's internal audit manager has performed internal audits in 2004 and 2005 based on selected standards from the Handbook, to determine if the Company's audit policies and procedures comply with applicable state laws.
- The company is audited annually by an independent accounting firm.
- Company claims managers told RSM that they conduct regular reviews of claim files.
- The Company president maintains a schedule of external and internal audits, and monitors the completion of audit recommendations.
- Company compliance functions are decentralized, with various members of management being assigned to various compliance responsibilities and no single individual with oversight responsibility.

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: RSM reviewed internal audit reports, met with the Division financial examiners, and interviewed Company executives.

Transaction Testing Results:

Findings: None.

Observations:

- The internal audit manager's market conduct audit reports are designed to separately track and respond to deficiencies, rather than doing so as part of the report.
- Although all were ultimately completed, some internal audit recommendations were not completed by initial deadlines.

Recommendations:

- The Company should enhance its market conduct auditing and reporting processes so that compliance with audit recommendations can be verified by the person who

performed the audit, and any other compliance monitor assigned to review the audited function.

- The Company should monitor compliance plans to assure timely completion of audit recommendations.

Standard I-2. The Company 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 Company has antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.

18 U.S.C. § 1033; Division of Insurance Bulletins 1998-11 and 2001-14.

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

Pursuant to 18 U.S.C. § 1033 of the Violent Crime Control and Law Enforcement Act of 1994 (“Act”), 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 of Insurance Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and agents who are affected by this law. Individuals “prohibited” under the law may apply to the Commissioner for written consent, and must not engage or participate in the business of insurance unless and until they are granted such consent

Controls Assessment:

- The Company has an anti-fraud plan that was last updated on August 25, 2005.
- The Company’s Special Investigative Unit (SIU) is charged through the anti- fraud plan with detecting and reporting possible claim fraud.
- The Company reports any suspected fraudulent activity to the appropriate regulatory authority.
- The Company appears to have policies and procedures to prevent, detect, and investigate fraudulent claim activities.
- The Company has an internal mechanism that includes “whistle blower” procedures for reporting employee fraud.
- The Company’s employment application asks whether the individual has been convicted of a felony.
- Company policy is to seek permission from the Division before hiring an applicant

who has been convicted of a felony that falls under the Act.

- The Company does not conduct criminal background checks for new hires.
- The Company does not ask existing staff whether they have felony convictions.

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: RSM reviewed the Company's anti-fraud plan, and the work of the SIU, as part of various claim standards throughout the examination. RSM also interviewed managers from the Company's Claims, Human Resources and SIU.

Transaction Testing Results:

Findings: None.

Observations:

- RSM confirmed that the Company's employment application requires that applicants disclose felony convictions.
- Once hired, the Company does not monitor employees for felony convictions on an ongoing basis.
- The Company appears to have policies and procedures that are reasonably calculated to detect, prosecute and prevent fraudulent claims activities.

Recommendations: The Company should conduct a criminal background check for any employee for whom a background check has not already been conducted, and should monitor employees for felony convictions on an ongoing basis subsequent to hiring.

Standard I-4. The Company 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. The Company adequately monitors the activities of the Managing General Agents (MGA).

No work performed. The Company does not utilize MGAs.

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

No work performed. 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 whether the Company is in compliance with record retention requirements.

Controls Assessment:

- The Company maintains a Record Retention Schedule that lists documents by Company function. The Schedule indicates where and for how many years each document must be maintained, and in what format/system.
- The Company's claim and underwriting files are imaged documents whose originals are destroyed immediately after imaging. There is no current plan (or particular need) for the Company to purge the imaged files.
- The imaged files are accessible via the Company's computer system. The completeness of the records was tested during the ongoing Financial Examination, and during RSM's review of selected files during testing of other examination standards.

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: As a part of all testing throughout the examination, RSM reviewed the adequacy of file documentation and record retention.

Transaction Testing Results: The Company's record retention procedures list each company record, and the time period for which it must be maintained.

Findings: None.

Observations: The Company maintains imaged records for underwriting and claims. In some cases, records maintenance on these systems is difficult to access. For example, policy history and declarations pages could not be located for underwriting files. Information from claim systems is difficult to understand, as descriptive file notes do not always fully explain the handling of the claims.

Recommendations: None.

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 lines of business being written by a Company are in accordance with its certificate of authority.

Pursuant to M.G.L. c. 175, § 32, domestic insurers must obtain a certificate authorizing it to issue policies or contracts. M.G.L. c. 175, § 47 sets forth the various lines of business for which an insurer may be licensed.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: RSM confirmed that certifications are filed with the Division in connection with the annual financial reporting.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to file all required certifications with the Division.

Recommendations: None.

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 examination.

M.G.L. c. 175, § 4 sets forth the Commissioner's authority to conduct examinations of an insurer.

Controls Assessment: The responses to the auditors' inquiries were monitored for completeness and accuracy.

Controls Reliance: Not applicable.

Transaction Testing Procedure: RSM monitored responses to each inquiry and comment form it issued to the Company for completeness, timeliness and accuracy.

Transaction Testing Results:

Findings: The inability of the Company to produce timely, accurate and reconcilable data listings negatively impacted the progress of the market conduct examination.

Observations: None.

Recommendations: The Company should implement procedures and controls to ensure that it provides information required for an examination in a timely and accurate manner.

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.

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

Objective: This Standard is concerned with the Company's policies and procedures for ensuring it minimizes improper intrusion into the privacy of consumers.

Controls Assessment: RSM noted the following observations in reviewing this Standard:

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, Section 504(a), and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- The Company stated in interviews that its practice is to provide Privacy Notices to policyholders with policy declaration pages and renewal mailings.
- Policyholders have no "opt out" rights because the Company does not sell or share personal information with any entity outside of the Norfolk and Dedham Group for marketing purposes.
- The Company has a detailed written "Privacy Policies and Procedures" for Systems.
- 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: RSM interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures.

Transaction Testing Results:

Findings: The Company's "Authorization to Use or Disclose Protected Health Information" notice contains a fraud warning statement that ends with a reference to "RSA 638:20", a New Hampshire rather than a Massachusetts fraud statute.

Observations:

- The Company has established privacy practices to comply with the Gramm-Leach-Bliley Act and the Health Insurance Portability and Accountability Act.
- Based upon RSM's review of the Company's written privacy notice and its privacy practices, it appears that the Company provides an adequate privacy notice to applicants and to policyholders regarding its handling of non-public personal financial and health information.
- The Company issues required privacy disclosure forms at the time a policy is issued,

rather than at the time of application.

Recommendations: The Company should implement written privacy disclosures in Massachusetts that emphasize Massachusetts laws, and not those of another state. Further, the Company should take steps to ensure that its automated system for providing appropriate state-specific privacy disclosures is functioning properly.

Standard I-11. The company has 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.

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

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it protects privacy of non-public personal information.

Controls Assessment: RSM noted the following in conjunction with the review of this Standard:

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, Section 504(a), and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- Company policy allows for the sharing of customer and personal information with affiliates and non-affiliates who provide services to the Company.
- 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 customers.
- The Company does not sell or share information with anyone for marketing purposes. As such, policyholders have no "opt out" rights.

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: RSM interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's review that the Company's policies and procedures adequately protect consumer non-public personal information.

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's practice of providing privacy notices to customers and consumers.

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, Section 504(a), and its related Rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- Company policy requires that a home office approved consumer privacy notice be provided to applicants when the application is taken and coverage is bound.
- The Company's consumer privacy notice is also included with policy declaration pages when new and renewal policies are delivered, usually by the producer.

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: RSM interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures.

Transaction Testing Results: None.

Findings: None.

Observations: It appears from RSM's review of the Company's privacy notice and its privacy practices, that the Company provides a sufficient privacy notice to applicants and to policyholders regarding its use of non-public personal financial information, in accordance with Company policy.

Recommendations: None.

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 customer has opted out, and the company provides opt out notices to its customers and other affected consumers.

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

No work performed. The Company does not utilize opt out rights because it does not share information with others for marketing purposes.

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, Section 504(a) and 16 CFR Part 313.

Objective: This Standard is concerned with the Company's policies and procedures regarding collection, use and disclosure of nonpublic personal financial 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, Section 504(a), and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- Company policy allows for the sharing of customer and personal information with affiliates and non-affiliates who provide services to the Company.
- 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 customers.
- The Company does not sell or share information with anyone for marketing purposes. As such, policyholders have no "opt out" rights.
- Company policy requires that a home office approved consumer privacy notice be provided to policyholders when the application is taken and coverage is bound. The Company's consumer privacy notice is also included with policy declaration pages when new and renewal policies are delivered, usually by the producer.

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: RSM interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's review that the Company's policies and procedures provide reasonable assurance that it 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 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 customer or a consumer who is not a customer has authorized the disclosure.

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of nonpublic personal health information related to claims.

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

- Company policy is to disclose nonpublic personal health information it obtains in relation to claims processing 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 customers.
- The Company's procedures for protecting the privacy of nonpublic personal health information are the same as those that apply to nonpublic personal financial 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: RSM interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's review that the Company's policies and procedures provide reasonable assurance that it properly collects, uses and discloses nonpublic personal health information related to claims.

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's information security efforts to ensure that nonpublic consumer information is protected.

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, Section 504(a), and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- The Company has conducted quarterly information systems risk assessments to consider, document and review information security threats and controls.
- The Company has adopted a written information systems security and controls policy.
- 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: RSM interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's review of the Company's information security policies and procedures that the Company has implemented an information security program which provides reasonable assurance that its information systems adequately protect nonpublic personal information.

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 company complaint register.

M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether the Company formally tracks complaints or grievances as required by statute.

Pursuant to M.G.L. c. 176D, § 3(10), an insurer is required to maintain a complete record of all complaints it received since the date of its last examination. The record must indicate the total number of complaints, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint and the time it took to process each complaint.

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

- The Company has written procedures for handling complaints.
- The Company's complaint handling process appears to function in accordance with its written policies and procedures.
- The Company's complaint logs and its entry of information on each report are consistent.
- A Company staff person is charged with annually reviewing the complaint logs for compliance.
- DOI complaints are referred to the Corporate Secretary, and the Company's practice is to reply within 14 days as required by the Division.
- DOI complaint files are maintained in paper format.
- DOI complaint documentation is maintained with the policyholder's claim or underwriting files, and not as a separate file.
- Throughout the year, the company maintains complaints within the work unit that handled the complaint, and does not record them in a central complaint log or physically keep them in a central location.
- Complaint registers are maintained for the Norfolk and Dedham Group, but are not broken down by company name.

The Massachusetts complaint data for 2004 and the first six months of 2005 for the Norfolk and Dedham Group are as follows:

| Massachusetts Complaints | Total |
|---------------------------------|--------------|
| Claims | 274 |
| Underwriting and Rating | 4 |
| Treasury | 2 |
| Total | 280 |

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: RSM reviewed the Company's complaint procedures, interviewed company personnel regarding these procedures, and reviewed all DOI and non-DOI complaints except those identified in the company's log as "Referred to Def. (Defense) Counsel." RSM identified and analyzed the nature of the complaint, observed whether the response date was reasonable, and determined whether the supporting documentation in the file was sufficient. In addition, RSM compared the Company's DOI complaint register to the Division's complaint records to ensure that the Company's records were complete.

Transaction Testing Results:

Findings:

- The Company's initial response date to each complaint is tracked in the log as the Disposition Date." However, this response date is not necessarily the "disposition" date, as required by Massachusetts law.
- The Disposition column of the Log does not explain how the complaint was resolved. Further, a complaint register is maintained for Norfolk and Dedham Group complaints, but is not broken down for each specific company within the Group.

Observations:

- The Company's complaint log and its files for complaints received from the Division were consistent with the Division's logs and files.
- The Company's initial response to a consumer complaint is reasonable and timely, usually 1 – 2 workdays.
- The Complaint Log headings comply with Massachusetts law, but the information tracked under the headings may not comply with the law.

Recommendations:

- The Company should consider adding two columns to the Complaint Log to track the final action by the Company, and the date of that action, to meet the specific requirements of Massachusetts' law regarding complaint disposition and processing time.
- The Company's complaint log should separately record the number of complaints made

against Fitchburg Mutual, rather than recording this number only as part of an aggregate figure on the log for all complaints made against the Norfolk and Dedham Group.

