



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

Report on the Comprehensive Market Conduct Examination of

*The Hanover Insurance Company
Citizens Insurance Company of America
Massachusetts Bay Insurance Company*

Worcester, Massachusetts

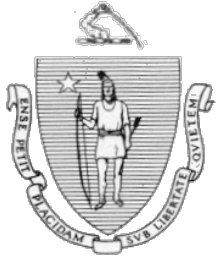
For the Period January 1, 2011 through December 31, 2011

NAIC COMPANY CODE: 22292, 31534, 22306

EMPLOYER ID NUMBER: 13-5129825, 38-0421730, 04-2217600

TABLE OF CONTENTS

	PAGE
SALUTATION	3
SCOPE OF EXAMINATION	4
EXAMINATION APPROACH	4
EXECUTIVE SUMMARY	5
COMPANY BACKGROUND	10
COMPANY OPERATIONS/MANAGEMENT	11
COMPLAINT HANDLING	23
MARKETING AND SALES	27
PRODUCER LICENSING	30
POLICYHOLDER SERVICE	34
UNDERWRITING AND RATING	40
CLAIMS	56
SUMMARY	67
ACKNOWLEDGMENT	68
APPENDIX A – PROPERTY CASUALTY EXAMINATION STANDARDS AND MASSACHUSETTS AUTHORITIES	



COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

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COMMISSIONER OF INSURANCE

March 25, 2014

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

Dear Commissioner Murphy:

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

THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

at their home offices located at:

440 Lincoln Street
Worcester, Massachusetts 01653

The following report thereon is respectfully submitted.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination (“examination”) of The Hanover Insurance Company (“HIC”), Citizens Insurance Company of America (“CIC”), and Massachusetts Bay Insurance Company (“MBIC”), (collectively, the “Company”) for the period January 1, 2011 to December 31, 2011, with primary focus on personal lines operations. The examination was called pursuant to authority in Massachusetts General Laws Chapter (“M.G.L. c.”) 175, § 4. The examination also evaluated the Company’s compliance with requirements from previous Regulatory Settlement Agreements between the Company and the Division. The examination was conducted under the direction, management and control of the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC (“RNA”) were engaged to complete the examination.

EXAMINATION APPROACH

A tailored examination approach was developed using the guidance and standards of the *2011 NAIC Market Regulation Handbook*, (“the Handbook”) the examination standards of the Division, the Commonwealth of Massachusetts’ insurance laws, regulations and bulletins, and selected Federal laws and regulations. All procedures were performed under the supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed in the domiciliary regulator’s financial examination of the Company. For those objectives, RNA and the market conduct examination staff relied on procedures performed by the domiciliary regulator’s financial examination staff to the extent deemed appropriate to ensure that the market conduct objective was adequately addressed. The operational areas that were reviewed under this examination include company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating and claims. This examination report describes the procedures performed in these operational areas and the results of those procedures.

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

The internal control assessment is comprised of three significant steps: (a) identifying controls; (b) determining whether the control has been reasonably designed to accomplish its intended purpose in mitigating the risk; and (c) verifying that the control is functioning as intended (i.e., review or testing of the controls). The effectiveness of the internal controls was considered when determining sample sizes for transaction testing. The form of this examination report is “Report by Test,” as described in Chapter 15, Section A of the Handbook.

The Division considers a “finding” to be a violation of Massachusetts insurance laws, regulations or bulletins. An “observation” along with a recommendation is considered a departure from an industry best practice. The Division recommends that Company management evaluate any “finding” or “observation” for applicability to other jurisdictions. All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify unacceptable or non-compliant business practices does not constitute acceptance of such practices. When applicable, corrective actions should be taken in all jurisdictions. The Company shall report to the Division any such corrective actions taken.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

EXECUTIVE SUMMARY

This summary of the examination of the Company is intended to provide a high-level overview of the examination results highlighting where recommendations were made or required actions were noted. The body of the report provides details of the scope of the examination, the examination approach, internal controls for each standard, review and test procedures conducted, findings and observations, recommendations and required actions, and if applicable, subsequent Company actions. The body of the report also discusses the Company's compliance with requirements from previous Regulatory Settlement Agreements between the Company and the Division. Company managerial and supervisory personnel from each operational area should review the examination report for results relating to their specific area.

The following is a summary of all findings and observations, along with related recommendations and required actions and, if applicable, subsequent Company actions noted in this examination report. All Massachusetts laws, regulations and bulletins cited in this report may be viewed on the Division's website at www.mass.gov/doi.

The examination resulted in no recommendations or required actions with regard to marketing and sales or producer licensing. The examination indicated that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in the examination. Further, the tested Company practices appear to meet industry best practices in these areas.

SECTION I-COMPANY OPERATIONS/MANAGEMENT

STANDARD I-18

Findings: None.

Observations: Based upon RNA's review of the Company's underwriting and claims processing data submitted in 2011, no unusual results and concerns were noted, and the statutorily-required data reported to the Division appears to be reasonably complete and accurate. RNA's review of the Company's 2011 MCAS Massachusetts data indicated no unusual underwriting or claims data, although we noted that 12 private passenger automobile and three homeowner insured-requested cancellations were improperly classified in MCAS as non-renewals.

Recommendations: The Company should adopt new transaction coding policies and procedures to ensure that MCAS-reported data is accurate and complete. Also, the Company should adopt new procedures for the independent review of MCAS filings prior to filing with the NAIC, to ensure that the data is accurate, complete and properly reconciled to underlying data contained in the Company's policy administration, underwriting and claims systems.

Subsequent Company Actions: The Company states that it has adopted new procedures such that MCAS data is separately and independently developed from two teams and compared for any unusual results and inconsistencies. Also, the Company has re-filed its 2011 MCAS with the NAIC.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

SECTION II-COMPLAINT HANDLING

STANDARD II-1

Findings: One regulatory complaint was unintentionally excluded from the Company's complaint register in violation of M.G.L. c. 176D, § 3(10).

Observations: RNA noted that the Company's complaint registers included all statutorily-required database elements.

Required Actions: The Company shall adopt new supervisory and monitoring control procedures to ensure that the Company's complaint register is accurate and complete.

Subsequent Company Actions: The Company states that it has adopted a quarterly procedure to reconcile complaint file information to the complaint register to ensure that the register is accurate and complete.

SECTION V-POLICYHOLDER SERVICE

STANDARD V-2

Findings: One private passenger automobile insured-requested cancellation was incorrectly processed on a short rate return basis rather than a pro-rata return basis by an agent in violation of M.G.L. c. 175, § 187B and the Company's rate filings with the Division.

Observations: Based upon testing, other than as noted above, the insured-requested cancellations were processed accurately and timely.

Required Actions: The Company shall make the appropriate premium refund to the insured. Also, the Company shall provide guidance to agents about how to properly process premium refunds, and the Company shall revise its control procedures to ensure that the agents properly calculate such premium refunds. Further, the Company shall complete a review of recent premium refund activity to ensure that other similar errors have not occurred, or if they have occurred, that they have been corrected with proper premium refunds made to consumers. Finally, the Company shall complete an independent monitoring procedure to ensure that the control procedures are properly implemented.

Subsequent Company Actions: The Company made the premium refund to the insured.

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-1

Findings: RNA testing indicated that four of the 20 vacated surcharges by the Board of Appeal, the surcharges were not properly and timely reversed in accordance with M.G.L. c. 175E, § 7A and Division Bulletin 2010-11. At the request of the Division, the Company confirmed through its review of Board of Appeal vacated at-fault accident determinations for the period 2009-2012 that 58 additional vacated surcharges were not properly reversed in accordance with M.G.L. c. 175E, § 7A and Division Bulletin 2010-11.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Observations: Based upon testing, except as noted above, the Company appears to calculate policy premiums, discounts, at-fault accident surcharges and vacated surcharges in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. Further, RNA testing of vacated surcharges indicates that the Company timely reports changes in at-fault accident determinations to consumer reporting agencies. Finally, RNA testing noted that for two motorcycle policies, average retail value information necessary to calculate premium rates was not retained in the underwriting files, although the valuations appeared reasonable.

Required Actions: The Company shall provide premium refunds and 6% annual interest to consumers for the 62 vacated at-fault accident determinations not properly reversed. In addition, the Company shall enhance its controls and procedures to ensure that premium refunds for vacated surcharges by the Board of Appeal are timely and properly processed. The Company shall also provide training or guidance to staff about these enhanced controls and procedures. Further, the Company shall complete an independent assessment of the effectiveness of the new vacated surcharge reversal procedures by September 30, 2014, or another agreed upon date, and report the results of the assessment to the Division. Finally, the Company shall adopt a new procedure to complete an annual review and comparison of their vacated surcharge data with data directly obtained from the Board of Appeal. The review shall include testing to obtain reasonable assurance that the vacated surcharges were accurately and timely reversed with the proper premium credit applied.

