



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

Report on the Comprehensive Market Conduct Examination of

Hingham Mutual Fire Insurance Company
Danbury Insurance Company

Hingham, Massachusetts

For the Period January 1, 2018 through December 31, 2018

NAIC COMPANY CODE: 14192 AND 37346

EMPLOYER ID NUMBER: 04-1442510 AND 06-0600334

TABLE OF CONTENTS

	PAGE
SALUTATION	3
SCOPE OF EXAMINATION	4
EXAMINATION APPROACH	4
EXECUTIVE SUMMARY	5
COMPANY BACKGROUND	7
COMPANY OPERATIONS/MANAGEMENT	8
COMPLAINT HANDLING	19
MARKETING AND SALES	22
PRODUCER LICENSING	24
POLICYHOLDER SERVICE	28
UNDERWRITING AND RATING	33
CLAIMS	45
SUMMARY	55
ACKNOWLEDGMENT	56
APPENDIX A – PROPERTY CASUALTY EXAMINATION STANDARDS AND MASSACHUSETTS AUTHORITIES	



COMMONWEALTH OF MASSACHUSETTS
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DIVISION OF INSURANCE

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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

March 17, 2021

The Honorable Gary D. Anderson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Dear Commissioner Anderson:

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

HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

Which have their home office located at:

50 Derby Street #104
Hingham, Massachusetts 02043

The following report thereon is respectfully submitted.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination (“examination”) of Hingham Mutual Fire Insurance Company (“HMFIC”) and Danbury Insurance Company (“DIC”), (collectively, the “Company”) for the period January 1, 2018 to December 31, 2018, with the focus on Massachusetts personal lines operations. The examination was called pursuant to authority in Massachusetts General Laws Chapter (“M.G.L. c.”) 175, § 4. 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 *2018 NAIC Market Regulation Handbook*, (“the Handbook”) the examination standards of the Division, the Commonwealth of Massachusetts’ insurance laws, regulations and bulletins, and applicable 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 Division’s financial examination of the Company. For those objectives, RNA and the market conduct examination staff relied on procedures performed by the Division’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
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY 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. 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 required actions and 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 in company operations/management, complaint handling, marketing and sales, policyholder service, and underwriting and rating. The examination indicated that the Company meets all tested Company policies, procedures and statutory requirements in these areas. Further, the tested Company practices generally appear to meet industry best practices in these areas.

Required actions noted in this examination are as follows:

SECTION IV-PRODUCER LICENSING

STANDARD IV-1

Findings: For three of the 20 policies, the two licensed producers who wrote the policies were not timely appointed in the Division's On-Line Producer Appointment ("OPRA") System as the Company's agents in accordance with M.G.L. c. 175, § 162S.

Observations: Based upon testing, except as noted above, the Company's independent agencies and agents were properly licensed and appointed at the date of sale, and the agents' appointments were included in the Division's OPRA System.

Required Actions: The Company shall enhance its agent appointment controls and procedures, provide guidance to staff about the processing of these appointments, and complete monitoring of the new controls and procedures to ensure that agents are properly appointed in the OPRA System in accordance with statutory requirements. The Company shall provide the Division with the results of the completed monitoring by December 31, 2021 or another agreed upon date.

Subsequent Company Actions: The Company has reviewed and updated its agency appointment controls and procedures and will complete monitoring of the updated controls and procedures. Also, management has met with its marketing representatives and internal licensing staff and reinforced training about when and how agents are to be appointed.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

SECTION VII-CLAIMS

STANDARD VII-6

Findings: RNA testing noted that one homeowners claim did not have a properly completed Department of Revenue check completed prior to settlement in accordance with M.G.L. c. 175, §§ 14D, 25D, and 26D.

Observations: Based upon testing, and except as noted above, it appears that the Company handles claims in accordance with policy provisions and statutory requirements.

Required Actions: The Company shall adopt any needed policies and control procedures to address the statutory requirement to conduct Department of Revenue checks. Further, the Company shall provide training or guidance to claims adjusters on proper and timely implementation of related policies and procedures. Finally, the policies and control procedures shall be monitored to ensure that they are effectively implemented, with the results of the completed monitoring reported to the Division by December 31, 2021, or another agreed upon date.