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

M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether the Company has adequate complaint handling procedures and communicates those procedures to policyholders.

M.G.L. c. 175, § 3(10) requires that (a) the Company has documented procedures for complaint handling; (b) the procedures in place are sufficient to enable satisfactory handling of complaints received as well as to conduct root cause analyses ; (c) there is a method for distribution of and obtaining and recording responses to complaints that is sufficient to allow response within the time frame required by state law, and (d) the Company provides a telephone number and address for consumer inquiries.

Controls Assessment: Refer to Standard II-1.

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: RSM reviewed the Massachusetts complaint files from the examination period to evaluate this Standard. RSM also interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. In addition, to determine whether the Company provides contact information for consumer inquiries, a sample of forms and billing notices sent to policyholders was reviewed for compliance.

Transaction Testing Results:

Findings: None.

Observations:

- The Company appears to have adequate complaint procedures in place, and provides policyholders with the information needed to contact the company.
- The Company's claim examiners appear to consistently follow its complaint procedures.
- The Company's procedures state that each division manager is responsible for identifying any complaint trends, and taking any necessary action. Interviews with staff and file records do not indicate that complaints are reviewed for trends or analyzed for root cause.

Recommendations: The Company should take steps to ensure that its Division Managers follow the Company's complaint procedures by identifying complaint trends and taking necessary action. Further, the Company should consider enhancing its documentation of the executive management's periodic discussions of complaint matters. Such documentation could include, but should not necessarily be limited to, identifying common complaints, and documenting the results of complaint investigations and subsequent Company actions taken to resolve or eliminate the causes of complaints.

Standard II-3. The company 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 response to the complaint fully addresses the issues raised.

Controls Assessment: Refer to Standard II-1.

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: In order to evaluate this standard, RSM reviewed all Massachusetts complaint files from the examination period.

Transaction Testing Results:

Findings: None.

Observations:

- The Company does not maintain separate complaint files for non-Division complaints, instead maintaining that information and documentation within the related file(s) for that complainant. In order to review complaint handling, this information must be retrieved from the applicable underwriting, claims and policyholder service records, making it difficult to determine whether complaint documentation is complete.
- The Company appears to treat policyholders with similar fact patterns consistently and reasonably.
- The Company's responses to consumer complaints appear to address the issues raised, and to comply with Massachusetts law.

Recommendations: The Company should consider maintaining a separate file for each complaint, rather than having the information imbedded in the policyholder file(s).

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| Standard II-4. The time frame within which the company responds to complaints is in accordance with applicable statutes, rules and regulations. |
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Objective: This Standard is concerned with the time required for the Company to process each complaint.

Massachusetts does not have a specific complaint processing time standard in the statutes or regulations. However, the Division has established a practice of allowing fourteen calendar days from the date that the insurer receives the notice of complaint for it to respond to the Division. Company policy is to respond to complaints it receives directly as soon as possible.

Controls Assessment: Refer to Standard II-1.

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: RSM reviewed the Massachusetts complaint files from the examination period to evaluate whether the Company timely responds to complaints.

Transaction Testing Results:

Findings: None.

Observations:

- The resolution of Division complaints appeared to be reasonably timely, and within the fourteen calendar day period required by the Division.
- The Company usually provides an initial response to non-Division complaints within two or three work days.

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.

M.G.L. c. 176D, § 3; Division of Insurance Bulletin 2001-02.

Objective: This Standard is concerned with whether the Company maintains a system of control over the content, form and method of dissemination for all advertisements of its policies.

Pursuant to M.G.L. c. 176D, §3, it is an unfair method of competition to misrepresent or falsely advertise insurance policies, or the benefits, terms, conditions and advantages of said policies. Pursuant to Division of Insurance Bulletin 2001-02, an insurer who maintains an Internet website must disclose on that website the name of the company appearing on the certificate of authority, and the address of its principal office.

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

- The Company's advertising is produced through and/or monitored by the Marketing Department management.
- The Company uses the "Norfolk and Dedham Group" as an identifier in its advertising, and on its website.
- The Company did not use product specific consumer advertising during the examination period.

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: RSM reviewed all advertising and sales materials used during the examination period for compliance with statutory and regulatory requirements, and reviewed the Company's website for appropriate disclosure of its name, address and general compliance with statutory and regulatory requirements.

Transaction Testing Results:

Findings:

- The Company uses the "Norfolk and Dedham Group" as the primary defining name on its web site, rather than stating the names of each of the group's insurers licensed in Massachusetts. (Division of Insurance Bulletin 2001-02).
- The home office address is not displayed on the Company's website, as required by Division of Insurance Bulletin 2001-02.

- A Company newsletter offered a discount on homeowners insurance for the purchase of a “Freeze Alarm” sold by The Newbury Corporation, a Norfolk & Dedham Group affiliate company. The offer does not make clear that the discount is available for the Freeze Alarm and other similar devices purchased elsewhere.

Observations: The results of RSM’s testing showed that advertising and sales materials comply with Massachusetts M.G.L. c. 176D, § 3.

Recommendations:

- RSM recommended that the Company clearly identify the names of the licensed entities in any advertising materials representing those companies. The names of the three licensed insurance companies in the Norfolk and Dedham Group have been added to the Group’s website.
- The Company should more clearly state in its marketing materials for the “Freeze Alarm” that it and other similar alarms may be used to obtain insurance premium discounts.
- RSM recommended that the Company include its Home Office address on the home page of the Company’s website, and the Company complied with this recommendation.

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

Objective: This Standard is concerned with whether all of the Company’s producer training materials are in compliance with state statutes, rules and regulations.

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

- The Company distributes producer training material electronically via AgentPak.com, a dedicated website it developed for this purpose
- Through AgentPak, the Company also distributes general information focusing on company policies, practices and procedures, including those relating to underwriting and rating, policyholder service, and claims. This material is updated throughout the year to note any changes in these areas.

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: RSM reviewed general written information and electronic training manuals provided to producers for accuracy and reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's training information and updates for producers appear current and accurate.

Recommendations: None.

Standard III-3. Company 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 applicable statutes, rules and regulations.

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

- The Company communicates with producers primarily through www.AgentPak.com and Norfolk and Dedham Group bulletins sent via facsimile.
- Through AgentPak, the Company distributes general information on company policies, practices and procedures, including those relating to underwriting and rating, policyholder service, and claims.
- The Company provides updated electronic training material to producers throughout the year noting changes in Company policies, practices 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: RSM reviewed the Company's communications to producers for accuracy and reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's training information and its updates for producers appear current and accurate.

Recommendations: None.

Standard III-4. Company mass marketing of property and casualty insurance is in compliance with applicable statutes, rules and regulations.

M.G.L. c. 175, § 193R

No work performed. This Standard not covered in scope of examination because the Company does not offer mass merchandising or group marketing plans as defined in statute, or any affinity group discounts.

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. Company records of licensed and appointed (if applicable) producers agree with department of insurance records.

**18 U.S.C. § 1033; M.G.L. c. 175, §§ 162I and 162S.
Division of Insurance Bulletins 1998-11 and 2001-14.**

Objective: The Standard is concerned with ensuring that the Company's appointed producers are appropriately licensed by the Division.

M.G.L c. 175, § 162I requires that all persons who solicit, sell or negotiate insurance in the Commonwealth be licensed for that line of authority. Further, any such producer shall not act as an agent of the Company unless the producer has been appointed by the Company pursuant to M.G.L c. 175, § 162S.

Pursuant to 18 U.S.C. § 1033 of the Violent Crime Control and Law Enforcement Act of 1994 ("Act"), 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, and who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all producers and employees who are affected by this law. Individuals "prohibited" under the law may apply to the Commissioner for written consent, and may not engage in the business of insurance unless and until such consent is granted.

Controls Assessment: The Company does not conduct criminal background checks on newly appointed producers, but does provide written notice to them of the requirements of 18 U.S.C. § 1033.

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: RSM interviewed individuals with responsibility for producer contracting and processing of appointments, and selected 50 policies issued or renewed during the examination period from all companies in the Norfolk and Dedham Group, for testing. Ten of the 50 policies selected were Fitchburg Mutual policies. RSM verified that the producer for each sale was licensed and appointed at the time of the sale. RSM also matched the Division's listing of licensed producers with the Company's listings of appointed producers and producers paid commissions during the examination period.

Transaction Testing Results:

Findings: The Company paid commission to two of three producers it appointed who were not licensed by the Division.

Observations: Based on the results of testing, RSM noted that the Company paid commission to two producers who were not licensed by the Division.

Required Action: The Company should develop and implement procedures to ensure that all producers representing the Company are appropriately licensed and appointed, and that it does not issue commission payments to producers who are not appropriately licensed.

Standard IV-2. Producers are properly licensed and appointed (if required by state law) in the jurisdiction where the application was taken.

**18 U.S.C. § 1033; M.G.L. c. 175, §§ 162I and 162S;
Division Bulletins 1998-11 and 2001-14.**

Objective: Refer to Standard IV-1.

Controls Assessment: Refer to Standard IV-1.

Controls Reliance: Refer to Standard IV-1.

Transaction Testing Procedure: Refer to Standard IV-1.

Transaction Testing Results: Refer to Standard IV-1.

Required Action: Refer to Standard IV-1.

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

M.G.L. c. 175, § 162T.

Objective: This Standard is concerned with whether the Company's termination of producers complies with applicable statutes requiring notification to the state and the producer.

Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of the producer's termination, and if the termination was for cause, must notify the Division of such cause.

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

- The Company's policy and practice is to notify the Division of agent terminations as required by statute.
- The Company's policy and practice is to notify the Division of the reason for agent terminations when the termination is "for cause."

- The Company has a process for notifying agents that they have been terminated, in compliance with statutory and contractual requirements.

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: RSM interviewed individuals with responsibility for producer contracting and termination processing.

Transaction Testing Results:

Findings: None.

Observations: The results of RSM's testing showed that the Company appears to be notifying the Division when agents are terminated.

Recommendations: None.

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| Standard IV-4. The company's policy of producer appointments and terminations does not result in unfair discrimination against policyholders. |
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Objective: The Standard addresses the Company's policy for ensuring that producer appointments and terminations do not unfairly discriminate against policyholders.

Controls Assessment: Refer to Standards IV-1 and IV-3.

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: RSM selected 50 policies issued or renewed during the examination period from all companies in the Norfolk and Dedham Group for testing. Ten of the 50 policies selected were Fitchburg Mutual policies. RSM reviewed documentation for each policy for any evidence of unfair discrimination against policyholders as a result of the Company's policies regarding producer appointments and terminations.

Transaction Testing Results:

Findings: None.

Observations: RSM noted no evidence through testing of unfair discrimination against policyholders resulting from the Company's policies regarding producer appointments and terminations.

Recommendations: None.

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

M.G.L. c. 175, § 162R and 162T.

Objective: The Standard addresses the Company's policy for documenting producer terminations.

Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division in writing within 30 days of the effective date of an agent's termination, and of the cause for any "for cause" termination as defined in M.G.L. c. 175, § 162R.

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

- The Company's policy and practice is to notify the Division of agent terminations as required by statute.
- The Company's policy and practice is to notify the Division of the reason for agent terminations when the termination is "for cause."
- The Company has a process to notify agents that they have been terminated in compliance with statute and contractual requirements.
- The Company maintains records of terminated producers and termination reason.

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: RSM interviewed individuals with responsibility for producer contracting and processing of terminations.

Transaction Testing Results:

Findings: None.

Observations: RSM noted through testing that the Company appears to adequately document producer terminations.

Recommendations: None.

Standard IV-6. Producer accounts current (account balances) are in accordance with the producer's contract with the company.

No work performed. All required activity for this Standard is included 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.

M.G.L. c. 175, §§ 193B and 193B ½.

Objective: This Standard is concerned with whether the Company provides policyholders with sufficient advance notice of premiums due.

Pursuant to M.G.L. c. 175, §§ 193B and 193B ½, premiums may be paid in installments with interest charged on the unpaid balance due as of the billing date.

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

- The policyholder generally receives a renewal and billing notice from the Company 30 days prior to the effective date of the renewal. The producer later sends a policy declaration page indicating the coverage type and limits, with the applicable premium due, to the policyholder. This is not a bill, but reiterates the premium due as indicated on the billing notice."
- The Company automatically generates billing notices through its policy administration system approximately 24-30 days before premium payments 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: RSM interviewed Company personnel with responsibility for policyholder service, and reviewed billing and renewal notices. The date such bills and notices were sent was compared to the effective policy renewal date.