Recommendations: The Company should adopt new control procedures and provide training/guidance to staff to ensure that average retail values for motorcycle policies are documented and supported in the underwriting files for each policy renewal year.

Subsequent Company Actions: The Company provided premium refunds and 6% annual interest for the 62 vacated at-fault accident determinations noted above. Further, the Company identified the systems issue that led to the vacated surcharge processing errors, corrected that problem on August 10, 2012 and reported that resolution to the Division as noted in the required action above. Finally, the Company states that it will complete the annual vacated surcharge review as noted in the required action above.

STANDARD VI-7

Findings: None.

Observations: Based upon testing and review of the information available, the Company's private passenger automobile declinations were not unfairly discriminatory, and the agents provided oral declination notices to applicants. For the homeowners declinations selected, the Company had no specific information on each of the declinations, so it was unclear what the transactions actually represented, or whether any required declination notices should have been, or were provided to applicants.

Recommendations: The Company should review its homeowners declination procedures to ensure that any necessary data is captured and retained, and to allow the Company to verify that any applicable declination notices have been provided to applicants. As a result of the review, the Company should adopt any necessary changes to its policies and procedures for the submission, collection and review of the declination data to ensure that any applicable declination notices have been provided to applicants.

STANDARD VI-8

Findings: None.

Observations: Based on testing, for three private passenger automobile non-renewal notices, the specific reasons stated that the producers were no longer affiliated with the Company, which is correct, but an additional reason for each was that each had claims during the past three years. For the company-initiated cancellations and the remaining 52 non-renewals, the Company provided timely and adequate notice to the policyholders for company-initiated cancellations and non-renewals with the specific reasons properly disclosed. The specific reasons were reasonable and in compliance with statutory and regulatory requirements.

Recommendations: The Company should provide guidance to staff to ensure that the reasons on non-renewal notices are adequately specific and complete.

STANDARD VI-26

Findings: None.

Observations: Based upon testing, application information was generally properly submitted, and policy files adequately supported the Company's decisions. No evidence of complaints related to unusual underwriting decisions was noted. The Company does not conduct field or desk audits of independent agents to ensure that the agents are obtaining signed and dated applications and other required underwriting information.

Recommendations: The Company should adopt procedures to conduct field or desk audits of independent agents to ensure that the agents are retaining signed applications and other required underwriting information.

SECTION VII-CLAIMS

STANDARD VII-4

Findings: None.

Observations: RNA noted that for each of the tested claims, the Company timely responded to claim correspondence. Based upon testing, it appears that the Company's processes for timely responding to claims correspondence are functioning in accordance with its policies, procedures and statutory requirements. The Company also addresses negative comments received on post-claim payment surveys, but the comments are not included on the Company's complaint logs.

Recommendations: The Company should include any written negative comments received on post-claim payment surveys on the Company's complaint logs.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

STANDARD VII-6

Findings: Testing indicated that 17 tested homeowners property damage claims over \$1,000 were not properly and timely reported to local building and health authorities to disclose a potentially dangerous condition in accordance with M.G.L. c. 139, § 3B.

Observations: RNA noted each of the tested claims was handled according to the Company's policies and procedures, except as noted above. Based upon testing, it appears that the Company's processes for handling claims are generally functioning in accordance with its policies, procedures and statutory requirements. Finally, upon evaluation of 26 claims-related complaints, the related claims appeared to be properly handled.

Required Actions: The Company shall adopt new policies and control procedures to address the requirements of M.G.L. c. 139, § 3B and provide training or guidance to claims adjustors on proper and timely implementation of these policies and procedures. The new procedures shall be tested by internal audit or compliance to ensure that they are effectively implemented, with the results of the independent testing completed and reported to the Division by September 30, 2014.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

COMPANY BACKGROUND

The Hanover Insurance Group, Inc. (“THG”) is publicly traded on the New York stock exchange and is based in Worcester, Massachusetts. THG is a holding company for a group of insurers that includes HIC, which owns CIC and MBIC, and several other affiliated insurance entities. The Company offers a wide range of property and casualty products and services to businesses and individuals through independent agents across the U.S., and has been in business for nearly 160 years.

In Massachusetts, the Company primarily offers private passenger automobile, homeowners, and personal umbrella insurance to individuals; and business owners, commercial automobile, commercial package, and workers compensation insurance to businesses. The Company’s Massachusetts written premium is comprised approximately 58% personal lines and 42% commercial lines.

THG maintains an A.M. Best group financial strength rating of A (Excellent) with a stable outlook. The following financial information is as of, or for the year ended December 31, 2011:

The Hanover Insurance Company:

Admitted assets	\$5,288.6 million
Statutory surplus	\$1,578.3 million
Direct written premium	\$822.4 million
Massachusetts business - direct written premium	\$74.8 million

Citizens Insurance Company of America:

Admitted assets	\$1,515.7 million
Statutory surplus	\$701.7 million
Direct written premium	\$915.4 million
Massachusetts business - direct written premium	\$179.5 million

Massachusetts Bay Insurance Company:

Admitted assets	\$57.2 million
Statutory surplus	\$56.9 million
Direct written premium	\$499.5 million
Massachusetts business - direct written premium	\$56.3 million

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

I. COMPANY OPERATIONS/MANAGEMENT

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

Standard I-1. The regulated entity has an up-to-date, valid internal, or external, audit program.
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Objective: This Standard addresses the audit function and its responsibilities. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's statutory financial statements are audited annually by an independent auditor.
- THG's Board of Directors consists of seven independent directors and THG's President and Chief Executive Officer. Three independent directors serve on the THG Audit Committee in compliance with the requirements of 211 CMR 26.00. In addition to financial, internal control, risk management and internal audit oversight, the Audit Committee has oversight responsibility for compliance with legal and regulatory requirements.
- The Audit Committee directs the internal audit function, which includes approximately 21 staff auditors. The internal audit plan is developed independently by the General Auditor and management and is presented to the Audit Committee for their approval. Most of the resources of the internal audit function are focused on financial, information technology and investigation-related risks. Investigation-related risks include employee, agent and vendor fraud, code of conduct violations and compliance with the THG fraud plan. The General Auditor periodically summarizes progress on the audit plan's execution, recent internal audit reports issued, areas rated substandard or deficient, recommendations and subsequent management actions. THG's enterprise risk management group also meets with the Audit Committee at least annually to report on the group's activities.
- THG's Vice President and Chief Compliance Officer meets at least annually with the Audit Committee to discuss compliance matters and to summarize complaint activity. The Company's compliance department is primarily responsible for complaint processes, non-financial and insurance regulatory compliance matters. The compliance staff meet with the internal audit staff at least quarterly to coordinate their respective work.
- The Company's underwriting department supervisors perform quality assurance reviews for all underwriters, with all work of new staff reviewed until staff achieve 95% compliance. Quality assurance reviews are less frequent for experienced underwriters. A weekly report of the quality assurance review results is prepared and presented to senior management, and results are used for coaching and performance evaluations.
- The Company's claims operation has established a quality assurance program. Annually, claims for one line of business are selected for quality assurance reviews. For each manager, 30-40 claims are independently evaluated by a team of six claims staff auditors using a detailed questionnaire to document adherence to Company policies and procedures. Aggregate results are reported in a home office quality assurance report. Individual adjuster results are used by claims management as part of their ongoing assessment of the adjusters' performance. Additionally, the managers complete monthly quality assurance checks of their staff's work to provide immediate feedback and training.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

- The Company is subject to periodic premium and loss data audits by Commonwealth Automobile Reinsurers (“CAR”) for compliance with statutes and CAR Rules of Operation. CAR is the industry-operated residual market and statistical agent for automobile insurance in Massachusetts. Participation in CAR is mandatory for all insurers writing automobile insurance in Massachusetts.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for corporate governance, internal audit, ERM, compliance risk assessment and quality assurance audit processes. RNA reviewed minutes of Board of Directors meetings, minutes of Audit Committee meetings, internal audit plans, selected internal audit reports, quality assurance summary reports, and quality assurance checklists.

Transaction Testing Results:

Findings: None.