Subsequent Company Actions: The Company issued guidance to claims adjusters, offered training on the new guidance, and implemented new supervisory procedures over the Department of Revenue checks. Also, the Company is considering including a business rule in the new claim system requiring claim adjusters to consider the need for Department of Revenue checks before a bodily injury settlement payment is issued.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

COMPANY BACKGROUND

HMFIC, established in 1826, and its indirect wholly-owned subsidiary, DIC, are both domiciled in Massachusetts and primarily write homeowners, fire and allied lines business in Massachusetts and other New England states. All business is generated through independent agents. In 2010, the Company established an affiliation with Connecticut-domiciled New London County Mutual Insurance Company and its Connecticut-domiciled indirect wholly-owned subsidiary, Thames Insurance Company, Inc. The affiliation was accomplished through the use of interlocking Boards of Directors and an affiliated company reinsurance pooling agreement.

HMFIC and DIC maintain A.M. Best financial strength ratings of A- (Excellent) with stable outlooks. The following financial information is as of, or for the year ended December 31, 2018:

Hingham Mutual Fire Insurance Company:

Admitted assets	\$71.0 million
Statutory surplus	\$47.5 million
Direct written premium	\$9.4 million
Massachusetts direct written premium	\$9.4 million

Danbury Insurance Company:

Admitted assets	\$12.5 million
Statutory surplus	\$7.7 million
Direct written premium	\$1.6 million
Massachusetts direct written premium	\$1.6 million

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

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

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

- The Company's statutory financial statements are audited annually by an independent auditor.
- HMFIC and DIC have identical Boards of Directors. Six of the seven members of the HMFIC and DIC Boards of Directors are independent directors. The Chief Executive Officer also serves on the Boards of Directors.
- The Boards of Directors meet at least four times per year and are responsible for overseeing market conduct compliance, appointing the insurers' opining actuaries and other common board duties.
- The Company does not have an internal audit function, but has established a Compliance Committee, which is a management committee that includes representatives of key operational areas. The Director of Underwriting Operations leads the Compliance Committee, which meets at least bi-weekly, and tracks current compliance matters, newly-issued Division Bulletins, state regulator data calls, and current industry issues. Discussions and issues are documented in a Compliance Log.
- The Company has also established a claims quality assurance ("QA") program through monthly reviews of five open or closed claim files per adjuster by claims managers. The QA includes a sample of claims for each adjuster to assess adherence to Company policies and procedures. The QA results are documented and scored in checklists. Results are reported for each adjuster for use by claims management as part of the employee training and performance evaluations.
- The Company's underwriting department conducts periodic desk audits of the independent agencies to ensure agents are maintaining signed applications, supporting discount information, and Fair Credit Reporting Act ("FCRA") adverse action notices that were provided to applicants. If the agencies are not retaining required information, the marketing representatives will monitor the agencies for improvement, and subsequent audits may be conducted to ensure compliance with policies and procedures.

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

Transaction Testing Procedure: RNA reviewed Boards of Director minutes, the 2018 and 2019 Form F Enterprise Risk Reports, the Compliance Log, the 2018 and 2019 Corporate Governance Annual Disclosure ("CGAD") filings, and audit evidence of the completion of the FCRA procedures by the independent agencies.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

Transaction Testing Results:

Findings: None.

Observations: The Boards of Director minutes, 2018 and 2019 Form F Enterprise Risk Reports, Compliance Log, 2018 and 2019 CGAD filings, and the independent agency FCRA audit documentation were reviewed by RNA. These documents provided detailed information on corporate governance and actions, enterprise risk assessments, and recommendations for actions, as appropriate.

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 recently completed statutory financial examination of the Company.