Transaction Testing Results:

Findings: None.

Observations: Based upon RSM's interviews, and reviews of billing and renewal notices, it appears such notices were mailed with adequate advance notice to the policyholder.

Recommendations: None.

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

M.G.L. c. 175, §187B.

Objective: This Standard is concerned with whether the Company has cancellation procedures to ensure that such policyholder requests are processed timely.

Pursuant to M.G.L. c. 175, § 187B, insurers are required to return premium within a reasonable time upon the policyholder's request to cancel.

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

- Automobile policyholders may cancel their policy only after filing (1) a Form 2A (Notice of Transfer of Coverage), (2) proof that the vehicle has been taken out of service or (3) evidence that the policyholder has moved out of Massachusetts.
- Company policy is to cancel an automobile policy upon notification from the producer of the policyholder's request, and to process premium refunds in a timely manner.
- Any unearned premium on automobile policies is refunded to the policyholder on either a pro-rata or short rate basis pursuant to statutory and regulatory guidelines. Unearned premium for homeowners' policies is calculated using the pro-rata method, while unearned premium for commercial property/liability is calculated on a short rate 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: RSM interviewed Company personnel with responsibility for the policyholder service, and selected fifty policies cancelled or non-renewed during the examination from all companies in the Norfolk and Dedham Group, to test for compliance with cancellation notice requirements. Nine of the 50 policies selected were Fitchburg Mutual policies. RSM reviewed evidence for each cancellation that the request was processed timely.

Policy issuance review is included in Underwriting and Rating Standard VI-16. Return of premium testing is included in Underwriting and Rating Standard VI-25.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's testing of insured-requested cancellations that such transactions are processed timely.

Recommendations: None.

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

Objective: This Standard is concerned with whether the Company provides timely and responsive information to policyholders.

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

- The Company considers its producers as having the primary relationship with its policyholders.
- Policyholders must request policy changes through their producer. Any such changes requested through the Company's customer service department must be transferred to the producer for servicing.

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: RSM discussed correspondence procedures with Company personnel, and reviewed correspondence in conjunction with its examination of the Company's underwriting, rating, policyholder service and claim standards.

Transaction Testing Results:

Findings: None.

Observations: RSM noted from review of general correspondence between policyholders and interviews with the Company regarding underwriting, rating, policyholder service and claims, that the Company appears to have adequate resources and procedures to handle customer inquiries, and that correspondence directed to the Company is answered in a timely and responsive manner.

Recommendations: None.

Standard V-4. Claims history and loss information is provided to insureds in a timely manner.

Objective: This Standard is concerned with whether the Company provides claim history and loss information to the insured in a timely manner.

Controls Assessment: The Company's policy is to timely provide the policyholder with his or her claim history and paid loss information upon request.

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: RSM discussed correspondence procedures with Company personnel, and reviewed correspondence in conjunction with its examination of the underwriting, rating, policyholder service and claim standards.

Transaction Testing Results:

Findings: None.

Observations: Based upon review of underwriting and rating, claims, complaints and policyholder service, RSM noted no evidence of the Company being non-responsive to policyholder inquiries. Policies and procedures relating to the Company's response to policyholder inquiries on claims history and paid loss information appear adequate and reasonable.

Recommendations: None.

Standard V-5. Whenever the company transfers the obligations of its contracts to another company pursuant to an assumption reinsurance agreement, the company has gained the prior approval of the insurance department and the company has sent the required notices to affected policyholders.

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

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. All rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company's rating plan.

Property/Liability: M.G.L. c. 174A, §§ 5, 6 and 9; M.G.L. c. 175 §§ 111H and 193R; M.G.L. c. 175A, §§ 5, 6 and 9; 211 CMR 131.00.

Objective: This Standard is concerned with whether the Company is charging premiums using properly filed rates.

Pursuant to M.G.L. c. 174A, § 5, fire rates shall be based on past and prospective loss experience during a period of not less than the most recent five-year period for which such experience is available. In considering catastrophe hazards with respect to homeowner's insurance rates, the Commissioner shall consider catastrophe reinsurance and factors relating thereto. Fire rates also shall consider a reasonable margin for underwriting profit and contingencies. Finally, such rates shall not be excessive, inadequate or unfairly discriminatory. M.G.L. c. 174A, § 6 requires the filing of fire rates with the Commissioner, and M.G.L. c. 174A, § 9 requires insurers to use such filed rates, unless the insurer obtains approval from the Commissioner for a rate deviation.

Under M.G.L. c. 175A, § 5, casualty, surety and certain commercial rates must also be based, in part, on past and prospective loss experience and catastrophe hazards, and must include a reasonable margin for underwriting profits and contingencies. These rates should not be excessive, inadequate or unfairly discriminatory. Casualty and surety rates must be filed with the Commissioner as provided by M.G.L. c. 175A, § 6 prior to use. Insurers must use filed rates unless they obtain approval for a rate deviation, as set forth in M.G.L. c. 175A, § 9.

Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. M.G.L. c. 175, § 111H requires that any policy providing lead liability coverage be subject to rules and regulations set forth by the Commissioner, and 211 CMR 131.00 prescribes requirements for the filing of lead liability coverage rates with the Division.

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

- The Company has written underwriting policies and procedures which are designed to reasonably assure consistency in classification and rating.
- Company homeowners' rates are based on those developed by the Insurance Services Office (ISO), and the Company files such rates with the Division for use to comply with statutory and regulatory requirements. The Company's uses a software program for rating which is designed to ensure that consistent and filed rates are used when business is written.
- Homeowners premium rating criteria include, but are not limited to; territory, coverage amount and type, occupancy type, protection class and structure type. Premium discounts are available for policyholders with Fitchburg home and automobile

coverage, seniors, winterizing, new construction, renovated dwelling, use of security and safety features, loss free credits, and for policyholders who choose higher deductibles.

- The Company did not write automobile policies during the examination period.

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: RSM interviewed Company personnel with responsibility for the underwriting process, and selected 50 policies issued or renewed policies during the examination period from all companies in the Norfolk and Dedham Group, for testing. Ten of the 50 policies selected were Fitchburg Mutual policies. RSM verified that the policy premiums, discounts and surcharges for the multiple coverages of each policy complied with statutory and regulatory requirements, and with rates filed with the Division.

Transaction Testing Results

Findings: None.

Observations: It appears from RSM's testing that the Company calculates policy premiums, discounts and surcharges for multiple coverages in compliance with statutory requirements, as well as with the rates filed with the Division.

Recommendations: None.

Standard VI-2. Disclosures to insureds concerning rates and coverages are accurate and timely.

M.G.L. c. 174A, § 11; M.G.L. c. 175, §§ 99 and 99A; M.G.L. c. 175A, § 11.

Objective: This Standard is concerned with whether all mandated disclosures for rates and coverages are documented in accordance with statutes and regulations, and are provided to insureds timely.

Pursuant to M.G.L. c. 175, §§ 99 and 99A, numerous disclosures and requirements must be included on a standard fire policy. Pursuant to M.G.L. c. 175A, § 11, and M.G.L. c. 174A, § 11, rating organizations and insurers shall furnish rate information to any insured within a reasonable time after receiving a written request.

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

- The Company has written policies and procedures for processing new and renewal business.
- The Company's procedures are designed to ensure that new business submissions from producers are accurate and complete, including use of all Company required forms and instructions. This includes the requirement that producers provide the private

passenger automobile information guide and coverage options to applicants.

- Commercial automobile rates are determined by Commonwealth Automobile Reinsurers (“CAR”) for those risks ceded to it. Such rates are filed with the Division. All other commercial automobile rates are otherwise filed with the Division for prior approval.
- The Company’s insurance policies provide rate and coverage disclosures as required by statutory and regulatory guidelines.
- The Company did not write automobile policies during the examination period

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: RSM interviewed Company personnel with responsibility for the underwriting process, and selected 50 policies issued or renewed during the examination period from all companies in the Norfolk and Dedham Group, to test for timely disclosure of rates and coverages. Ten of the 50 policies selected were Fitchburg Mutual policies.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM’s testing that the Company provides required coverage disclosures to insureds upon initial application and renewal, in accordance with statutory guidelines.

Recommendations: None.

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

M.G.L. c. 175, §§ 182, 183 and 184; M.G.L. c. 176D, § 3(8).

Objective: This Standard is concerned with ensuring that the Company does not permit illegal rebating, commission cutting or inducements; and that producer commissions adhere to the commission schedule.

Pursuant to M.G.L. c. 175, §§ 182, 183 and 184, the Company, or any agent thereof, cannot pay or allow, or offer to pay or allow any valuable consideration or inducement not specified in the policy or contract. Similarly, under M.G.L. c. 176D, § 3(8), it is an unfair method of competition to knowingly permit or make any offer to pay, allow or give as inducement any rebate of premiums, any other benefits or any valuable consideration or inducement not specified in the contract.

Controls Assessment: The Company’s producer contracts and home office policies and procedures are designed to comply with statutory underwriting and rating requirements prohibiting 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: RSM interviewed individuals with responsibility for commission processing and producer contracting, and reviewed producer contracts. RSM also inspected new business materials, advertising materials, producer training materials and manuals for indications of rebating, commission cutting or inducements.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's testing that the Company's processes for prohibiting illegal acts, including special inducements and rebates, are functioning in accordance with its policies and procedures, and with statutory underwriting and rating requirements.

Recommendations: None.

Standard VI-4. Credits and deviations are consistently applied on a non-discriminatory basis.

Property/Liability: M.G.L. c. 174A, §§ 5, 6 and 9; M.G.L. c. 175, §§ 111H, 193R and 193T; M.G.L. c. 175A, §§ 5, 6 and 9; 211 CMR 131.00.

Objective: This Standard is concerned with whether unfair discrimination is occurring in the application of premium discounts and surcharges.

Pursuant to M.G.L. c. 174A, § 5, fire rates shall be based on past and prospective loss experience, during a period of not less than the most recent five-year period for which such experience is available. In considering catastrophe hazards with respect to homeowners' insurance rates, the commissioner shall consider catastrophe reinsurance and factors relating thereto. Fire rates also shall consider a reasonable margin for underwriting profit and contingencies. Finally, such rates shall not be excessive, inadequate or unfairly discriminatory. M.G.L. c. 174A, § 6 requires the filing of fire rates with the Commissioner, and M.G.L. c. 174A, § 9 requires insurers to use such filed rates, unless the insurer obtains approval from the Commissioner for a rate deviation.

Under M.G.L. c. 175A, § 5, casualty, surety and certain commercial rates also must be based, in part, on past and prospective loss experience, catastrophe hazards and include a reasonable margin for underwriting profits and contingencies. Additionally, these rates should not be excessive, inadequate or unfairly discriminatory. Casualty and surety rates must be filed with the Commissioner as provided by M.G.L. c. 175A, § 6 prior to use. Insurers must use filed rates unless they obtain approval for a rate deviation, as set forth in M.G.L. c. 175A, § 9.

Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. M.G.L. c. 175, § 193T prohibits rate discrimination based on blindness or partial blindness, mental retardation or physical impairment, unless such discrimination is based on "sound actuarial principles or is related to actual experience." M.G.L. c. 175, § 111H requires that any policy providing lead liability coverage be subject to rules and regulations set forth by the Commissioner, and 211 CMR 131.00 prescribes requirements for the filing of lead liability coverage rates with the Division.

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

- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of the general rating methodology, in accordance with statutory and regulatory requirements.
- Written Company underwriting guidelines are designed to reasonably assure consistency in application of premium discounts and surcharges, and in the application of the general rating methodology.
- Company homeowners' rates are based on ISO rates, and are filed with the Division prior to use to comply with statutory and regulatory requirements. The Company uses a software program for rating that is designed to ensure that consistent and properly filed rates are used when business is written.
- The Company uses homeowners rating criteria including, but not limited to; territory, coverage amount and type, occupancy type, protection class and structure type. Premium discounts are available for seniors, winterizing, new construction, renovated dwellings, use of security and safety features, insureds with no losses and those who choose higher deductibles.