Observations: The Company has documented its corporate decisions in its Board of Director and Audit Committee minutes. Also, the Company appears to have adopted policies and procedures to ensure that appropriate audits or reviews are conducted timely. Audit findings appear to be monitored, and follow-up audits are completed to ensure that findings are properly remediated.

Recommendations: None.

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

No work performed. All required activity for this Standard is included in the scope of the domiciliary state’s financial examination of the Company.

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

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

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

- The Company’s antifraud efforts are summarized in their antifraud plan. The Company’s Special Investigative Unit (“SIU”) has adopted antifraud procedures, which require management and employees to take reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud, and to report potential fraud to the Massachusetts Insurance Fraud Bureau (“IFB”). The SIU, along with internal audit staff, are responsible for investigating all external insurance fraud schemes, including, claimant fraud, provider fraud, premium fraud, producer fraud and underwriting fraud.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

- Claim adjustors receive training regarding SIU red flags and also use judgment to make referrals to SIU; however, the claims adjustor maintains ownership of the claims adjudication. In addition, the Company uses an analytical search tool to mine claim data for potential fraud activity. The SIU also participates in the National Insurance Crime Bureau (“NICB”) aggregate medical billing information database to identify potential fraudulent medical providers. Potential fraud activity related to claims is provided to the claims adjustors through alerts or directly to SIU staff for handling.
- Company policy is to comply with CAR’s SIU performance standards. All auto thefts are reported to the NICB.
- The Company’s Code of Conduct and Related Person Transaction Policy are contained on the Company’s intranet site. Directors and management personnel must annually complete related party and conflict of interest questionnaires, disclose any conflicts of interest and attest to compliance with the Code of Conduct.
- Criminal and financial background checks are performed on all new claims employees, employees who have check authority, and key executive positions. The Company conducts criminal, financial and license background checks for all independent agent applicants.
- The Company has implemented Office of Foreign Asset Control (“OFAC”) compliance initiatives including searches of the Specially Designated Nationals (“SDN”) database for any policyholders, claimants, or vendors that might be included in the SDN database.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for antifraud initiatives, compliance procedures, Code of Conduct policies and prospective employee hiring. RNA reviewed Company policies and procedures to address antifraud initiatives as part of claims and underwriting testing and supporting documentation.

Transaction Testing Results:

Findings: None.

Observations: The Company has adopted reasonable procedures related to antifraud initiatives, compliance procedures, Code of Conduct policies and prospective employee hiring. Based upon underwriting and claims testing, it appears that the Company has antifraud initiatives in place that are reasonably designed to detect, prevent and fully investigate fraudulent insurance acts.

Recommendations: None.

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

No work performed. All required activity for this Standard is included in the scope of the domiciliary state's financial examination of the Company.

Standard I-5. Contracts between the regulated entity and entities assuming a business function or acting on behalf of the regulated entity, such as, but not limited to, MGAs, GAs, TPAs and management agreements must comply with applicable licensing requirements, statutes, rules and regulations.

Objective: This Standard addresses the Company's contracts with entities assuming a business function and compliance with licensing and regulatory requirements. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's sales distribution in Massachusetts is through independent agents. Company policy is to verify that independent agents are properly licensed as Massachusetts producers prior to contracting with them. Agent contracts address proper licensure, maintenance of records, business procedures, binding authority, commission rates, premium submission, advertising rules, and termination/suspension provisions. The contract also gives the agent exclusive control over expirations and the agent's records. Further, the Company requires independent agents to maintain errors and omissions coverage of at least \$1 million per claim. Finally, the independent agents are solely responsible for maintaining their producer licensing and continuing education requirements.
- Certain claims litigation defense duties are outsourced to various law firms and attorneys. The Company monitors the performance of the law firms and attorneys conducting litigation defense duties.

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

Transaction Testing Procedure: RNA interviewed management about its use of third parties to perform Company functions, and the monitoring procedures conducted over these third parties. Further, RNA reviewed such documentation, as applicable, in connection with new and renewal business testing and claims testing.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard I-6. The regulated entity is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the regulated entity.

Objective: This Standard addresses the Company's efforts to adequately monitor the activities of the contracted entities that perform business functions on its behalf. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-5.

Controls Reliance: See Standard I-5.

Transaction Testing Procedure: RNA interviewed management about its monitoring of third parties that perform Company functions. RNA also reviewed producer documentation that supports the new or renewal business sold.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company is adequately monitoring the activities of third parties assuming a business function, in compliance with statutory and regulatory requirements.

Recommendations: None.

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

Objective: This Standard addresses the adequacy and accessibility of the Company's records. See Appendix A for applicable statutes, regulations and bulletins.

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

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

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

Transaction Testing Procedure: RNA obtained a summary of the Company's record retention policies and procedures, and evaluated them for reasonableness.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard I-9. The regulated entity cooperates on a timely basis with examiners performing the examinations.
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Objective: This Standard is concerned with the Company's cooperation during the course of the examination. See Appendix A for applicable statutes, regulations and bulletins.

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

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

Recommendations: None.

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

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

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

- Company policy requires that the consumer privacy notice be provided to applicants when a new personal lines policy is issued. The consumer privacy notice is also annually provided to customers with personal lines renewal notices. Finally, the Company also provides the consumer privacy notice and the internet privacy policy on its website.
- Company policy allows for the sharing of personal financial and health information with affiliates and non-affiliates who provide services to the Company. The Company does not share information with other companies for marketing purposes, and thus, no opt out notice is required. Company policy is to disclose information as required or permitted by law to regulators, law enforcement agencies, antifraud organizations, and third parties who assist the Company in processing business transactions for its customers.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy and information security compliance, reviewed documentation supporting its privacy and information security policies and procedures, and sought any evidence of improper privacy practices as part of personal lines underwriting and claims testing.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses whether the Company has developed and implemented written standards for the management of insurance information. This standard relates to privacy matters and is evaluated elsewhere in this section. See Appendix A for applicable statutes, regulations and bulletins.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<p>Standard I-14. If the regulated entity discloses information subject to an opt out right, the company has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the company provides opt out notices to its customers and other affected consumers.</p>
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Objective: This Standard addresses policies and procedures with regard to opt out rights. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures including those for the use of opt out notices.

Transaction Testing Results:

Findings: None.

Observations: The Company does not provide opt out notices to consumers as nonpublic personal financial information is not shared for marketing purposes.

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

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

Recommendations: None.

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

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

- The Company has developed and implemented information technology security policies and practices to safeguard nonpublic personal and health information. The Company annually conducts information systems risk assessments to consider, document and review information security threats and controls, and to continually improve information systems security.
- Only individuals approved by Company management are granted access to the Company's electronic and operational areas where non-public personal financial and health information is located. Access is frequently and strictly monitored.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

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

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

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

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

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for underwriting and claims processing. RNA reviewed the statutorily-required homeowners underwriting and claims data submitted to the Division in 2011, and the 2011 MCAS data for unusual results and concerns.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's underwriting and claims processing data submitted in 2011, no unusual results and concerns were noted, and the statutorily-required data reported to the Division appears to be reasonably complete and accurate. RNA's review of the Company's 2011 MCAS Massachusetts data indicated no unusual underwriting or claims data, although we noted that 12 private passenger automobile and three homeowner insured-requested cancellations were improperly classified in MCAS as non-renewals.

Recommendations: The Company should adopt new transaction coding policies and procedures to ensure that MCAS-reported data is accurate and complete. Also, the Company should adopt new procedures for the independent review of MCAS filings prior to filing with the NAIC, to ensure that the data is accurate, complete and properly reconciled to underlying data contained in the Company's policy administration, underwriting and claims systems.

Subsequent Company Actions: The Company states that it has adopted new procedures such that MCAS data is separately and independently developed from two teams and compared for any unusual results and inconsistencies. Also, the Company has re-filed its 2011 MCAS with the NAIC.