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

Objective: This Standard addresses the effectiveness of the Company's antifraud efforts. 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 coordinated through the Company's Special Investigative Unit ("SIU"). The SIU function includes a trained SIU investigator, who supports the claims operations with field investigations and surveillance. Claim professionals receive training regarding SIU red flags, and also use judgment to make referrals to SIU. If the claim is accepted by SIU, the SIU adjuster conducts an investigation, and documents the findings in a separate file that is not included in the claim file. The SIU findings are discussed and reported to claims supervisors at the conclusion of the SIU investigation.
- Procedures 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 is responsible for investigating claimant fraud, producer fraud and underwriting fraud.
- The Company's general employee policies and procedures, including code of ethics, conflict of interest, and non-disclosure policies are contained in its *Policies and Practices Handbook*, which is provided to all employees. All new employees must attest to compliance with the *Policies and Practices Handbook*. Officers and directors must complete an annual attestation and disclosure form regarding ethics and conflicts of interest.
- Criminal background and education checks are completed on prospective employees prior to hiring them.
- 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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

Transaction Testing Procedure: RNA reviewed Company policies and procedures to address antifraud initiatives as part of claims and underwriting testing and reviewed 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, prosecute, and prevent fraudulent insurance acts.

Recommendations: None.

<u>Standard I-4.</u> The regulated entity has a valid disaster recovery plan.
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No work performed. All required activity for this Standard are included in the scope of the recently completed statutory financial examination of the Company.

<u>Standard I-5.</u> 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 and appointing them as agents. Agent contracts address general authorities, duties, binding authority, premium accounting, commission rates, premium submission, profit sharing, termination provisions, marketing material requirements, general business procedures, arbitration rules and indemnification requirements. Additionally, the Company requires agents to maintain an errors & omissions insurance policy. The agents are solely responsible for maintaining their producer licensing and continuing education requirements.
- Agency relationships are managed through the Company's two marketing representatives, who regularly visit the agencies approximately every three months, to provide guidance and training on Company products, sales assistance, and business processing.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

- The marketing representatives also communicate to the agencies results from the underwriting department's agency field audits noting any areas that need attention or improvement.
- The Company utilizes independent field adjusters in Massachusetts to supplement its employee field staff as needed. In addition, the Company has contracts with two independent adjusting firms to handle catastrophe claims when claim volume is high, and quick responses are 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 management about its use of third parties to perform Company functions, and the monitoring procedures conducted over these third parties. Further, RNA reviewed the standard agency contracts as part of testing in producer licensing.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard I-6. The regulated entity is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the regulated entity.
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Objective: This Standard addresses the Company's efforts to 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. As part of marketing and sales, producer licensing, new and renewal business, and claims testing, RNA reviewed documentation that supports monitoring procedures performed.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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 inquired about the Company's record retention policies and evaluated them for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's record retention policies appear reasonable. Testing results relating to documentation evidence are 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 certificates of authority, and compared them 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

Recommendations: None.

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

Objective: This Standard addresses the Company's cooperation during the examination. See Appendix A for applicable statutes, regulations and bulletins.

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses 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-17:

- Company policy requires that the consumer privacy notice be provided to applicants when a new personal lines policy is issued. The notice is also annually provided to customers with personal lines renewal notices. Finally, the Company also provides the 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.
- Company management does not obtain investigative consumer reports on customers as part of underwriting, and does not conduct pretext interviews.
- Company policy requires that its information technology security practices safeguard nonpublic personal financial and health information. The Company periodically conducts information systems risk assessments to consider, document, and review information technology security threats and controls, and to continually improve information technology systems security.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

- Only individuals approved by management are granted access to key electronic and operational areas where nonpublic personal, financial, and health information is located.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for 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, underwriting testing, 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 documentation for any evidence that the Company improperly provided personal information to inappropriate parties.

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, reviewed documentation its supporting privacy policies and procedures, and examined whether the privacy notice provided sufficient information and disclosures. RNA selected 13 homeowners policies issued during the examination period, to test whether a proper privacy notice was provided.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses policies and procedures related 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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 addresses 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 such testing.