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: RSM interviewed Company personnel with responsibility for the underwriting process, and selected 50 policies issued or renewed during the examination period from all companies in the Norfolk and Dedham Group, for testing. Ten of the 50 policies selected were Fitchburg Mutual policies. RSM verified that credits and deviations for each policy were consistently applied on a non-discriminatory basis.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's testing that the Company consistently applies credits and deviations on a non-discriminatory basis.

Recommendations: None.

Standard VI-5. Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.

M.G.L. c. 175A, § 5.

Objective: This Standard is concerned with whether the Company files appropriately documented schedule rating and modification plans based on objective criteria.

Pursuant to M.G.L. c. 175A, § 5, rates shall be based on past and prospective loss experience, a reasonable margin for underwriting profit and contingencies, investment income, unearned premium reserves and loss reserves. Risks may be grouped by classification to establish rates and minimum premiums, and classification rates may be modified to produce rates for individual risks in accordance with rating plans. Rates shall not be excessive, inadequate or unfairly discriminatory.

Controls Assessment: The Company has written guidelines for use of schedule rating and individual risk premium modification plans, ("IRPMs").

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: RSM interviewed Company personnel with responsibility for the underwriting process, and selected 50 policies issued or renewed during the examination period from all companies in the Norfolk and Dedham Group, for testing. Ten of the 50 policies selected were Fitchburg Mutual policies. There were no policies with an IRPM in the sample.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's testing that the Company complies with the requirement for its scheduled rating or IRPMs, where permitted, to be based on objective criteria supported by appropriate documentation.

Recommendations: None.

Standard VI-6. Verification of use of the filed expense multipliers; the company should be using a combination of loss costs and expense multipliers filed with the Division.

No work performed. The Company does not write workers' compensation coverage.

Standard VI-7. Verification of premium audit accuracy and the proper application of rating factors.

No work performed. The Company does not write workers' compensation coverage.

Standard VI-8. Verification of experience modification factors.

No work performed. The Company does not write workers' compensation coverage.

Standard VI-9. Verification of loss reporting.

No work performed. The Company does not write workers' compensation coverage.

Standard VI-10. Verification of company data provided in response to the NCCI call on deductibles.

No work performed. The Company does not write workers' compensation coverage.

Standard VI-11. The Company underwriting practices are not unfairly discriminatory. The Company adheres to applicable statutes, rules and regulations and company guidelines in the selection of risks.

Property/Liability: M.G.L. c. 175, §§ 4C, 95B and 193T.

Objective: This Standard is concerned with whether unfair discrimination is occurring with regard to underwriting in the sale of insurance.

Pursuant to M.G.L. c. 175, § 4C, no insurer shall take into consideration when deciding whether to provide, renew, or cancel homeowners insurance the race, color, religious creed, national origin, sex, age, ancestry, sexual orientation, children, marital status, veteran status, the receipt of public assistance or disability of the applicant or insured. M.G.L. c. 175, § 95B notes that no insurer shall cancel, refuse to issue or renew, or in any way make or permit any distinction or discrimination in (1) the amount or payment of premiums or rates charged; (2) in the length of coverage, or (3) in any other of the terms and conditions of a residential property insurance policy based upon information that an applicant or policy owner, or any member of their family, has been a victim of domestic abuse. M.G.L. c. 175, § 193T prohibits discrimination based on blindness or partial blindness, mental retardation or physical impairment, unless such discrimination is based on "sound actuarial principles or is related to actual experience."

Controls Assessment: The following key observations were noted in conjunction with the 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.

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: RSM interviewed Company personnel with responsibility for the underwriting process, and selected 50 policies issued or renewed during the examination period from all companies in the Norfolk and Dedham Group, to test for evidence of unfair discrimination in underwriting. Ten of the 50 policies selected were Fitchburg Mutual policies.

Transaction Testing Results:

Findings: None.

Observations: RSM found no evidence from testing that the Company's underwriting practices are unfairly discriminatory

Recommendations: None.

Standard VI-12. All forms and endorsements forming a part of the contract are listed on the declaration page and should be filed with the department of insurance (if applicable).

**Property/Liability: M.G.L. c. 175, §§ 99, 99B, 111H and 192; 211 CMR 131.00.
M.G.L. c. 175, § 2B.**

Objective: This Standard is concerned with whether policy forms and endorsements are filed with the Division for approval.

Pursuant to M.G.L. c. 175, § 99, homeowners policy forms must conform to the standards for policy language set forth in that section, and M.G.L. c. 175, § 99B states that condominium and tenant policies must be filed with the Division for prior approval. Pursuant to M.G.L. c. 175, § 192, endorsements are part of policy forms and must also be filed with the Division for prior approval. M.G.L. c. 175, § 111H requires that any policy providing lead liability coverage be subject to rules and regulations set forth by the Commissioner, and 211 CMR 131.00 requires that forms be filed with and approved by the Division for homeowners lead liability coverage.

M.G.L. c. 175, § 2B, requires that policy form language, size and content standards meet statutory requirements for readability and understanding.

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

- Company policy requires the use of filed and approved forms for homeowners' policies.
- Company policy requires that all changes to homeowners and commercial policy forms and endorsements be filed and approved by the Division prior to use.
- Company producers are required to use approved forms and endorsements as guidelines 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: RSM interviewed Company personnel with responsibility for the underwriting process, and selected 50 policies issued or renewed during the examination period from all companies in the Norfolk and Dedham Group, to test for the use of policy forms and approved endorsements in compliance with statutory requirements. Ten of the 50 policies selected were Fitchburg Mutual policies. No workers' compensation policies were included in the sample.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's testing that the Company is using approved policy forms and endorsements in compliance with statutory requirements.

Recommendations: None.

Standard VI-13. The producers are properly licensed and appointed (if required) in the jurisdiction where the application was taken.

See Standards IV-1 and IV-2 in the Producer Licensing Section.

Standard VI-14. 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 is concerned with 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.

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

- Written Company policies and procedures are designed to reasonably assure consistency in application of underwriting guidelines, rating classifications, premium discounts and surcharges to information obtained at or near the inception of coverage.
- The Company has written underwriting guidelines for homeowners policies that are based on information obtained at or near the inception of coverage.
- The Company files homeowners' rates with the Division prior to use to comply with statutory and regulatory requirements. The Company uses a software rating program designed to ensure that consistent and properly filed rates are applied to information obtained at or near the inception of coverage.

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: RSM interviewed Company personnel with responsibility for the underwriting process, and selected 50 policies issued or renewed during the examination period from all companies in the Norfolk and Dedham Group, for testing. Ten of the 50 policies selected were Fitchburg Mutual policies. No automobile policies were in the tested sample, as the Company wrote no such policies during the examination period. RSM tested each policy to determine whether the Company based underwriting, rating and classification on adequate information developed at or near inception of the coverage.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's testing that the Company is using underwriting, rating and classification guidelines based on adequate information developed at or near inception of the coverage

Recommendations: None.

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| Standard VI-15. File documentation adequately supports decisions made. |
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Objective: This Standard is concerned with whether policy file documentation adequately supports decisions made in underwriting and rating.

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

- Company policy requires that underwriting files support its underwriting and rating decisions.
- Producers are responsible for completing new business applications and obtaining information needed to properly underwrite and rate the policy.
- Most policy source information and related documentation is maintained and controlled by the Company, while some policy applications are maintained by the producer.
- A properly completed application includes both the applicant's and the producer's signatures.

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: RSM interviewed Company personnel with responsibility for the underwriting process, and selected 50 policies issued or renewed during the examination period from all companies in the Norfolk and Dedham Group, to test whether policy files adequately support the Company's decisions. Ten of the 50 policies selected were Fitchburg Mutual policies. The tested sample did not include automobile policies, as the Company wrote no such policies during the examination period.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's testing that policy files adequately supported the Company's decisions.

Recommendations: None.

Standard VI-16. Policies and endorsements are issued or renewed accurately, timely and completely.

Objective: This Standard is concerned with whether the Company issues policies and endorsements timely and accurately.

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

- Company policy requires the use of policy forms and endorsements approved by the Division.
- Producers are required to use such forms and endorsements as guidelines when providing timely quotes to customers upon request
- Policyholders must request coverage changes through their producer.
- Company procedures require sending a renewal notice to the policyholder 30 calendar days prior to the policy renewal effective date.

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: RSM interviewed Company personnel with responsibility for the underwriting process, and selected 50 policies issued or renewed during the examination period from all companies in the Norfolk and Dedham Group, for testing. Ten of the 50 policies selected were Fitchburg Mutual policies. No automobile policies were in the tested sample, as the Company wrote no such policies during the examination period. RSM tested each policy to determine whether new and renewal policies, including endorsements, were issued timely, accurately and completely.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's testing that the Company issues new and renewal policies, including endorsements, timely, accurately and completely.

Recommendations: None.

Standard VI-17. Audits when required are conducted accurately and timely.

Objective: This Standard is concerned with whether the Company conducts required audits accurately and timely.

Controls Assessment: The Company has written guidelines on the type and frequency of the premium audits. Some of the factors affecting audit frequency include premium size, amount of

new business, anticipated growth, and the policyholder's response to ACCORD Audit form.

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: RSM interviewed Company personnel with responsibility for the underwriting process, and selected 50 policies issued or renewed during the examination period from all companies in the Norfolk and Dedham Group, to test whether audits were timely and accurate. Ten of the 50 policies selected were Fitchburg Mutual policies.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's testing that the Company conducts required audits accurately and timely.

Recommendations: None.

Standard VI-18. Company verifies that VIN number submitted with application is valid and that the correct symbol is utilized.

No work performed. The Company does not write automobile policies.

Standard VI-19. The company does not engage in collusive or anti-competitive underwriting practices.

M.G.L. c. 176D, §§ 3(4) and 3A.

Objective: This Standard is concerned with whether the Company has engaged in any collusive or anti-competitive underwriting practices.

Pursuant to both M.G.L. c. 176D, § 3(4) and M.G.L. c. 176D, § 3A, it is an unfair method of competition and an unfair or deceptive act or practice in the business of insurance to enter into any agreement, or to commit any act of boycott, coercion or intimidation resulting in, or tending to result in, unreasonable restraint of, or monopoly in, the business of insurance.

Controls Assessment: Company policy requires that the underwriting department apply consistent underwriting practices for all lines of business, and that no underwriter or producer shall engage in collusive or anti-competitive practices.

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: RSM interviewed Company personnel with responsibility for the underwriting process, and selected 50 policies issued or renewed during the examination period

from all companies in the Norfolk and Dedham Group, to test whether the Company's underwriting practices appeared collusive or anti-competitive. Ten of the 50 policies selected were Fitchburg Mutual policies.

Transaction Testing Results:

Findings: None.

Observations: RSM noted no instances from testing where the Company's underwriting policies and practices appeared collusive or anti-competitive.

Recommendations: None.

Standard VI-20. The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations in application of mass marketing plans.

M.G.L. c. 175, § 193R

Objective: This Standard is concerned with whether the Company adheres to applicable statutes, rules and regulations in application of mass marketing plans.

Pursuant to M.G.L. c. 175, § 193R, mass merchandising or group marketing is any system, design or plan whereby insurance is afforded to employees of an employer, or to members of a trade union, association or organization and to which the employer, trade union, association or organization has agreed to or in any way affiliated itself with, assisted encouraged or participated in the sale of such insurance to its employees or members through a payroll deduction plan or otherwise.

Controls Assessment: The Company had three affinity group discounts in effect during the examination period.

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: RSM interviewed Company personnel with responsibility for the underwriting process. No policies with group discount appeared in the tested sample of 10 policies issued or renewed during the examination period.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's interviews and procedural reviews that the Company adheres to applicable statutes, rules and regulations in its application of mass marketing plans.

Recommendations: None.

Standard VI-21. All group personal lines property and casualty policies and programs meet minimum requirements.

M.G.L. c. 175§ 193R

Objective: This Standard is concerned with whether the Company group personal lines property and casualty policies and programs meet minimum requirements.

Pursuant to M.G.L. c. 175, § 193R, mass merchandising or group marketing is any system, design or plan whereby insurance is afforded to employees of an employer, or to members of a trade union, association or organization and to which the employer, trade union, association or organization has agreed to or in any way affiliated itself with, assisted encouraged or participated in the sale of such insurance to its employees or members through a payroll deduction plan or otherwise.

Controls Assessment: The Company had three affinity group discounts in effect during the examination period.