II. COMPLAINT HANDLING

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

Standard II-1. All complaints are recorded in the required format on the regulated entity's complaint register.
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Objective: This Standard addresses whether the Company formally tracks complaints or grievances as required by statute. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company defines a complaint as any written correspondence expressing a grievance or dissatisfaction about a product or service. Complaints are managed by the Company's Compliance Department, which maintains the Company's complaint register, and coordinates with the various business units, which are primarily responsible for researching and responding to the complaints.
- Within one day of receipt, the Compliance Department enters complaints into an Access database, which also serves as a work flow system to track complaint response processing. Written responses are drafted by business unit staff, reviewed by a supervisor and reviewed by the Compliance Department. Any supervisory or Compliance Department comments are addressed in the complaint response. Once the response is final, it is sent to the complainant or regulator with a copy to the Compliance Department. Company policy requires complaint responses within the lesser of 10 days or the time required by regulation.
- The Company's complaint Access database contains the Company complaint number, regulatory complaint number, date received, date of the complaint letter, date of complaint acknowledgement, date of response, origin of the complaint, line of business, complainant name and state, claim or underwriting file number, operational function code, nature of complaint, Company contact involved with the issue prior to the complaint being filed, Company contact addressing the complaint, complaint disposition and any additional remarks.
- The Company provides a telephone number and address in its written responses to complaints, inquiries and on its web-site.
- The Company does not use social media to receive customer feedback.
- Complaint statistics are compiled from the complaint Access database, and trends are reviewed by the Compliance Department with unusual spikes or activity monitored. Management reports complaint activity as needed through the General Counsel's oral reports to the THG Audit Committee. An annual written and oral report of complaint activity is also provided to the THG Audit Committee.

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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed the Company's complaint registers for 2011-2012 to evaluate the Company's compliance with statutory complaint requirements. RNA also reviewed the Company's complaint registers for 2011-2012 to determine whether they properly contained all Division complaints.

Transaction Testing Results:

Findings: One regulatory complaint was unintentionally excluded from the Company's complaint register in violation of M.G.L. c. 176D, § 3(10).

Observations: RNA noted that the Company's complaint register included all statutorily-required database elements.

Required Actions: The Company shall adopt new supervisory and monitoring control procedures to ensure that the Company's complaint register is accurate and complete.

Subsequent Company Actions: The Company states that it has adopted a quarterly procedure to reconcile complaint file information to the complaint register to ensure that the register is accurate and complete.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 20 regulatory and Company-received complaints from 2011 and 2012, to evaluate the Company's compliance with statutory complaint requirements. RNA reviewed the complaint handling for these complaints, including the adequacy of documentation supporting the facts and resolution of the complaints. In addition, RNA reviewed the Company's website and communications to consumers, to determine whether the Company provides contact information for consumer inquiries.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 20 regulatory and Company-received complaints from 2011 and 2012, to evaluate the Company's efforts to properly dispose of complaints.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company fully addressed the issues raised in the complaints tested. Documentation for the complaints appeared complete, including the original complaints and related correspondence.

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 20 regulatory and Company-received complaints from 2011 and 2012, to evaluate the Company's complaint response times.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Transaction Testing Results:

Findings: None.

Observations: The Company generally addressed the tested regulatory complaints within 14 days, or with additional time as allowed by the Division. The Company appears to respond to complaints in a timely manner in accordance with its policies, procedures, and regulatory requirements.

Recommendations: None.

III. MARKETING AND SALES

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

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

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

Controls Assessment: The following controls were noted as part of this Standard and Standard III-4:

- Marketing materials such as print, radio, and mailing inserts are developed by the Company and documented through an approval form. Proposed marketing materials are reviewed for branding guidelines and compliance requirements by the Compliance Department and the Office of General Counsel. Once approved, the advertising material is added to the advertising log with a unique identifying number assigned to each piece. Most of the pieces are for nationwide use and are general in their content. The Company also uses social media as a means to promote brand awareness.
- Customizable advertising materials developed in the home office are available to agents. Agents are not allowed to create advertising to consumers without approval of the piece by the Company.
- The Company provides affinity group discounts for Massachusetts private passenger automobile and homeowners policies.
- The Company discloses its name and address on its website.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for reviewing, approving and maintaining sales and advertising materials, and obtained supporting documentation. RNA selected 15 advertising and sales materials utilized during the examination period and reviewed them for accuracy and reasonableness. Further, RNA reviewed the Company's website for disclosure of its name and address. Finally, RNA reviewed any sales and marketing materials noted as part of new and renewal business testing for any evidence of use of unapproved sales and marketing materials.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the tested materials appeared accurate and reasonable, and the Company's website disclosure complies with Division requirements. Finally, RNA noted no evidence of the use of unapproved sales materials as part of new and renewal business testing.

Recommendations: None.

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

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

Controls Assessment: The following controls were noted as part of this Standard and Standard III-3:

- The Company's sales distribution in Massachusetts is through independent agents.
- Training to agents is completed through on-site visits by regional sales managers. Training information is also available to agents through the Company's agent web.
- Independent agents provide application information to the Company when applications are taken. Additionally, the underwriting function monitors the business produced by the agents and assists agents producing poor underwriting results to improve their profitability.
- Independent agents are contractually required to maintain Massachusetts continuing education and producer licensing 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: RNA interviewed Company personnel with responsibility for developing and distributing agent training materials to understand the nature and breadth of the Company's producer training.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard III-2.

Controls Reliance: See Standard III-2.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing employee and independent agent communications to understand the nature and breadth of such communications. RNA reviewed independent agent communications as part of new and renewal business testing for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: Based on review and testing, procedures for agent communications appear appropriate and reasonable. RNA noted no evidence of unreasonable agent communications as part of new and renewal business testing.

Recommendations: None.

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

Objective: This Standard is concerned with whether marketing to groups by the Company and its producers is in accordance with Company policies and procedures. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard III-1.

Controls Reliance: See Standard III-1.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing group marketing communications to understand the nature and breadth of such communications. RNA reviewed group marketing communications as part of new and renewal business testing for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: Based on review and testing, procedures for group marketing communications appear appropriate and reasonable. RNA noted no evidence of unreasonable group marketing communications as part of new and renewal business testing.

Recommendations: None.

IV. PRODUCER LICENSING

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

Standard IV-1. Regulated entity records of licensed and appointed (if applicable) producers and in jurisdictions where applicable, licensed company or contracted independent adjusters agree with insurance department records.

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

Controls Assessment: The following controls were noted in review of this Standard and Standard IV-4:

- The Company sells personal and commercial lines policies in Massachusetts through its network of independent agencies.
- All producers are licensed and appointed agents of the Company. The Company conducts criminal, financial and license background checks for all agent applicants.
- Agent contracts address proper licensure, maintenance of records, business procedures, binding authority, commission rates, premium submission, advertising rules, and termination/suspension provisions. The contract also gives the agent exclusive control over expirations and the agent's records. Further, the Company requires independent agents to maintain errors and omissions coverage of at least \$1 million per claim. Finally, the independent agents are solely responsible for maintaining their producer licensing and continuing education requirements.
- The Company uses the Division's On-Line Producer Appointment System ("OPRA") system to process agent appointments and terminations. The Company also tracks producer licensing changes and pending license expirations noted in the NAIC National Insurance Producer Registry ("NIPR") through NIPR Alert. That information is periodically compared to OPRA data, and corrections to the records are made as necessary.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and processing of agent appointments. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period, to determine whether the independent agents involved in these sales were included on the Division's list of the Company's appointed agents.

Transaction Testing Results:

Findings: None.

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

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Recommendations: None.

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

Objective: The Standard addresses licensing and appointment of the Company's producers and continuing education requirements. See Standard IV-1 for testing of licensing and appointment. See Standard III-2 for discussion of producer continuing education requirements. See Appendix A for applicable statutes, regulations and bulletins.

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

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

Controls Assessment: The following controls were noted in review of this Standard and Standards IV-4 and IV-5:

- The Company's appointment terminations are generally due to lack of production or profitability, or at the request of the agent. The Company's policy is to give required written notice to all agents whose appointments are terminated. Agency appointment terminations are reported on the termination effective date to the Division through the OPRA System.
- The Company uses the Division's OPRA system to process agent appointments and terminations. The Company also tracks producer licensing changes and pending license expirations noted in the NAIC NIPR through NIPR Alert. That information is periodically compared to OPRA data, and corrections to the records are made as necessary.
- The Company's policy is to give additional information to the Division about agents whose appointments are terminated "for cause" including the reason for the terminations.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for agent supervision, producer contracting and appointment termination processing. RNA selected 30 individual and 10 business entity appointment terminations and compared that information to corresponding information in the Company's appointment termination listings and the Division's OPRA system. Finally, RNA reviewed evidence that notices to the Division and the agents complied with statutory requirements.

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Observations: For the appointment terminations tested, the Company properly notified the Division through the OPRA system in compliance with statutory requirements. Also, for each of the tested appointment terminations, the Company was able to provide evidence of timely notice to the agents in compliance with statutory requirements, as appropriate.

Recommendations: None.