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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no instances where the Company improperly disclosed nonpublic personal health information in conjunction with testing of 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 addresses 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: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA reviewed documentation supporting the Company's information technology security policies and procedures. Review of information technology access and authorization controls is included in the scope of the Division's recently completed statutory financial examination of the Company.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard I-18. All data required to be reported to departments of insurance is complete and accurate.
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Objective: This Standard addresses the Company's annual reporting of statutorily-required Market Conduct Annual Statement ("MCAS") personal lines data. See Appendix A for applicable statutes, regulations and bulletins.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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 in the event it is requested by 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 2018 Massachusetts MCAS data for unusual results and data consistency.

Transaction Testing Results:

Findings: None.

Observations: RNA's review of the Company's 2018 Massachusetts MCAS data indicated that underwriting and claims data appeared reasonable and consistent with examination data.

Recommendations: None.

II. COMPLAINT HANDLING

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

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

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

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

- The Company defines a complaint as any written correspondence expressing a grievance or dissatisfaction about a product or service received from any person.
- All complaints are received by an administrative assistant, who reads the complaint, and identifies the issue and operational area involved. The administrative assistant enters the complaint in an excel spreadsheet, which serves as the Company's complaint register, and forwards the complaint to the appropriate operational area manager to draft a response. Operational area managers are to respond to the complaint in writing within the requested timeframe, by mailing the original response to the Division, and providing a copy to the administrative assistant, who enters the date of the complaint response, complaint type, and resolution in the complaint register.
- The Company's complaint register contains the regulatory complaint number, date received, date closed, complaint origin, line of business, complainant name, claim or underwriting file number, operational function code, nature of complaint, Company disposition, the reason therefore, and any additional remarks.
- The Company does not use social media to promote brand awareness or receive customer feedback. The Company has an email mailbox, which is accessible from its website and is monitored.
- The Company provides a telephone number and address in its written responses to complaints, inquiries, and on its website.
- The Company reviews all complaint activity for identification of any recurring, systemic or potential problems. Management reporting of complaint activity is provided 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 management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed the Company's 2018 complaint register to evaluate compliance with statutory complaint requirements, and to determine whether it properly contained all Division complaints.

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

Observations: Based on testing, the Company's complaint register included all statutorily-required database elements. Also, the Company's complaint register properly included all Division complaints.

Recommendations: None.

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 tested five 2018 complaints to evaluate 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 policyholders and consumers.

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA tested five complaints to evaluate the Company's efforts to properly dispose of complaints.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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. Policyholders and consumers with similar fact patterns appeared to be treated consistently and fairly.

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA tested five complaints to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

Observations: The Company appeared to address timely each of the tested complaints. 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 addresses whether the Company maintains a system of control over the content, form and method of dissemination for all advertising materials. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company does not conduct any advertising to the public and has no co-op advertising program for agents. The Company sponsors some public events for name awareness and recognition.
- The Company does not use social media to promote brand awareness or receive customer feedback.
- The Company does not conduct direct mail campaigns.
- 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 marketing and distribution management and reviewed the Company's website for disclosure of its name and address.

Transaction Testing Results:

Findings: None.

Observations: RNA noted the Company's website disclosure complies with Division requirements.

Recommendations: None.

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

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

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

- The Company's sales distribution in Massachusetts is through independent agents.
- Agency relationships are managed through the Company's two marketing representatives, who regularly visit the agencies approximately every three months, to provide guidance and training on Company products, sales assistance, and business processing.
- Training and underwriting information is provided to agents through the agent web portal.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

- Continuing education requirement compliance is solely monitored by the agencies.

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 sales and marketing, and for providing training to independent agencies.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company's producer training process appears reasonable and appropriate.

Recommendations: None.

Standard III-3. Regulated entity communications to producers are in compliance with applicable statutes, rules and regulations.
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Objective: This Standard addresses whether the written and electronic communication between the Company and its producers is in accordance with Company policies and procedures. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard III-2.

Controls Reliance: See Standard III-2.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for sales and marketing, and for providing communications to independent agencies. RNA also reviewed any producer communications for reasonableness as part of new and renewal business testing.

Transaction Testing Results:

Findings: None.

Observations: Based on review, procedures for independent agency communications appear appropriate and reasonable. RNA noted no evidence of the use of unreasonable producer 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.