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: RSM interviewed Company personnel with responsibility for the underwriting process. No policies with the group discount appeared in the tested sample of 10 policies issued or renewed during the examination period.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's interviews and procedural reviews that the Company's group personal lines property and casualty policies and programs meet minimum requirements.

Recommendations: None.

Standard VI-22. Rejections and declinations are not unfairly discriminatory.

Property/Liability: M.G.L. c. 175, §§ 4C, 95B and 193T.

Objective: This Standard is concerned with the fairness of application rejections and declinations.

Pursuant to M.G.L. c. 175, § 4C, no insurer shall take into consideration when deciding whether to provide, renew, or cancel homeowners insurance the race, color, religious creed, national origin, sex, age, ancestry, sexual orientation, children, marital status, veteran status, the receipt of public assistance or disability of the applicant or insured. M.G.L. c. 175, § 95B notes that no insurer shall cancel, refuse to issue or renew, or in any way make or permit any distinction or discrimination in (1) the amount or payment of premiums or rates charged, (2) the length of coverage or (3) any other of the terms and conditions of a residential property insurance policy based upon information that an applicant or policy owner, or any member of their family, has been a victim of domestic abuse.

M.G.L. c. 175, § 193T prohibits discrimination based on blindness or partial blindness, mental retardation or physical impairment, unless such discrimination is based on “sound actuarial principles or is related to actual experience.”

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

- Company policy 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 for all lines of business.

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: RSM interviewed Company personnel with responsibility for the underwriting process.

Transaction Testing Results:

Findings: None.

Observations: RSM noted no instance from testing where a policy declination or rejection was unfairly discriminatory.

Recommendations: None.

Standard VI-23. Cancellation/non-renewal and declination notices comply with policy provisions and state laws and company guidelines.

M.G.L. c. 175, §§ 99, 187C and 193P.

Objective: This Standard is concerned with notice to policyholders for cancellation, non-renewal and declinations, including advance notice before expiration for cancellation and non-renewals.

Pursuant to M.G.L. c. 175, § 99, any Company may cancel a homeowner’s policy by giving the insured five days written notice of cancellation, and 20 days written notice to the mortgagee to whom the policy is payable, except where 10 days written notice is required for cancellation due to nonpayment of premium. Pursuant M.G.L. c. 175, § 187C, any Company shall effect cancellation of a commercial automobile or homeowner’s policy by serving written notice thereof as provided by the policy, and by paying the full return premium due. M.G.L. c. 175, § 193P requires an insurer to give written notice of its intent not to renew a policy to the insured at least 45 days prior to the expiration of the policy, accompanied by a written statement of the specific reasons for such decision.

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

- Company policy requires that a written cancellation notice be given to the

policyholder in accordance with statutory requirements. The Company's practice is to give notice to the producer approximately 30 days prior to the effective date of cancellation. The producer is responsible for communicating the pending cancellation to the policyholder within the statutory timeframe.

- The Company gives non-renewal notices for homeowners and commercial dwelling policies to the producer approximately 45 days prior to the policy renewal date, and the producer is responsible for communicating the pending non-renewal to the policyholder within the statutory timeframe.

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: RSM interviewed Company personnel with responsibility for the underwriting process, and selected 50 policies cancelled or non-renewed during the examination period from all companies in the Norfolk and Dedham Group, to test the Company's compliance with policy cancellation, declination and non-renewal notice requirements. Nine of the 50 policies selected were Fitchburg Mutual policies.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's testing that the Company complies with policy cancellation, declination and non-renewal notice requirements.

Recommendations: None.

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.

M.G.L. c. 175, §§ 99, 187C and 193P.

Objective: Refer to Standard VI-23.

Controls Assessment: Refer to Standard VI-23.

Controls Reliance: Refer to Standard VI-23.

Transaction Testing Procedure: Refer to Standard VI-23.

Transaction Testing Results: Refer to Standard VI-23.

Recommendations: Refer to Standard VI-23.

Standard VI-25. Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

M.G.L. c. 175, §§ 176A, 187B and 187C; 211 CMR 85.00.

Objective: This Standard is concerned with the timely return of the correctly calculated unearned premium when policies are cancelled.

Pursuant to M.G.L. c. 175, § 176A, premium refunds on cancelled policies must be paid to the policyholder within 30 days of the cancellation and notice of the cancellation must be given. Pursuant to M.G.L. c. 175, § 187B, a company is required to refund the proper amount of unearned premium upon any policy termination. Under M.G.L. c. 175, § 187C, a company canceling a policy of insurance must tender the full return premium due, without deductions, at the time the cancellation notice is served on the insured. Pursuant to 211 CMR 85.00, short rate tables may be required for calculating automobile premium refunds, depending on when the policy is cancelled.

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

- Company policy requires that premium refunds be calculated properly and paid timely.
- The Company calculates unearned premium for homeowners' policies using the pro-rata method.

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: RSM interviewed Company personnel with responsibility for the underwriting process, and selected 50 policies cancelled or non-renewed during the examination period from all companies in the Norfolk and Dedham Group, to test for timely payment of proper refund amounts. Nine of the 50 policies selected were Fitchburg Mutual policies.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's testing that premium refunds are calculated properly and returned timely.

Recommendations: None.

Standard VI-26. Rescissions are not made for non-material misrepresentation.

M.G.L. c. 175, § 187D.

Objective: This Standard is concerned with whether decisions to rescind and to cancel coverage are made appropriately.

M.G.L. c. 175, § 187D also allows the cancellation of any policy for nonpayment of premium.

Controls Assessment: The following key observations were noted in conjunction with the 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 generally does not rescind policies as of their effective date, but instead cancels them as of the date on which it determines that recession is appropriate.

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: RSM interviewed Company personnel with responsibility for the underwriting process, and selected 50 policies cancelled or non-renewed during the examination period from all companies in the Norfolk and Dedham Group for underwriting and rating testing. Nine of the 50 policies selected were Fitchburg Mutual policies.

Transaction Testing Results:

Findings: None.

Observations: Refer to Standard VI-11.

Recommendations: None.

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| Standard VI-27. All policies are correctly coded. |
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Objective: This Standard is concerned with the accuracy of statistical coding.

Controls Assessment: The following key observations were noted in conjunction with the 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 has a process for correcting data coding errors and making subsequent changes, as needed.
- The Company uses a software program for rating homeowners' policies that is designed to ensure it uses consistent and properly filed rates when writing business.
- The Company uses homeowners' rating criteria including, but not limited to: territory, coverage amount and type, occupancy type, protection class, and structure type, as well as discounts for individuals who are covered by both home and automobile policies, seniors, winterizing, new construction, renovated dwelling, security features, safety features, loss free credits, and higher deductibles.

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: RSM interviewed Company personnel with responsibility for the underwriting process, and selected 50 policies issued or renewed during the examination period from all companies in the Norfolk and Dedham Group, to test for proper data coding. Ten of the 50 policies selected were Fitchburg Mutual policies. RSM also reviewed the latest reports from ISO that summarize Company submitted premium data.

Transaction Testing Results:

Findings: None.

Observations: RSM's testing showed that the Company does a reasonably effective job of minimizing premium statistical and data coding errors. RSM also noted that recent ISO reports indicate that it accepted Company submitted premium data with low error rates.

Recommendations: None.

FOR INFORMATION PURPOSES ONLY

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 company with the claimant is within the required time frame.

M.G.L. c. 176D, § 3(9)(b).

Objective: The Standard is concerned with the timeliness of the Company's contact with the claimant.

Pursuant to M.G.L. c. 176D § 3(9)(b), unfair claims settlement practices include failure to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies.

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

All Claims:

- The Company does not have written policies and procedures governing claim handling, instead utilizing a Claims Training Program manual to guide claim processing. The manual is a collection of internal and external memorandums, e-mails, notices, bulletins, facsimiles and any correspondence that addresses claim handling issues. The Company stated it has no actual written policies or procedures that obligate it to handle claims a particular way.
- The Company relies on the experience of claim analysts to properly handle claims, rather than following a process by which it collects and retains specific documentation, as is typically provided for by a company's written claim policies or procedures.
- The Company maintains claims information on imaged files in an automated claim management system.
- The Company establishes a claim file and initiates contact with the claimant within one or two days from the date the loss is reported.
- The Company utilizes adjusters that are company employees, as well as independent adjusters with whom it has contracts. The independent adjusters do not have an employer/employee relationship with the Company.

Personal Automobile Claims:

- The Company uses CAR Performance Time Standards for all Massachusetts personal automobile claims, which include:
 1. Dispatching appraiser to adjudicate claim within two business days of receiving loss report.

2. Completing physical damage appraisal within five days of the appraisal assignment.
 3. Contacting named insured or insured operator, (if not an injured party), within three business days of receiving notice of claim.
 4. Mailing PIP forms within five business days of receiving notice of claim.
 5. Issuing PIP benefit checks within three days of agreeing to pay such benefits.
- The Company's claim handling practices do not distinguish between claims on policies ceded to CAR versus those retained by the Company, or between claims on business produced by voluntary agents versus business produced by ERPs.
 - The Company's claim system automatically identifies for the claim examiner the time standards that are applicable to Massachusetts automobile claims.
 - The Company accepts written claim forms via fax, mail, electronically or from producers.
 - Company claims management can access the claim system to monitor open claims.
 - Company claims management periodically reviews open claims to evaluate settlement issues and to ensure appropriate reserves have been established.

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: RSM interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RSM also selected 50 paid claims, and 50 claims closed without payment during the examination period from all companies in the Norfolk and Dedham Group, for testing. Four of the paid claims and six of the closed without payment claims were Fitchburg Mutual claims. RSM verified the date each selected claim was reported to the Company, and noted whether their initial response was reasonable and timely.

Transaction Testing Results:

Findings: None.

Observations: RSM noted that each closed claim selected for testing was reported according to the Company's practices and procedures, and that their initial contact with the claimant was timely. Based upon the results of the testing, it appears that the Company's processes for reporting and responding to claims are functioning in accordance with their claims handling practices, and are reasonably timely.

Recommendations: None.

Standard VII-2. Timely investigations are conducted.

M.G.L. c. 176D, § 3(9)(c).

Objective: The Standard is concerned with the timeliness of the Company's claim investigations.

Pursuant to M.G.L. c. 176D, § 3(9) (c), unfair claims settlement practices include failure to adopt and implement reasonable standards for the prompt investigation of a claim.

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

All Claims:

- The Company does not have written policies and procedures governing claim handling, instead utilizing a Claims Training Program manual to guide claim processing. The manual is a collection of internal and external memorandums, e-mails, notices, bulletins, facsimiles and correspondence that addresses claim handling issues. The Company stated it has no actual written policies or procedures that obligate it to handle claims a particular way.
- The Company relies on the experience of claim analysts to properly handle claims, rather than following a process by which it collects and retains specific documentation, as is typically provided for in a Company's written claim policies or procedures.
- The Company maintains claim information on imaged files in an automated claim management system.
- Once notified of a claim, the Company establishes a claim file and makes their initial contact with the claimant within one or two business days.
- The Company utilizes adjusters that are company employees, as well as independent adjusters with whom it has contracts. The independent adjusters do not have an employer/employee relationship with the Company.
- The Company's internal audit for the examination period revealed that 24% of adjusters' initial contacts with claimants did not take place within two days of a reported loss. Adjusters were advised of the non-compliance, and future auditing of this area has been scheduled and conducted.
- Company claims management can access the claim system to monitor open claims.
- Other than the CAR time standards it follows for automobile claims, the Company does not appear to maintain written standards for timely claim investigations.

Personal Automobile Claims:

- The Company uses CAR Performance Time Standards for all Massachusetts personal automobile claims, which include:
 1. Dispatching appraiser to adjudicate claim within two business days of receiving loss report.
 2. Completing physical damage appraisal within five days of the appraisal assignment.
 3. Contacting named insured or insured operator, (if not an injured party), within three business days of receiving notice of claim.
 4. Mailing PIP forms within five business days of receiving notice of claim.
 5. Issuing PIP benefit checks within three days of agreeing to pay such benefits.

- The Company's claim handling practices do not distinguish between claims on policies ceded to CAR versus those retained by the Company, or between claims on business produced by voluntary agents versus business produced by ERPs.
- The Company's claim system automatically identifies for the claim examiner the time standards that are applicable to Massachusetts automobile claims.
- Company claims managers review and audit claims processing.