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

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting, appointments and terminations. In conjunction with testing of 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period, and testing of 30 individual and 10 business entity agent appointment terminations, RNA reviewed documentation for any evidence of unfair discrimination against policyholders resulting from the Company's agent appointment and termination policies.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Transaction Testing Procedure: RNA interviewed individuals with responsibility for agent contracting and appointment termination processing. RNA selected 30 individual and 10 business entity appointment terminations during the examination period, and reviewed the reasons for each appointment termination. RNA also inquired about any agent that was terminated “for cause” during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company’s internal records adequately document reasons for appointment terminations. No agent appointment terminations “for cause” were noted.

Recommendations: None.

Standard IV-6. Producer account balances are in accordance with the producer’s contract with the insurer.
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No work performed. This Standard is not covered in the scope of examination because the Company direct bills most premium and agent advances are not provided. Thus, excessive debit account balances are not a significant issue.

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

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

- The Company's billing and payment methods include payment in full at inception or direct bill in installments. Payments are accepted using a check, credit card, debit card or electronic funds transfer ("EFT") and by phone or internet. For new business, a down payment of 20% to 25% is generally required, depending on policy type, payment plan selected and the consumer's payment history.
- For billed installments, the initial bill is sent approximately 35 days prior to the due date. If not paid, a late payment offer and cancellation notice is sent. If not paid in the next 26 days, a cancellation is processed. For recurring EFT transactions, an insufficient funds notice from the bank will trigger a late payment offer and notice that the premium is past due with disclosure of the Company's cancellation policy. If not paid in the next 26 days, a cancellation is processed.
- The Company has developed standards for billing and collections, and monitors compliance with those 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: RNA interviewed Company personnel with responsibility for policyholder service and reviewed billing notice dates in conjunction with new and renewal business testing.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: The following controls were noted in review of this Standard and Standard V-7:

- Company policy is to process insured-requested policy cancellations and applicable premium refunds in a timely manner. Policy cancellation requests from customers must be made through the independent agents, who are generally able to process the requests electronically, or who will forward the request to the Company.
- All unearned premium is refunded to the policyholder on a short rate or a pro-rata basis.
- Automobile policyholders may cancel their policy only after filing a Form 2A-Notice of Transfer of Coverage, proof that the vehicle has been taken out of service, or evidence that they have moved out of Massachusetts.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and tested 10 private passenger automobile and nine homeowner insured-requested cancellations from the examination period, to ensure that the cancellation requests were processed accurately and timely.

Transaction Testing Results:

Findings: One private passenger automobile insured-requested cancellation was incorrectly processed on a short rate return basis rather than a pro-rata return basis by an agent in violation of M.G.L. c. 175, § 187B and the Company's rate filings with the Division.

Observations: Based upon testing, other than as noted above, the insured-requested cancellations were processed accurately and timely.

Required Actions: The Company shall make the appropriate premium refund to the insured. Also, the Company shall provide guidance to agents about how to properly process premium refunds, and the Company shall revise its control procedures to ensure that the agents properly calculate such premium refunds. Further, the Company shall complete a review of recent premium refund activity to ensure that other similar errors have not occurred, or if they have occurred, that they have been corrected with proper premium refunds made to consumers. Finally, the Company shall complete an independent monitoring procedure to ensure that the control procedures are properly implemented.

Subsequent Company Actions: The Company made the premium refund to the insured.

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

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

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

- The Company's call center representatives answer the insureds' general questions or correspondence and make premium billing changes.
- The Company has underwriting representatives who may assist independent agents with policyholders' general questions about their policies.
- The Company considers its independent agents as having the primary relationship with policyholders, who must request endorsements and policy changes through the agents. If a policyholder requests such changes directly with the Company, the policyholder will be referred to the agent for servicing. Any such changes needing underwriting approval will be requested by the agents and processed through the Company's underwriting work flow system.
- The Company has developed performance and work flow standards for underwriting and policyholder service and monitors compliance with those 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: RNA discussed procedures with Company personnel and obtained documentation of underwriting and policyholder service standards. RNA reviewed customer correspondence in conjunction with new and renewal business and claims testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon the review of the above information and review of general correspondence between policyholders and the Company regarding underwriting, policyholder service and claims matters, it appears that the Company has adequate resources and procedures to handle customer inquiries. Correspondence directed to the Company appears to be answered in a timely and responsive manner.

Recommendations: None.

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

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

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

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

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

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

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

- The Company researches returned mail such as policies, required notices, and billing notices by reviewing Company information and asking for assistance from the agent as needed. For any returned mail that includes premium refund or claims checks, the Company voids the check and notifies the underwriting department, claims adjuster or the agent to research a more current address. When a new address is confirmed, the check is reissued and mailed to the consumer. If the check remains outstanding, at 90 days prior to escheatment, a final letter is sent to the payee at the best available address notifying him or her that the check is still outstanding.
- Once research efforts are exhausted and after three years, the funds are deemed abandoned property and escheated in accordance with Massachusetts Law.
- The Company annually reports escheatable funds to the Massachusetts State Treasurer by November 1st as required by statute.

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

Transaction Testing Procedure: RNA discussed the Company's procedures for locating missing policyholders and claimants and escheating funds. RNA also reviewed supporting documentation. RNA compared the Company's policies and procedures to the Division's best practices in these areas. Finally, RNA reviewed the 2011 escheatment filing with the Massachusetts State Treasurer.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses return of the correctly calculated unearned premium in a timely manner when policies are cancelled. See Standard V-2 for review and testing of the calculation and return of unearned premium. See Appendix A for applicable statutes, regulations and bulletins.

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

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

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

- The Company's claims personnel and independent agents have access to policyholders' claims history and paid loss information.
- The Company's policy is to directly provide a policyholder with his or her claims history and paid loss information upon request, or refer the policyholder to the agent for such information.

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

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

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

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

Recommendations: None.

VI. UNDERWRITING AND RATING

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

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

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

Controls Assessment: The following controls were noted in review of this Standard and Standards VI-4 and VI-10:

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- The Company has provided agents with personal lines underwriting requirements for use in evaluating risks. Agents have binding authority.
- Agents may obtain private passenger automobile and homeowners quotes using the Company's agent portal or other third party comparative rating tools. Agents electronically submit application information with the signed applications retained in the agents' files. The standard forms for the applications are approved by the Division. The Company uses automated underwriting guidelines to accept or reject private passenger automobile risks.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements.
- Private passenger automobile underwriting criteria include license status, driving history, and driver experience, among other factors. The Company does not use credit or insurance scores in private passenger automobile underwriting or rating.
- The Company adheres to Massachusetts regulatory standards of fault in determining at-fault accidents and is to ensure that at-fault drivers are appropriately surcharged for such accidents. Surcharged drivers are to be notified of the right to appeal the surcharge. The Company reports the at-fault indicator and any subsequent changes in the indicator to Claims Loss Underwriting Exchange ("CLUE"), a consumer reporting agency.
- Private passenger automobile rates are based on Automobile Insurers Bureau of Massachusetts ("AIB") base rates with deviations using actuarial guidelines and principles.
- The Company is subject to periodic premium data audits by CAR for compliance with statutes and CAR Rules.
- Homeowners rates are based the Company's internal data and the Company's competitive analysis of market rates.
- Homeowners underwriting and rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for security features, safety features, non-smokers, and higher deductibles. The Company uses a minimum insurance score, which is based on credit, in homeowners new business underwriting.
- Personal lines rates are filed with the Division and approved prior to use. All approved rates are loaded in the Company's underwriting and policy administration systems and are tested prior to use.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

- The Company's underwriting department supervisors perform quality assurance reviews for all underwriters, with all work of new staff reviewed until staff achieve 95% compliance. Quality assurance reviews are less frequent for experienced underwriters. A weekly report of the quality assurance review results is prepared and presented to senior management, and results are used for coaching and performance evaluations.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting and rating processes. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period, to test rate classifications and underlying policy information. From these test selections, RNA selected 13 private passenger automobile and 12 homeowners policies and verified that each policy's premium, discounts and surcharges complied with statutory and regulatory requirements and that premium charges were accurate.

To test compliance with the October 2010 Regulatory Settlement Agreement between the Company and the Division related to reporting of at-fault accident determinations with consumer reporting agencies, RNA tested 20 vacated at-fault accident determinations by the Board of Appeal. RNA tested the vacated surcharges for accurate and timely reversal of the vacated at-fault accident determinations, and for the Company's timely reporting to consumer reporting agencies. For additional review, RNA reviewed Company-prepared data on vacated at-fault accident determinations for the period 2009-2012 to ensure that all were timely identified and properly processed. Finally, during private passenger automobile claims testing, RNA tested to ensure that at-fault accident surcharges were properly applied in accordance with regulatory requirements.