No work performed. This Standard is not covered in the scope of examination as the Company does not mass market its insurance products.

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 homeowners policies in Massachusetts through independent agencies. All producers are licensed and are to be appointed agents of the Company.
- When a prospective producer is evaluated for appointment, usually through a referral, the Company's marketing representatives conduct an on-site visit, obtain the producer license, review the agent's current book of business for profitability and fit, review three years' of production and loss results, and obtain a copy of the producer's errors & omissions insurance policy.
- Agent contracts address general authorities, duties, binding authority, premium accounting, commission rates, premium submission, profit sharing, termination provisions, marketing material requirements, general business procedures, arbitration rules and indemnification requirements. Additionally, the Company requires agents to maintain an errors & omissions insurance policy. The agents are solely responsible for maintaining their producer licensing and continuing education requirements.
- The Company uses the Division's OPRA System to process agent appointments and terminations.
- The Company obtains OPRA System data at least annually when agent appointment fees are paid. Differences in the Company's and OPRA System data are to be researched and addressed.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and processing of agent appointments. RNA selected 20 homeowners policies issued or renewed during the examination period, to determine whether the agent for each policy was included on the Division's list of the Company's appointed agencies or agents.

Transaction Testing Results:

Findings: For three of the 20 policies, the two licensed producers who wrote the policies were not timely appointed in the Division's OPRA System as the Company's agents in accordance with M.G.L. c. 175, § 162S.

Observations: Based upon testing, except as noted above, the Company's independent agencies and 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
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

Required Actions: The Company shall enhance its agent appointment controls and procedures, provide guidance to staff about the processing of these appointments, and complete monitoring of the new controls and procedures to ensure that agents are properly appointed in the OPRA System in accordance with statutory requirements. The Company shall provide the Division with the results of the completed monitoring by December 31, 2021 or another agreed upon date.

Subsequent Company Actions: The Company has reviewed and updated its agency appointment controls and procedures and will complete monitoring of the updated controls and procedures. Also, management has met with its marketing representatives and internal licensing staff and reinforced training about when and how agents are to be appointed.

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

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

- Agency relationships are managed through the Company's two marketing representatives, who regularly visit the agencies approximately every three months, to provide guidance and training on Company products, sales assistance, and business processing.
- Additional training and underwriting information is available to agents through the Company's agent web portal. The marketing representatives also communicate to the agencies results from the underwriting department's agency field audits noting any areas that need attention or improvement.
- Continuing education requirement compliance is monitored by the agencies.

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, agent appointments, and continuing education. RNA also reviewed the standard independent agency contract for responsibility related to continuing education requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review, the Company provides training to the independent agencies to enable them to comply with their agency contracts. The agencies are solely responsible for maintaining compliance with the Division's producer continuing education requirements.

Recommendations: None.

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

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

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

- The Company's appointment terminations are generally due to lack of production or profitability, or at the request of the agency. The Company's provides required written notice to all agents whose appointments are terminated.
- The termination effective date reported in the OPRA System by the Company is the date that all outstanding business from that producer has expired, which is generally 18 months from the date of the termination letter sent to the agent.
- The Company's policy is to give information to the Division about agents whose appointments are terminated "for cause" including the reason for the terminations.
- The Company obtains OPRA System data at least annually when the agent appointment fees are paid. Differences in the Company's and OPRA System data are reconciled, researched, and addressed as appropriate.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and appointment termination processing. RNA selected six agency appointment terminations from 2018, and compared those to information in the Division's OPRA System. Further, RNA reviewed evidence that notices to the Division and the agents complied with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company properly notified the Division of agent terminations through the OPRA System, in compliance with statutory requirements. Also, the notices to the agents met statutory requirements.

Recommendations: None.

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

Objective: The Standard addresses the Company's policy for ensuring that agency and 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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 20 homeowners policies issued or renewed, and six agency appointment terminations during the examination period, RNA reviewed documentation for any evidence of unfair discrimination against policyholders resulting from the Company's producer appointment and termination policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, no evidence of unfair discrimination against policyholders was noted based on the Company's producer appointment and termination policies.