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: RSM interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RSM also selected 50 paid claims, and 50 claims closed without payment during the examination period from all companies in the Norfolk and Dedham Group, to determine whether claims were timely investigated. Four of the paid claims and six of the closed without payment claims were Fitchburg Mutual claims. RSM verified the date of loss for each selected claim, the date it was reported to the Company, and the date it was paid or closed.

Transaction Testing Results:

Findings: None.

Observations: The Company's lack of formal written claim processing time standards, except those CAR standards it follows for Massachusetts automobile claims, creates the possibility of disparate standards used by individual claims personnel.

Recommendations: The Company should create formal written claim handling procedures that include claim processing time standards.

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

M.G.L. c. 176D, § 3(9) (f); M.G.L. c. 175, §§ 28 and 112.

Automobile: M.G.L. c. 175, §§ 113O and 191A; 211 CMR 123.00.

Objective: The Standard is concerned with the timeliness of the Company's claim settlements.

Pursuant to M.G.L. c. 176D § 3(9) (f), unfair claims settlement practices include failing to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear. In addition, if an insurer makes a practice of unduly engaging in litigation, or of unreasonably and unfairly delaying the adjustment or payment of legally valid claims, M.G.L. c. 175, § 28 authorizes the Commissioner to make a special report of such findings to the general court.

M.G.L. c. 175, § 112 states that liability of any company under a motor vehicle liability policy, or under any other policy insuring against liability for loss or damage on account of bodily injury, death, or damage to property, shall become absolute whenever the loss or damage for which the insured is responsible occurs, and the satisfaction by the insured of a final judgment for such loss or damage shall not be a condition precedent to the right or duty of the company to make payment on account of said loss or damage.

M.G.L. c. 175, § 113O states payments to the insured under theft or comprehensive coverage shall not be made until a claim form has been received from the insured, stating that the repair work described in an appraisal made pursuant to regulations promulgated by the automobile damage appraiser licensing board has been completed. Insurers are required to make such payments within seven days of receipt of the above claim form. However, direct payments to insureds without a claim form may be made in accordance with a plan filed and approved by the Commissioner. Any such plan filed with the Commissioner must meet stated standards for selecting approved repair shops, conducting vehicle inspections, guaranteeing quality and workmanship of repairs, and prohibiting discrimination in selection of vehicles for inspection. 211 CMR 123.00 sets forth procedures for the Commissioner's approval of, and minimum requirements for, direct payment and referral repair shop plans.

M.G.L. c. 175, § 191A requires insureds to give timely notice of a property damage loss to the company or its agent. Further, insureds are required to report vehicle theft to the police. The company must pay such claims within 60 days after a proof of loss is filed. The statute also sets forth a process to select a disinterested appraiser in the event the insured and the company fail to agree on the amount of loss.

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

All Claims:

- The Company does not have written policies and procedures governing claim handling, instead utilizing a Claims Training Program manual to guide claim processing of its claims. The manual is a collection of internal and external memorandums, e-mails, notices, bulletins, facsimiles and correspondence that addresses claim handling issues. The Company stated it has no actual written policies or procedures that obligate it to handle claims a particular way.
- The Company relies on the experience of claim analysts to properly handle claims, rather than following a process of collecting and retaining specific documentation, as is typically provided for by a Company's written claim policies or procedures.
- The Company utilizes adjusters that are company employees, as well as independent adjusters with whom it has contracts. The independent adjusters do not have an employer/employee relationship with the Company.
- The Company maintains claim information on imaged files in an automated claim management system.
- The Company establishes a claim file and makes initial contact with the claimant within one or two business days of receiving a notice of claim.
- The Company's internal audit for the examination period revealed that 24% of adjusters' initial contacts with claimants within two days of a reported loss. Adjusters were advised of the non-compliance, and future auditing of this area has been scheduled and conducted.
- Company claims management can access the claim system to monitor open claims.
- The Company does not appear to use formal written claim processing time standards, other than the CAR standards it follows for automobile claims.
- Company claims management performs quarterly audits focusing each claims

examiner's promptness and quality of work.

Personal Automobile Claims:

- The Company follows CAR Performance Time Standards for all Massachusetts personal automobile claims, which include:
 1. Dispatching appraiser to adjudicate claim within two business days of receiving loss report.
 2. Completing physical damage appraisal within five days of the appraisal assignment.
 3. Contacting named insured or insured operator, (if not an injured party), within three business days of receiving notice of claim.
 4. Mailing PIP forms within five business days of receiving notice of claim.
 5. Issuing PIP benefit checks within three days of agreeing to pay such benefits.
- The Company's claim handling practices do not distinguish between claims on policies ceded to CAR versus those retained by the Company, or between claims on business produced by voluntary agents versus business produced by ERPs.
- The Company's claims system automatically identifies for the claim examiner the CAR time standards that are applicable to MA automobile claims.
- The Company's practice is to make payment on non-direct payment plan physical damage claims within seven days of receiving an appraisal (M.G.L. c. 175, § 1130).
- The Company's practice is to make direct payments as required by such plans within five days of completing an appraisal (211 CMR 123.00).
- Company practice is to contact all injured persons, or their legal representatives, within two business days of receiving a claim.
- The CAR audit report dated February 22, 2005, reported that the Company generally complied with the CAR claim time standards.

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: RSM interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RSM also selected 50 paid claims, and 50 claims closed without payment during the examination period from all companies in the Norfolk and Dedham Group, to test whether the Company timely resolved claims. Four of the paid claims and six of the closed without payment claims were Fitchburg Mutual claims. RSM verified the date of loss for each selected claim, the date it was reported to the Company and the date it was paid or closed. RSM also reviewed the CAR audit dated February 22, 2005, which commented on the Company's compliance with the claim time standards.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's testing that the Company's processes for settling claims in a timely manner are functioning in accordance with statutory and regulatory requirements.

Recommendations: RSM recommends that the Company develop written guidelines for non-automobile claims processing, similar to the CAR time standards it uses for personal automobile claims.

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

M.G.L. c. 176D, § 3(9) (b) and (e).

Objective: The Standard is concerned with the timeliness of the Company's response to all claim correspondence.

Pursuant to M.G.L. c. 176D, § 3(9) (b), unfair claims settlement practices include failure to act reasonably promptly upon communications with respect to claims arising under insurance policies. M.G.L. c. 176D, § 3(9) (e) considers failure to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed an unfair trade practice.

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

All Claims:

- The Company does not have written policies and procedures governing claims handling, instead utilizing a Claims Training Program manual to guide claim processing. The manual is a collection of internal and external memorandums, e-mails, notices, bulletins, facsimiles and correspondence that addresses claim handling issues. The Company stated it has no actual written policies or procedures that obligate it to handle claims a particular way.
- The Company relies on the experience of claim analysts to properly handle claims, rather than following a process by which it collects and retains specific documentation, as is typically provided for within a Company's written claim policies or procedures.
- The Company utilizes adjusters that are company employees, as well as independent adjusters with whom it has contracts. The independent adjusters do not have an employer/employee relationship with the Company.
- The Company usually makes initial contact with the claimant within one or two business days of receiving a notice of claim.
- The Company's internal audit for the examination period revealed that 24% of adjusters' initial contact with claimants did not take place within two days of a reported loss. Adjusters were advised of the non-compliance, and future auditing of this area has been scheduled and conducted.

- The Company does not appear to have formal written time standards for claim handling, other than the CAR time standards it follows for personal automobile claims.
- Company claims management performs quarterly audits focusing on each claim examiner's promptness and quality of work.

Personal Automobile Claims:

- The Company uses CAR Performance Time Standards for all Massachusetts personal automobile claims, which include:
 1. Dispatching appraiser to adjudicate claim within two business days of receiving loss report.
 2. Completing physical damage appraisal within five days of receiving the appraisal assignment.
 3. Contacting named insured or insured operator, (if not an injured party), within three business days of receiving notice of claim.
 4. Mailing PIP forms within five business days of receiving notice of claim.
 5. Issuing PIP benefit checks within three days of agreeing to pay such benefits.
- The Company's claim handling practices do not distinguish between claims on policies ceded to CAR versus those retained by the Company, or between claims on business produced by voluntary agents versus business produced by ERPs.
- The Company's claim system identifies for the claim examiner the time standards that are applicable to MA automobile claims.
- The Company's policy is to contact all injured persons, or their legal representatives, within two business days after receipt of a claim.
- The CAR audit report dated February 22, 2005, noted that the Company generally complied with the CAR claim processing time standards.

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: RSM interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RSM also selected 50 paid claims, and 50 claims closed without payment during the examination period from all companies in the Norfolk and Dedham Group, to test whether the Company timely resolved claims. Four of the paid claims and six of the closed without payment claims were Fitchburg Mutual claims.

RSM verified the date of loss for each selected claim, the date it was reported to the Company, and the date it was paid or closed. RSM also reviewed the CAR audits that were dated during the examination period. These audits tracked the dates of loss, assignment, inspection and payment or closure of the claim.

Transaction Testing Results:

Findings: None.

Observations:

- It appears from RSM's testing that the Company's correspondence with claimants, and its denials of coverage comply with the statutory standards for reasonableness.
- Prior to August 27, 2004, the audits of adjusters did not include a "Date of Initial Contact" with a claimant.

Recommendations: None

Standard VII-5. Claim files are adequately documented.

Automobile: M.G.L. c. 175, § 191A

Property/Liability: M.G.L. c. 175, § 102

Objective: The Standard is concerned with the adequacy of information maintained in the Company's claim records related to the decision on the claim.

Automobile Claims:

M.G.L. c. 175, § 191A requires the insured to give timely notice of a property damage loss to the Company or its agent. Further, insureds must also report vehicle thefts to the police. The Company must pay such claims within 60 days after receiving a proof of loss. The statute also sets forth a process for selecting a disinterested third-party appraiser when the insured and the Company disagree on the amount of loss.

Property/Liability Claims:

M.G.L. c. 175, § 102 states the failure of the insured under a fire policy to render a sworn statement shall not preclude recovery if the insured renders a sworn statement after receiving a written request for such sworn statement from the Company. The statute also further defines requirements related to the Company's request for such a sworn statement.

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

All Claims:

- The Company's claim system includes imaged copies of original claim documentation.
- The "Annotations" section of the claim system is used by claim examiners to record the steps in the claim process, but these notes often contain vague and unique acronyms that are not clear or complete.
- The Company does not appear to have formal written time standards for claim handling, other than the CAR time standards the Company follows for personal automobile claims.
- Company claims management performs quarterly audits focusing on each claim

examiner's promptness and quality of work.

- The Company does not maintain written procedures regarding the required content of claim files.

Personal Automobile Claims:

- The Company follows CAR Performance Time Standards for all Massachusetts personal automobile claims.
- The Company's claim handling practices do not distinguish between claims on policies ceded to CAR versus those retained by the Company, or between claims on business produced by voluntary agents versus business produced by ERPs.
- The CAR audit report dated February 22, 2005, noted that the Company generally complied with the CAR claim processing time standards.

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: RSM interviewed Company personnel to understand its claims handling processes, and obtained documentation supporting such processes. RSM also selected 50 paid claims, and 50 claims closed without payment during the examination period from all companies in the Norfolk and Dedham Group, for testing. Four of the paid claims and six of the closed without payment claims were Fitchburg Mutual claims. RSM evaluated each claim for compliance with the Company's claim handling practices, as well as with applicable statutes and regulations.

Transaction Testing Results:

Findings: None.

Observations: RSM's testing appears to show the Company's adequate documentation of claim files.

Recommendations: The Company should develop written claim procedures that specify the required claim file documentation, and include the use of standard language in the "Annotations" section of the claim system.

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

M.G.L. c. 112; M.G.L. c. 175, §§ 22B, 22I, 24D, 96, 97, 97A, 100, 102, 111F, 112, 112C, 113J, 113O, 193K; M.G.L. c. 139, § 3B; M.G.L. c. 176D §§ 3(9)(d) and (f) and 211 CMR 75.00 and 133.00; 212 CMR 2.00.

Objective: The Standard is concerned with whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee. The following standards were included in the testing under this Standard:

Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Moreover, M.G.L. c. 176D, § 3(9)(f) considers failure to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear as an unfair trade practice.