To test compliance with the April 2011 Regulatory Settlement Agreement between the Company and the Division related to valuation of motorcycles and premium rating, RNA selected 24 motorcycle policies to test rates charged and motorcycle valuations used for comprehensive and collision coverages.

Transaction Testing Results:

Findings: RNA testing indicated that four of the 20 vacated surcharges by the Board of Appeal, the surcharges were not properly and timely reversed in accordance with M.G.L. c. 175E, § 7A and Division Bulletin 2010-11. At the request of the Division, the Company confirmed through its review of Board of Appeal vacated at-fault accident determinations for the period 2009-2012 that 58 additional vacated surcharges were not properly reversed in accordance with M.G.L. c. 175E, § 7A and Division Bulletin 2010-11.

Observations: Based upon testing, except as noted above, the Company appears to calculate policy premiums, discounts, at-fault accident surcharges and vacated surcharges in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. Further, RNA testing of vacated surcharges indicates that the Company timely reports changes in at-fault accident determinations to consumer reporting agencies. Finally, RNA testing noted that for two motorcycle policies, average retail value information necessary to calculate premium rates was not retained in the underwriting files, although the valuations appeared reasonable.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Required Actions: The Company shall provide premium refunds and 6% annual interest to consumers for the 62 vacated at-fault accident determinations not properly reversed. In addition, the Company shall enhance its controls and procedures to ensure that premium refunds for vacated surcharges by the Board of Appeal are timely and properly processed. The Company shall also provide training or guidance to staff about these enhanced controls and procedures. Further, the Company shall complete an independent assessment of the effectiveness of the new vacated surcharge reversal procedures by September 30, 2014, or another agreed upon date, and report the results of the assessment to the Division. Finally, the Company shall adopt a new procedure to complete an annual review and comparison of their vacated surcharge data with data directly obtained from the Board of Appeal. The review shall include testing to obtain reasonable assurance that the vacated surcharges were accurately and timely reversed with the proper premium credit applied.

Recommendations: The Company should adopt new control procedures and provide training/guidance to staff to ensure that average retail values for motorcycle policies are documented and supported in the underwriting files for each policy renewal year.

Subsequent Company Actions: The Company provided premium refunds and 6% annual interest for the 62 vacated at-fault accident determinations noted above. Further, the Company identified the systems issue that led to the vacated surcharge processing errors, corrected that problem on August 10, 2012 and reported that resolution to the Division as noted in the required action above. Finally, the Company states that it will complete the annual vacated surcharge review as noted in the required action above.

Standard VI-2. All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations.
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Objective: This Standard addresses whether all mandated disclosures for rates and coverages are timely provided to insureds in accordance with statutes and regulations. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written policies and procedures for processing new and renewal business.
- The Company's supervisory procedures and system's controls are to ensure that new business submissions are accurate and complete, including the use of all Company-required forms and instructions.
- The Company's insurance policies provide disclosures as required by statutory and regulatory guidelines.
- The Company provides private passenger automobile information guides to consumers.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<u>Standard VI-3.</u> The regulated entity does not permit illegal rebating, commission cutting or inducements.
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Objective: This Standard addresses illegal rebating, commission cutting or inducements, and requires that broker commissions adhere to the commission schedule. See Appendix A for applicable statutes, regulations and bulletins.

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer licensing, agent appointment and agent compensation. In connection with the review of producer contracts, RNA inspected new business materials, advertising materials, producer training materials and manuals for indications of rebating, commission cutting or improper inducements. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period for indications of rebating, commission cutting or improper inducements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses whether unfair discrimination is occurring in insurance underwriting, primarily related to rating. See Standard VI-1 for testing of premium rating, Standard VI-7 for testing of declinations and Standard VI-8 for testing of company-initiated cancellations and non-renewals. See Appendix A for applicable statutes, regulations and bulletins.

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

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

Controls Assessment: The following controls were noted in review of this Standard and Standard VI-19:

- Company policy requires the use of the standard Massachusetts automobile policy forms and endorsements. The Company uses the AIB Massachusetts Private Passenger Automobile Form, which has been approved by the Division.
- Company policy requires the use of standard homeowners policy forms, many based on Insurance Services Office (“ISO”) forms. Homeowners policy forms and endorsements are filed with, and approved by, the Division prior to use.
- Approved forms and endorsements are required to be used when providing quotes to customers.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- The Company's underwriting and policy administration systems are used for quoting, rating and underwriting policy applications.
- Pre-insurance inspections are required for new coverage of used private passenger automobiles unless a qualified exemption is met or a waiver is obtained.

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

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

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company issues new and renewal policies and endorsements timely, accurately and completely. Also, private passenger automobile policies were issued in compliance with vehicle inspection requirements.

Recommendations: None.

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

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

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

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements. Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

- Applications for private passenger and homeowners coverage may be declined by the independent agent on the Company's behalf or by the underwriting department if the risks do not meet the Company's underwriting guidelines.
- The Company uses a minimum insurance score, which is based on credit, in homeowners new business underwriting. The Company does not decline a homeowners application for unacceptable insurance score since agents having binding authority. For bound risks having unacceptable insurance scores, the Company will cancel coverage, with appropriate notice, shortly after inception of coverage. Any insured cancelled for an unacceptable insurance score is provided a Fair Credit Reporting Act ("FCRA") adverse action notice by the Company.
- Agents provide an oral declination notice to the applicant when the agent declines the risk on the Company's behalf.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 15 private passenger automobile and 15 homeowners declinations processed during the examination period for testing to ensure that declinations were not unfairly discriminatory and to ensure that proper declination notices were given to applicants.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing and review of the information available, the Company's private passenger automobile declinations were not unfairly discriminatory, and the agents provided oral declination notices to applicants. For the homeowners declinations selected, the Company had no specific information on each of the declinations, so it was unclear whether any required declination notices should have been, or were provided to applicants.

Recommendations: The Company should review its homeowners declination procedures to ensure that any necessary data is captured and retained, and to allow the Company to verify that any applicable declination notices have been provided to applicants. As a result of the review, the Company should adopt any necessary changes to its policies and procedures for the submission, collection and review of the declination data to ensure that any applicable declination notices have been provided to applicants.

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

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

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

- Company-initiated cancellations of private passenger automobile policies for underwriting reasons are a result of driver license suspension, vehicle registration violations or material

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

misrepresentation, with most occurring within the first 60 days of coverage. Written notice of cancellation with the specific reason for the cancellation is sent to the policyholder and the agent at least 23 days prior to the cancellation effective date.

- Company-initiated cancellations of homeowners policies for underwriting reasons are generally a result of changes in the risk, failure to address inspection deficiencies, material misrepresentation, or an unacceptable insurance score, with most occurring within the first 60 days of coverage. Written notice of cancellation with the specific reason for the cancellation is sent to the policyholder and the agent at least 23 days prior to the cancellation effective date. In addition, any insured cancelled for an unacceptable insurance score is provided a FCRA adverse action notice with the cancellation notice.
- Written non-renewal notices for unacceptable renewals of private passenger automobile and homeowners risks are provided to policyholders and the agents at least 45 days prior to the non-renewal effective date. The notices state the specific reasons for the non-renewals.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA tested 24 private passenger automobile and 25 homeowners company-initiated cancellations reported in MCAS for testing. In addition, RNA selected 33 private passenger automobile and 22 homeowners non-renewal transactions from MCAS for testing. All transactions were evaluated for compliance with statutory and Company policy requirements.

Transaction Testing Results:

Findings: None.

Observations: Based on testing, for three private passenger automobile non-renewal notices, the specific reasons stated that the producers were no longer affiliated with the Company, which is correct, but an additional reason for each was that each had claims during the past three years. For the company-initiated cancellations and the remaining 52 non-renewals, the Company provided timely and adequate notice to the policyholders for company-initiated cancellations and non-renewals with the specific reasons properly disclosed. The specific reasons were reasonable and in compliance with statutory and regulatory requirements.

Recommendations: The Company should provide guidance to staff to ensure that the reasons on non-renewal notices are adequately specific and complete.

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

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

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

- Company policy requires compliance with underwriting guidelines in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- The Company states that, although quite rare, rescissions may be given only for significant material misrepresentations or fraud and only with approval of the Office of General Counsel.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process and inquired about procedures for issuing rescissions.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, policies and procedures for rescissions appear reasonable.

Recommendations: None.