M.G.L. c. 175, § 22I allows companies to retain unpaid premium due from claim settlements. Claim payments must also comply with M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support. Medical reports must be furnished to injured persons or their attorney pursuant to M.G.L. c. 175, § 111F. In addition, M.G.L. c. 175, § 112C requires companies to reveal to an injured party making a claim against an insured, the limits of said insured's liability coverage upon receiving a request in writing for such information.

M.G.L. c. 175, § 112 states that liability of any company under a motor vehicle liability policy, or under any other policy insuring against liability for loss or damage on account of bodily injury, death, or damage to property, shall become absolute whenever the loss or damage for which the insured is responsible occurs, and the satisfaction by the insured of a final judgment for such loss or damage shall not be a condition precedent to the right or duty of the company to make payment on account of said loss or damage.

M.G.L. c. 175, § 193K prohibits discrimination by companies in the reimbursement of proper expenses paid to certain professions and occupations, such as physicians or chiropractors, licensed in Massachusetts pursuant to M.G.L. c. 112.

Automobile Claims:

Medical reports must be furnished to injured persons or their attorney pursuant to M.G.L. c. 175, § 113J. M.G.L. c. 175, § 113O prohibits payments by an insurer for theft coverage until the insured has received notice from the appropriate police authority that a statement has been properly filed. Companies are also required to report the theft or misappropriation of a motor vehicle to a central organization engaged in motor vehicle loss prevention. 211 CMR 75.00 designates the National Insurance Crime Bureau as the central organization to be used for this purpose.

211 CMR 133.00 sets forth uniform standards for repair of damaged motor vehicles, but only applies when an insurer pays the cost of repairs. The regulation addresses how damage and repair costs are determined, requires that like kind repair parts be used, and sets forth methods for determining vehicle values. It further allows vehicles deemed a total loss to be repaired subject to certain requirements and limits. Lastly, the regulation requires an insurer to have licensed appraisers conduct "intensified" appraisals of at least 25% of all damaged vehicles for which the damage is less than \$1,000 and 75% of all damaged vehicles for which the appraised cost of repair is more than \$4,000 for collision, limited collision, and comprehensive claims. The "intensified" appraisal is to determine if the repairs were made in accordance with the initial appraisal and any supplemental appraisals.

Property/Liability Claims:

M.G.L. c. 175, § 96 limits the Company's liability to the actual cash value of the insured property when a building is totally destroyed by fire. In addition, if the insured has paid premium on a coverage amount in excess of said actual cash value, the statute states that the insured shall be reimbursed the proportionate excess of premiums paid with interest at six percent per year.

M.G.L. c. 175, § 97 requires the Company to pay fire losses to mortgagees of property upon satisfactory proof of rights and title in accordance with the insurance policy. Further, when a claim

for loss or damage to property exceeds five thousand dollars, M.G.L. c. 175 § 97A requires the Company to ensure the claimant submits to them a certificate of municipal liens from the collector of taxes for the city or town wherein such property is located. The Company shall pay to the city or town any amounts shown on the certificate of municipal liens as outstanding on the date of loss. The provisions of M.G.L. c. 175 § 97A do not apply to certain owner-occupied dwellings.

M.G.L. c. 139, § 3B prohibits the Company from paying claims covering loss or damage to a building or other structure (defined as “dangerous” pursuant to M.G.L. c. 143, § 6) in excess of one thousand dollars without having given 10 days written notice to the building commissioner or inspector of buildings appointed pursuant to the state building code, to the fire department, and to the board of health, in the city or town where the property located.

M.G.L. c. 175, § 100 sets forth standards for selecting a referee if the parties to a claim fail to agree on the amount of loss. In addition, M.G.L. c. 175 § 102 states the failure of the insured under a fire policy to render a sworn statement shall not preclude recovery if the insured renders a sworn statement after receiving a written request for such sworn statement from the Company. M.G.L. c. 175, § 102 further defines requirements related to such a request for a sworn statement made by the Company.

The purpose of 211 CMR 133.00 is to promote the public welfare and safety by establishing fair and uniform standards for the repair of damaged motor vehicles. 211 CMR 133.00 is promulgated to be read in conjunction with 212 CMR 2.00, The Appraisal and Repair of Damaged Motor Vehicles, as promulgated by the Automobile Damage Appraiser Licensing Board. 211 CMR 133.00 shall apply to all motor vehicles insured in the Commonwealth but only when an insurer pays the cost of repairs.

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

All Claims:

- The Company does not have written policies and procedures governing claim handling, instead utilizing a Claims Training Program manual to guide claim processing. The manual is a collection of internal and external memorandums, e-mails, notices, bulletins, facsimiles and correspondence that addresses claim handling issues. The Company stated it has no actual written policies or procedures that obligate it to handle claims a particular way.
- The Company relies on the experience of claim analysts to properly handle claims, rather than following a process by which it collects and retains specific documentation, as is typically provided for by a Company’s written claim policies or procedures.
- The Company utilizes adjusters that are company employees, as well as independent adjusters with whom it has contracts. The independent adjusters do not have an employer/employee relationship with the Company.
- The Company maintains claim information on imaged files in an automated claim management system.
- Company claims management conducts quarterly audits focusing on each claims examiner’s promptness and quality of work.

Personal Automobile Claims:

- The Company uses CAR Performance Time Standards for all Massachusetts personal automobile claims, which include:
 1. Dispatching appraiser to adjudicate claim within two business days of receiving loss report.
 2. Completing physical damage appraisal within five days of receiving the appraisal assignment.
 3. Contacting named insured or insured operator, (if not an injured party), within three business days of receiving notice of claim.
 4. Mailing PIP forms within five business days of receiving notice of claim.
 5. Issuing PIP benefit checks within three days of agreeing to pay such benefits.
- The Company's claim handling practices do not distinguish between claims on policies ceded to CAR versus those retained by the Company, or between claims on business produced by voluntary agents versus business produced by ERPs.
- The Company's claim system automatically identifies for the claim examiner the time standards that are applicable to MA automobile claims.
- The Company's practice is to make non-direct payment plan physical damage claim payments within seven days of receiving an appraisal
- The Company's practice is to make direct payment plan claim payments within five days of completing a written appraisal.
- Company practice is to contact all injured persons or their legal representatives within two business days of receiving a claim.
- The CAR audit report dated February 22, 2005, noted that the Company generally complied with the CAR claim payment time standards.
- The Company maintains all claims files on a mainframe based automated claims management system.
- All claim investigations are handled by adjusters up to a defined dollar limit to their settlement authority that is determined by his or her experience.
- The Company has procedures to comply with the requirement to furnish medical reports, and/or the amount of the insured's policy limits, upon receiving requests for such information from a claimant or their attorney.
- The Company has procedures to comply with the requirement to intercept non-recurring payments for past due child support for certain defined claim payments.
- The Company has procedures to comply with the requirement to verify that a police report was properly filed prior to making payments for theft coverage. Further, the Company has procedures to report such thefts to the National Insurance Crime Bureau (NICB).
- Company policy prohibits discrimination in the reimbursement of proper expenses paid to certain professions and occupations.
- Company claims management can access the claims system to monitor open claims.
- Company claims management performs periodic claim reviews to examine the

Company's compliance with its claim practices.

- Company claims management periodically reviews open claims to evaluate settlement issues and ensure that appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and claim processing time.

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: RSM interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RSM also selected 50 paid claims, and 50 claims closed without payment during the examination period from all companies in the Norfolk and Dedham Group, to evaluate the Company's compliance with its claim handling policies and procedures. Four of the paid claims and six of the closed without payment claims were Fitchburg Mutual claims. Based upon an evaluation of the internal quality control department and limited re-testing of the department's audit work, RSM also utilized the testing results from the internal audits to complement their transaction testing procedures.

Transaction Testing Results:

Findings: None.

Observations:

- The Company has the required procedures in place for providing claimants with a list of registered repair shops, as well as those repair shops which qualify as referral repair shops. According to the Company's Claim Training Program manual, the Company performs the required re-inspections of repaired vehicles following completion of repairs.
- The lack of written claim handling procedures makes it difficult to determine whether the Company consistently complies with the applicable laws and regulations.
- RSM's testing appears to show that the Company's processes for handling claims in accordance with policy provisions, statutory and regulatory requirements are functioning in accordance with their policies and procedures.

Recommendations: The Company should develop written claim procedures to require that documentation of its compliance with specific Massachusetts laws and regulations be retained in the appropriate files.

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| Standard VII-7. The company uses the reservation of rights and excess of loss letters, where appropriate. |
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Objective: The Standard is concerned with the Company's usage 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.

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

- The Company does not have written policies and procedures governing claim handling, instead utilizing a Claims Training Program manual to guide claim processing. The manual is a collection of internal and external memorandums, e-mails, notices, bulletins, facsimiles and correspondence that addresses claim handling issues. The Company stated it has no actual written policies or procedures that obligate it to handle claims a particular way.
- The Company relies on the experience of claim analysts to properly handle claims, rather than following a process by which it collects and retains specific documentation, as is typically provided for by a Company's written claim handling policies or procedures.
- The Company utilizes adjusters that are company employees, as well as independent adjusters with whom it has contracts. The independent adjusters do not have an employer/employee relationship with the Company.
- The Claims Training Program manual directs the claim examiner to review each claim file for the "PIP Threshold Letter."
- RSM noted in their review of complaints, which are maintained in the claim files, that the Company's claim examiners and independent appraisers appropriately used the reservation of rights and excess of loss terminology in their claim payment letters..
- Company claims management performs quarterly audits focusing on each claim examiner's promptness and quality of work.

Transaction Testing Procedure: RSM interviewed Company personnel to understand its claims handling processes, and obtained documentation supporting such processes. RSM also selected 50 paid claims, and 50 claims closed without payment during the examination period from all companies in the Norfolk and Dedham Group, for testing. Four of the paid claims and six of the closed without payment claims were Fitchburg Mutual claims.

Transaction Testing Results:

Findings: None.

Observations: It appears from RSM's review of claim files that the Company uses appropriate language regarding reservation of rights and excess losses in its claim payment letters.

Recommendations: The Company should develop written claims procedures that include information regarding the use of reservation of rights and excess loss letters.

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| Standard VII-8. Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner. |
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Objective: The Standard is concerned with the Company's timely refund of deductibles from subrogation proceeds.

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

- The Company does not have written policies and procedures governing claim handling, instead utilizing a Claims Training Program manual to guide claim processing. The manual is a collection of internal and external memorandums, e-mails, notices, bulletins, facsimiles and correspondence that addresses claim handling issues. The Company stated it has no actual written policies or procedures that obligate it to handle claims a particular way. Nonetheless, the manual includes discussion of subrogation claims.
- The Company relies on the experience of claim analysts to properly handle claims, rather than following a process by which it collects and retains specific documentation, as is typically provided for by a Company's written claim policies or procedures.
- The Company utilizes adjusters that are company employees, as well as independent adjusters with whom it has contracts. The independent adjusters do not have an employer/employee relationship with the Company.
- Company claims management performs quarterly audits focusing on each claim examiners promptness and quality of work.
- The Company follows CAR Performance Time Standards for all MA personal automobile claims.
- The Company's claim handling practices do not distinguish between claims on policies ceded to CAR versus those retained by the Company, or between claims on business produced by voluntary agents versus business produced by ERPs.
- The CAR performance time standards require that the deductible amount be returned to the insured upon subrogation recovery.
- The CAR audit report dated February 22, 2005 noted that the Company generally complied with the CAR time standards.
- The Company has a subrogation unit to handle all subrogation claims.
- When liability or coverage issues are undisputed with another carrier, the Company typically waives the deductible to its insured.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable.

Transaction Testing Procedure: RSM interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RSM also selected 50 claims paid during the examination period from all companies in the Norfolk and Dedham Group for testing. Four of these paid claims were Fitchburg Mutual claims. RSM verified the date each selected paid claim was reported to the Company and the date it was closed or paid.

Transaction Testing Results:

Findings: None.

Observations: RSM noted that subrogation recoveries were timely and accurate according to the Company's practices, and that claim file documentation was adequate. It appears

from RSM's testing that the Company's processes for making subrogation recoveries and appropriate reimbursement to insureds are functioning in accordance with their practices.

Recommendations: None.

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| Standard VII-9. Company claim forms are appropriate for the type of product. |
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Objective: The Standard is concerned with the Company's usage of claim forms that are proper for the type of product.