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

Objective: This Standard addresses whether unfair discrimination is occurring in the application of premium discounts and surcharges. See Standard VI-1 for testing of premium rating. See Appendix A for applicable statutes, regulations and bulletins.

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

No work performed. This Standard is not covered in the scope of examination as the Division limited the scope of this examination to personal lines business only.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

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

No work performed. This Standard is not covered in the scope of examination as the Division limited the scope of this examination to personal lines business only.

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

No work performed. This Standard is not covered in the scope of examination as the Division limited the scope of this examination to personal lines business only.

Standard VI-14. Verification of experience modification factors.

No work performed. This Standard is not covered in the scope of examination as the Division limited the scope of this examination to personal lines business only.

Standard VI-15. Verification of loss reporting.

No work performed. This Standard is not covered in the scope of examination as the Division limited the scope of this examination to personal lines business only.

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

No work performed. This Standard is not covered in the scope of examination as the Division limited the scope of this examination to personal lines business only.

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

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

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

- Company policy and practice prohibits unfair discrimination in underwriting and rating in accordance with statutory requirements.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

- Written Company policies and procedures are designed to reasonably assure consistency in the application of underwriting guidelines, rating classifications, premium discounts and surcharges determined at or near the inception of coverage.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- The Company's underwriting department supervisors perform quality assurance reviews for all underwriters, with all work of new staff reviewed until staff achieve 95% compliance. Quality assurance reviews are less frequent for experienced underwriters. A weekly report of the quality assurance review results is prepared and presented to senior management, and results are used for coaching and performance evaluations.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period to test whether underwriting, rating and classification are based on adequate information developed at or near inception of coverage. RNA also sought evidence of complaints to ensure that underwriting is completed at or near inception of the coverage.

Transaction Testing Results:

Findings: None.

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

Recommendation: None.

<u>Standard VI-18.</u> Audits, when required, are conducted accurately and timely.

Objective: This Standard addresses whether audits are conducted accurately and timely. See Standard I-1 for external audits, internal audits and quality assurance audits within the Company's operational areas. See Appendix A for applicable statutes, regulations and bulletins.

<u>Standard VI-19.</u> All forms and endorsements, forming a part of the contract are listed on the declaration page and should be filed with the insurance department (if applicable).
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Objective: This Standard addresses whether policy forms and endorsements are filed with the Division for approval. See Standard VI-5 for testing. See Appendix A for applicable statutes, regulations and bulletins.

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

Objective: This Standard addresses whether the Company verifies that the VIN and vehicle symbol submitted with the application is valid and accurate. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written underwriting and rating policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The Company's customer service representatives and independent agents are responsible for obtaining the VIN and vehicle symbol when the applications are completed.
- The Company's underwriting system compares the VIN and vehicle symbol to electronic databases to ensure that both are accurate.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile policies issued or renewed during the examination period, to determine whether the Company verifies the VIN and vehicle symbol at policy issuance.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company verifies VIN and vehicle symbol at policy issuance in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

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

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

- Company policy requires that the underwriting department apply consistent underwriting practices, and that no underwriter or producer shall engage in collusive or anti-competitive practices.
- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- The Company's underwriting department supervisors perform quality assurance reviews for all underwriters, with all work of new staff reviewed until staff achieve 95% compliance. Quality assurance reviews are less frequent for experienced underwriters. A weekly report of the quality assurance review results is prepared and presented to senior management, and results are used for coaching and performance evaluations.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses whether unfair discrimination is occurring in insurance underwriting for mass marketing plans offered to employer or other groups. See Standard VI-7 for testing of declinations. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating for mass marketing plans offered to employer and affinity groups.
- The Company's mass marketing plans offered to employer and affinity groups are filed with the Division for approval.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements for mass marketing plans offered to employer and affinity groups.

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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period, to ensure that underwriting practices for mass marketing plans offered to employer or affinity groups were not unfairly discriminatory. During this testing, RNA sought evidence of any unfair discrimination in underwriting these policies and examined evidence of the Division's approval of the affinity premium discounts.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no evidence that the Company's underwriting practices for mass marketing plans offered to employer or other groups are unfairly discriminatory. All affinity premium discounts were approved by the Division.

Recommendations: None.

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

Objective: This Standard addresses whether mass marketing policies meet statutory and regulatory requirements. See Standard VI-22 for this testing. See Appendix A for applicable statutes, regulations and bulletins.

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.

Objective: This Standard addresses notices to policyholders for company-initiated cancellations and non-renewals, including advance notice before policy expiration. See Standard VI-8 for testing of this Standard. See Appendix A for applicable statutes, regulations and bulletins.

Standard VI-25. All policies are correctly coded.

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

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

- The Company has written underwriting policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The Company's policies and procedures require that Company personnel confirm that certain coding elements reported by the agents are correct and current.
- The Company has a process to correct data coding errors and to make subsequent changes, as needed.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

- The Company has policies and procedures to report complete and accurate premium data timely in the required formats to rating bureaus such as the AIB, CAR and ISO.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules, including statistical coding requirements related to premiums.
- The Company's underwriting department supervisors perform quality assurance reviews for all underwriters, with all work of new staff reviewed until staff achieve 95% compliance. Quality assurance reviews are less frequent for experienced underwriters. A weekly report of the quality assurance review results is prepared and presented to senior management, and results are used for coaching and performance evaluations.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process and the statistical reporting process. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period to test data coding for selected policy determinants.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, premium data determinants appear to be properly coded.

Recommendations: None.

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

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

- Company policy requires that the underwriting files support underwriting and rating decisions.
- The Company's independent agents are responsible for completing and retaining applications for new business and obtaining information needed to properly underwrite and rate the policies.
- The Company's underwriting department supervisors perform quality assurance reviews for all underwriters, with all work of new staff reviewed until staff achieve 95% compliance. Quality assurance reviews are less frequent for experienced underwriters. A weekly report of the quality assurance review results is prepared and presented to senior management, and results are used for coaching and performance evaluations.

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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period to test data coding for selected policy determinants. RNA also sought evidence of complaints related to unusual underwriting decisions.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, application information was generally properly submitted, and policy files adequately supported the Company's decisions. No evidence of complaints related to unusual underwriting decisions was noted. The Company does not conduct field or desk audits of independent agents to ensure that the agents are obtaining signed and dated applications and other required underwriting information.

Recommendations: The Company should adopt procedures to conduct field or desk audits of independent agents to ensure that the agents are retaining signed applications and other required underwriting information.

VII. CLAIMS

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

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

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

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

- The Company's personal lines claims handling process is organized in five units including automobile, general liability and workers compensation, large loss & bodily injury, property, and shared services. The shared services division is a centralized claims support function that includes compliance, call center for first notice of loss ("FNOL") reporting and customer care team, SIU, subrogation, IT support, and quality assurance. Most Massachusetts claims are handled at the claim center in Worcester, MA.
- The Company has adopted a supervisory structure to ensure that settlement authorities and procedures are followed. Individual claim settlement authority limits are assigned commensurate with claims adjustors' experience. Staff adjustors are responsible for verifying coverage, coordinating claim investigations, establishing liability and determining damages.
- Written policies and procedures govern claims handling processes. Claim FNOL is generally reported through the Company's 800 phone number by the claimant or the agent. A claim number is established, and key information, such as the claimant's name, policyholder information, policy number, accident date, location, and extent of injuries is obtained and recorded in the electronic claims processing system, which includes a claim diary and history notes.
- Claims are investigated to determine existence of coverage, so that an initial liability determination can be made. Field adjustors are utilized as needed and provide written documentation supporting their procedures performed and conclusions reached. Reservation of rights and excess of loss letters are issued when potential coverage issues arise. Field appraisers are dispatched for automobile physical damage and collision claims. The Company contracts with vendors for services related to auto glass claims, car rental coverage, and roadside assistance claims.
- Bodily injury claims are evaluated using ISO's Claims Adjustor Advisor, a purchased expert system for assessing injuries, treatment, impairments and general damage settlements. The Company states that the use of this database assists in ensuring consistency and fairness of claims settlement and in adequate reserve setting. Further, the Company notes that this is only one tool to adjust bodily injury claims and is primarily used for "middle range" claims. For litigated claims, the Company generally uses its in-house staff counsel with outside counsel used as necessary.
- Company policy is to comply with claim settlement performance standards established by CAR and those set forth in statute. The Company is subject to audits from CAR for compliance with the standards, which specify time frames for assigning an appraiser, inspecting a vehicle, and paying a claim. The Company follows standard industry and CAR claim handling guidelines in its claim investigations including Massachusetts standards of fault. Information from police

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

reports, witness statements, photographic evidence and consumer reporting agencies are used to evaluate the claim.

- At-fault accident determinations are reported to CLUE and the claims function is responsible for providing notices to policyholders of their at-fault accident surcharges and their right to appeal at-fault accident determinations. The claims department also receives notice of vacated surcharges from the Board of Appeal and is responsible for notifying the underwriting department, so that premium adjustments can be made as appropriate.
- Company policy is to comply with CAR's SIU performance standards. Claim staff receive training regarding SIU red flags and also use judgment to make referrals to SIU; however, the claims adjustor maintains ownership of the claims adjudication. In addition, the Company uses an analytical search tool to mine claim data for potential fraud activity. The SIU is responsible for coordinating with the IFB, in cases where fraud is believed to have occurred, to assist with criminal investigation and prosecution. All auto thefts are reported to the NICB.
- The Company has implemented OFAC compliance initiatives including searches of the SDN database for any policyholders, claimants, or vendors that might be included in the SDN database.
- Department of Revenue checks are performed as required by statute and are documented in the claim files. Also, underwriting risk referrals are made to the underwriting department as necessary.
- Third party property damage claimants are generally not required to sign a liability release unless there is a settlement dispute or general damages awarded. Releases are routinely required from third party bodily injury claimants.
- Criteria for supervisor and manager periodic reviews of the claim adjustors' work have been established, and such reviews are documented in the claim system.
- The Company reports all closed automobile bodily injury claims to the AIB Detail Claims Database, and reports required claims to the Merit Rating Board as required in Massachusetts.
- The claim system produces data for the monthly claims reporting of service and quality metrics using such as cycle time, claim volume, pending claim counts, average paid losses and loss expenses to monitor claim activity.
- The Company's claims operation has established a quality assurance program. Annually, claims for one line of business are selected for quality assurance reviews. For each manager, 30-40 claims are independently evaluated by a team of six claims staff auditors using a detailed questionnaire to document adherence to Company policies and procedures. Aggregate results are reported in a home office quality assurance report. Individual adjustor results are used by claims management as part of their ongoing assessment of the adjusters' performance. Additionally, the managers complete quality assurance checks of their staff's work monthly to provide immediate feedback and training.
- The Company is subject to periodic loss data audits by CAR for compliance with statutes and CAR Rules of Operation.
- The Company conducts post-claim payment surveys to first party claimants to obtain a customer satisfaction score for each claimant. Any negative comments from respondents are addressed. The overall survey results are reported to management.

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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, six denied or closed-without-payment claims, and ten open claims for testing. RNA verified the date each selected claim was recorded by the Company, and noted whether the initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<u>Standard VII-2. Timely investigations are conducted.</u>
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Objective: The Standard addresses the timeliness and completeness of the Company's claim investigations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, six denied or closed-without-payment claims, and ten open claims for testing. RNA tested each selected claim noting whether the investigations were conducted in a timely manner and whether the investigations were complete.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, six denied or closed-without-payment claims, and ten open claims for testing. RNA tested each selected claim noting whether the claims were resolved in a timely manner.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was resolved in a timely manner. Based upon testing, it appears that the Company's processes for timely resolving claims are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

Objective: The Standard addresses the timeliness of the Company's response to claim correspondence. See Standard VII-6 for testing of statutorily-required claim correspondence. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, six denied or closed-without-payment claims, and ten open claims for testing. RNA tested each selected claim noting whether the Company timely responded to claim correspondence.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Transaction Testing Results:

Findings: None.

Observations: RNA noted that for each of the tested claims, the Company timely responded to claim correspondence. Based upon testing, it appears that the Company's processes for timely responding to claims correspondence are functioning in accordance with its policies, procedures and statutory requirements. The Company also addresses negative comments received on post-claim payment surveys, but the comments are not included on the Company's complaint logs.

Recommendations: The Company should include any written negative comments received on post-claim payment surveys on the Company's complaint logs.

<u>Standard VII-5. Claim files are adequately documented.</u>
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Objective: The Standard addresses the adequacy of information maintained in the Company's claim files. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, six denied or closed-without-payment claims, and ten open claims for testing. RNA reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, six denied or closed-without-payment claims, and ten open claims for testing. RNA reviewed the file for each selected claim, and noted whether the claim was properly handled in accordance with policy provisions and statutory requirements. Finally, RNA reviewed the Company's complaint log for complaints that were claim-related.

Transaction Testing Results:

Findings: Testing indicated that 17 tested homeowners property damage claims over \$1,000 were not properly and timely reported to local building and health authorities to disclose a potentially dangerous condition in accordance with M.G.L. c. 139, § 3B.

Observations: RNA noted each of the tested claims was handled according to the Company's policies and procedures, except as noted above. Based upon testing, it appears that the Company's processes for handling claims are generally functioning in accordance with its policies, procedures and statutory requirements. Finally, upon evaluation of 26 claims-related complaints, the related claims appeared to be properly handled.

Required Actions: The Company shall adopt new policies and control procedures to address the requirements of M.G.L. c. 139, § 3B and provide training or guidance to claims adjustors on proper and timely implementation of these policies and procedures. The new procedures shall be tested by internal audit or compliance to ensure that they are effectively implemented, with the results of the independent testing completed and reported to the Division by September 30, 2014.

Standard VII-7. Regulated entity claim forms are appropriate for the type of product.

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, six denied or closed-without-payment claims, and ten open claims for testing. RNA reviewed the file for each selected claim, and verified that required claim forms were appropriately used.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, six denied or closed-without-payment claims, and ten open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected denied or closed-without-payment claims including four private passenger automobile claims and six homeowners claims for testing. RNA evaluated whether the Company handled these claims timely and properly before closing or denying them.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed procedures regarding the use of claim payment checks for the claimant to attest to full claim settlement by endorsing the claim check.

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Observations: RNA noted that the Company does not use claim payment checks for the claimant to attest to full claim settlement by endorsing the claim check. Based upon review, it appears that the Company's processes for issuing claim payment checks are appropriate and functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, six denied or closed-without-payment claims, and ten open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim practices appeared to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and whether the Company attempted to settle claims for less than reasonable amounts due under the policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon review of procedures and testing, the Company did not appear to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and the Company did not attempt to settle claims for less than reasonable amounts due under the policies.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, six denied or closed-without-payment claims, and ten open claims for testing. RNA reviewed the file for each selected claim, and noted whether reservation of rights or excess of loss letters were warranted and issued as appropriate.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA found five instances where reservation of rights or excess of loss letters were used. The use of these letters appeared appropriate. RNA noted no instances where reservation of rights or excess of loss letters should have been used, but were not. The Company's appears to have reasonable policies and procedures for the use of reservation of rights and excess of loss letters.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, six denied or closed-without-payment claims, and ten open claims for testing. RNA reviewed each selected claim file, and noted whether deductible reimbursement to insureds upon subrogation recoveries were reasonably timely and accurate.

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

Observations: RNA noted that deductible reimbursement to insureds, upon subrogation recoveries, for eight tested claims was timely, accurate and processed according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for making deductible reimbursement to insureds upon subrogation recoveries are functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

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

- Company policy is to report complete and accurate loss data timely to appropriate rating bureaus.
- The Company reports private passenger automobile loss data to CAR in a format required by CAR. The Company is subject to periodic loss data audits by CAR for compliance with statutes and CAR Rules of Operation.
- The Company also reports loss data to the AIB, which is a rating bureau that represents the Massachusetts insurance industry.
- The Company reports homeowners loss data to ISO in the required format.
- The Company has processes to correct loss data coding errors and to make subsequent changes, as needed.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, six denied or closed-without-payment claims, and ten open claims for testing. RNA reviewed each selected claim file and noted whether selected loss data was accurate and complete.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that selected loss data appears to be accurate and complete for tested claims. Based upon testing, the Company appears to have processes for timely and accurately reporting of loss statistical data to rating bureaus in accordance with its policies and statutory requirements.

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

SUMMARY

Based upon the procedures performed in this examination, RNA has reviewed and tested Company, Complaint Handling, Marketing and Sales, Policyholder Service, Underwriting and Rating, and Claims as set forth in the 2011 *NAIC Market Regulation Handbook*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. RNA has provided recommendations and required actions to address standards in Company Operations/Management, Complaint Handling, Policyholder Service, Underwriting and Rating, and Claims.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE HANOVER INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA
MASSACHUSETTS BAY INSURANCE COMPANY

ACKNOWLEDGEMENT

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

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

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

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