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

- The Company does not have written policies and procedures governing claim handling, instead utilizing a Claims Training Program manual to guide claim processing. The manual is a collection of internal and external memorandums, e-mails, notices, bulletins, facsimiles and correspondence that addresses claim handling issues. The Company stated it has no actual written policies or procedures that obligate it to handle claims a particular way.
- Company claims management performs quarterly audits focusing on each claim examiners promptness and quality of work.
- The Company uses CAR Performance Standards for all Massachusetts personal automobile claims.
- The Company's claim handling practices do not distinguish between claims on policies ceded to CAR versus those retained by the Company, or between claims on business produced by voluntary agents versus business produced by ERPs.
- The CAR audit dated February 22, 2005 reported that the Company generally complied with the CAR time standards.
- The Company's practice is to use claim forms that are appropriate for the various lines of business.

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: RSM interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RSM also selected 50 paid claims, and 50 claims closed without payment during the examination period from all companies in the Norfolk and Dedham Group, for testing. Four of the paid claims and six of the closed without payment claims were Fitchburg Mutual claims.

Transaction Testing Results:

Findings: None.

Observations: The Company has procedures in place for using appropriate claims forms, and the testing indicates that it follows these procedures.

Recommendations: None.

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| Standard VII-10. Claim files are reserved in accordance with the company's established procedures. |
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Objective: The Standard is concerned with the adequacy of information maintained in the Company's claim records related to its reserving practices.

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

- The Company does not have written policies and procedures governing claim handling, instead utilizing a Claims Training Program manual to guide claim processing. The manual is a collection of internal and external memorandums, e-mails, notices, bulletins, facsimiles and correspondence that addresses claim handling issues. The Company stated it has no actual written policies or procedures that obligate it to handle claims a particular way.
- The Company relies on the experience of claim analysts to properly handle claims, rather than following a process of collecting and retaining specific documentation, as is typically provided for within a Company's written claim policies or procedures.
- The Company utilizes adjusters that are company employees, as well as independent adjusters with whom it has contracts. The independent adjusters do not have an employer/employee relationship with the Company.
- Company claims management performs quarterly audits focusing on each claim examiner's promptness and quality of work.
- The Company follows CAR Performance Time Standards for all Massachusetts personal automobile claims.
- The Company's claim handling practices do not distinguish between claims on policies ceded to CAR versus those retained by the Company, or between claims on business produced by voluntary agents versus business from ERPs.
- The CAR audit report dated February 22, 2005, noted that the Company generally complied with the CAR standards for timely and reasonable setting of reserves.
- Although the Company does not have written policies and procedures addressing claim reserves, their Claims Training Program manual sets out the workflow and data entry procedures used to establish a reserve on any particular line of business or coverage combination.
- The initial reserve amount is subjectively determined by claim examiners based on factors including his or her experience, description of loss, policy type and average paid claim.
- Management reviews reports of new claims and opening reserves on a daily basis. The claim files are pended awaiting the adjuster's report, which will update the file reserves based upon a detailed and thorough inspection of the damage.
- The "Claim File Checklist" in the Claims Training Program manual requires claim examiners to calculate reserves using the following elements for analysis:
 - a. All features where payment is anticipated

- b. Applicability of insured deductible
- c. Liability adverse to the other party
- d. Damage to Insured's/Claimant's vehicle – repairable or total loss
- The reserve amount is indicated in each claim file on the System.

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

Transaction Testing Procedure: RSM interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RSM also selected 50 paid claims, and 50 claims closed without payment during the examination period from all companies in the Norfolk and Dedham Group, for testing. Four of the paid claims and six of the closed without payment claims were Fitchburg Mutual claims.

Transaction Testing Results:

Findings: None.

Observations: Each claim file tested indicated a sufficient reserve amount.

Recommendations: The Company should develop written claims procedures that specify its methodology for calculating reserves and for establishing minimum amounts for any particular line of business or coverage combination, to ensure consistency in claims reserving.

Standard VII-11. Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.

M.G.L. c. 176D, §§ 3(9)(d), 3(9)(h) and 3(9)(n).

Objective: The Standard is concerned with the adequacy of the Company's decision-making and documentation of denied and closed-without-payment claims.

Pursuant to M.G.L. c. 176D, § 3(9) (d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Pursuant to M.G.L. c. 176D, § 3(9)(h), unfair claims settlement practices include attempting to settle a claim for an amount less than a reasonable person would have believed he or she was entitled to receive. M.G.L. c. 176D, § 3(9) (n) considers failure to provide a reasonable and prompt explanation of the basis for denial of a claim as an unfair claims settlement practice.

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

- The Company does not have written policies and procedures governing claim handling, instead utilizing a Claims Training Program manual to guide claim processing. The manual is a collection of internal and external memorandums, e-mails, notices, bulletins, facsimiles and correspondence that addresses claim handling issues. The Company stated it has no actual written policies or procedures that obligate it to handle claims a particular way.

- Company claims management performs quarterly audits focusing on each claim examiners promptness and quality of work.
- The Company uses CAR Performance Standards for all Massachusetts' personal automobile claims.
- The Company's claim handling practices do not distinguish between claims on policies ceded to CAR versus those retained by the Company, or between claims on business produced by voluntary agents versus business produced by ERPs.
- The CAR audit report dated February 22, 2005 noted that the Company generally complied with the CAR time standards.
- The CAR Performance Standards require that "unwarranted or fraudulent claims should be resisted or denied."
- The Company provides written notification of claim denials that include appropriate references to applicable policy provisions.
- When the Company is notified of an automobile loss involving a claimant's vehicle where liability is questionable or undetermined, the Company will send a contact letter to the claimant to allow them an opportunity to file a claim.
- After the Company sends a contact letter to all potential claimants involved in an automobile loss, it may leave the claim file open for up to one year. The Company will close the file without payment if no response is received or claim is filed by the other claimant.

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: RSM interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RSM also selected 50 claims closed without payment during the examination period from all companies in the Norfolk and Dedham Group, to evaluate the Company's compliance with its claim handling policies and procedures. Six of these closed without payment claims were Fitchburg Mutual claims. RSM verified the date each selected claim was reported to the Company, and the date it was closed or paid.

Transaction Testing Results:

Findings: None.

Observations:

- The Company's claim denials appeared reasonable and timely.
- The Company's lack of written claim procedures results in automobile claims that are often not closed for up to one year after the Company receives the claim. In these cases, the Company sends a contact letter allowing claimants the opportunity to file a claim. If no response is received by the Company after an extended time period, the Company will close the claim without payment. RSM observed that the Company took anywhere from 7 days to 1,110 days from the date of loss to close the tested claims, depending upon the claim examiner and the documentation needed to make a

final claim decision.

Recommendations: The Company should consider documenting its claim denial procedures to ensure that the denial process is consistently handled by each examiner.

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| Standard VII-12. Cancelled benefit checks and drafts reflect appropriate claim handling practices. |
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Objective: The Standard is concerned with the Company's procedures for issuing claim checks as it relates to appropriate claim handling practices.

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

- The Company does not have written policies and procedures governing claim handling, instead utilizing a Claims Training Program manual to guide claim processing. The manual is a collection of internal and external memorandums, e-mails, notices, bulletins, facsimiles and correspondence that addresses claim handling issues. The Company stated it has no actual written policies or procedures that obligate it to handle claims a particular way.
- Company claims management performs quarterly audits focusing on each claim examiner's promptness and quality of work.
- The Company follows CAR claim payment procedures for all Massachusetts personal automobile claims.
- The Company's claim handling practices do not distinguish between claims on policies ceded to CAR versus those retained by the Company, or between claims on business produced by voluntary agents versus business from ERPs.
- The CAR audit reported dated February 22, 2005 noted that the Company generally complied with these standards.
- CAR requires that claim payment checks be issued within 10 days of an "agreement to pay."
- Claim investigations are handled by claim examiners and adjustors up to a defined dollar limit to their settlement authority.

Transaction Testing Procedure: RSM interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RSM also selected 50 claims paid during the examination period from all companies in the Norfolk and Dedham Group, to evaluate the Company's compliance with its claim payment policies and procedures. Four of the paid claims were Fitchburg Mutual claims. RSM tested the cancelled checks issued for the four paid claims to determine whether the payee, date, and the amount of each check matched the information on the Company's claim system.

Transaction Testing Results:

Findings: None.

Observations: In all the paid claims tested, the check amount, the payee and the check date matched the information on the Company's claim system.

Recommendations: The Company should develop claim procedures that include required documentation for claim payment checks to ensure that all examiners consistently handle claim payments and denials.

Standard VII-13. 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.

M.G.L. c. 176D, §§ 3(9)(g) and 3(9)(h), M.G.L. c. 175, § 28.

Objective: The Standard is concerned with whether the Company's claim handling practices force claimants to institute litigation to obtain claim payment, or to accept a settlement that is substantially less than what the policy contract provides for.

Pursuant to M.G.L. c. 176D, §§ 3(9)(g) and 3(9)(h), unfair claims settlement practices include (a) compelling insureds to institute litigation to recover amounts due under an insurance policy by offering substantially less than the amounts ultimately recovered in actions brought by such insureds, and (b) attempting to settle a claim for less than the amount to which a reasonable person would have believed he or she was entitled by reference to written or printed advertising material accompanying or made part of an application. Moreover, if an insurer makes a practice of unduly engaging in litigation or of unreasonably and unfairly delaying the adjustment or payment of legally valid claims, M.G. L. c. 175, § 28 authorizes the Commissioner to make a special report of findings to the general court.

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

- The Company does not have written policies and procedures governing claim handling, instead utilizing a Claims Training Program manual to guide claim processing. The manual is a collection of internal and external memorandums, e-mails, notices, bulletins, facsimiles and any correspondence that addresses claim handling issues. The Company stated it has no actual written policies or procedures that obligate it to handle claims a particular way.
- Company claims management performs quarterly audits focusing on each claim examiner's promptness and quality of work.
- The Company follows CAR claims handling procedures for all Massachusetts personal automobile claims.
- The Company's claim handling practices do not distinguish between claims on policies ceded to CAR versus those retained by the Company, or between claims on business produced by voluntary agents versus business produced by ERPs.
- The CAR audit report dated February 22, 2005 noted that the Company generally complied with the CAR claim practice standards.
- The Company's practice is to contact all injured persons or their legal representatives within two business days of receiving a claim.

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: RSM interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RSM also selected 50 paid claims, and 50 claims closed without payment during the examination period from all companies in the Norfolk and Dedham Group, for testing. Four of the paid claims and six of the closed without payment claims were Fitchburg Mutual claims. RSM verified the date each selected claim was reported to the Company, the amount of the claim and the date it was closed or paid. In addition, the Company's practice is to identify as a complaint those claims which are referred to defense counsel. RSM also reviewed a sample of these "complaints" for compliance with this Standard.

Transaction Testing Results:

Findings: None.

Observations: RSM noted that complete records of litigated claims are kept on the Company's claim system. There was no indication in RSM's testing that the Company unreasonably denies claims or compels claimants to initiate litigation.

Recommendations: The Company should develop written claim procedures for consistent handling of claim payments and denials.

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| Standard VII-14. Loss statistical coding is complete and accurate. |
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Objective: The Standard is concerned with the Company's complete and accurate reporting of loss statistical data to appropriate rating bureaus.

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

- Company claims managers perform quarterly audits focusing on each claim examiner's promptness and quality of work.
- The Company follows CAR Performance Standards for all Massachusetts personal automobile claims.
- The CAR audit report dated February 22, 2005 noted that the Company generally complied with the CAR reporting standards.

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: RSM interviewed Company claim executives to understand the reporting processes, and obtained available documentation supporting these processes. RSM also reviewed the latest CAR audit reports which discuss the Company's loss statistical data reporting compliance.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to report data to various organizations as required.

Recommendations: The Company should develop written claim procedures including the various requirements for reporting loss statistical data.

FOR INFORMATION PURPOSES ONLY

SUMMARY

Based upon the procedures performed in this comprehensive examination, RSM 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 *Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. RSM noted a required action related to producer licensing, and made recommendations to address various concerns related to company operations/management, complaint handling, marketing and sales and claims.

FOR INFORMATION PURPOSES ONLY

ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with RSM McGladrey, 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 *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
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