Recommendations: None.

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

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

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and appointment termination processing. RNA selected six agency appointment terminations during the examination period, and reviewed the reasons for each appointment termination. RNA also inquired about any agency or 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. None of the tested appointment terminations was "for cause".

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's direct bills substantially all personal lines premium. Thus, excessive debit account balances are not a significant issue. If material debit account balances existed, they would be evaluated in the Division's statutory financial examination of the Company.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

V. POLICYHOLDER SERVICE

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

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

Objective: This Standard addresses 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 may be made in two, four, five or ten installments and monthly. Payments are accepted using a check, credit card, debit card, electronic funds transfer, by mail, phone or on the website. Policies may also be mortgagee-billed.
- For billed installments, the initial bill is sent approximately 18 days prior to the due date for policies on the monthly payment plan, and 25 days in advance for all other payment plans. If the premium is not paid by the due date, plus a three-day grace period for the monthly plan, or five days for all other plans, a notice of cancellation is sent to the insured providing approximately 14 days to make the payment. If the payment is not received during that 14 day period, the policy is cancelled.
- Payments received after the cancellation date are referred to the underwriter for review for possible reinstatement. A reinstatement may be approved by the underwriter with a written confirmation from the insured of no losses during the cancellation period.
- 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 addresses whether the Company has procedures to ensure that policyholder cancellation requests are processed accurately and timely. Policy issuance testing is included in Standard VI-6. 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 process insured-requested policy cancellations and applicable premium refunds in a timely manner. Policy cancellation requests from insureds are generally made through the agents, but may be made directly with the Company by the insured if the request is in writing and signed by the insured.
- Any unearned premium resulting from the cancellation is refunded to the insured using a pro-rata calculation. The Company's policy is to process requested cancellations within five business days.

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 eight homeowner insured-requested cancellations from the examination period, to ensure that the cancellation requests were processed accurately and timely.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the insured-requested cancellations were processed accurately and timely. Also, premium refunds were returned timely.

Recommendations: None.

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

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

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

- The Company's call center representatives answer the insureds' general questions or correspondence, make premium billing changes, and may process insured-requested cancellation transactions as noted in Standard V-2.
- The Company has underwriting representatives, who may assist agents with insureds' general questions about their policy coverages and terms.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

- The Company considers its independent agents as having the primary relationship with insureds, who must request endorsements and policy changes through the agents. If such requests are made directly to the Company, the insured is referred to the agent for servicing.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel in conjunction with underwriting, rating, and policyholder service standards. Additionally, RNA obtained documentation of customer service correspondence in conjunction with transaction 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, rating, and policyholder service 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 has not entered 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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

- The Company researches returned mail, such as insurance policies, required notices, and billing notices by reviewing Company information and asking for assistance from the agent. The Company also assists with searches of public databases when requested by the agents. If a better address is found, the returned mail item is resent to the new address.
- Premium refund and claims checks not cashed remain on the Company's outstanding check list and are monitored. After any check is outstanding for 18 months, a due diligence letter is sent to the last address notifying the payee that the check is outstanding and will be escheated in 18 months if not cashed.
- 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 with Company personnel the Company's procedures for locating missing policyholders and claimants, and for escheating funds, and reviewed supporting documentation. RNA compared the Company's policies and procedures to the Division's best practices in these areas.

Transaction Testing Results:

Findings: None.

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

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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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

- The Company's claims personnel and independent agents have access to insureds' claims history and paid loss information.
- Requests for claims history are generally handled through the insured's agent.

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.

Observations: Based upon testing in underwriting and rating, claims, complaints and policyholder service, RNA noted no evidence of the Company being non-responsive to any policyholder inquiries. Policies and procedures relating to how the Company responds to policyholder inquiries on claims 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 and in a non-discriminatory manner. 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. It has provided agents with underwriting requirements for use in evaluating risks and has granted the agents binding authority.
- Agents may obtain homeowners quotes using the Company's agent web portal or using other third party comparative rating tools. Agents electronically submit application information through the agent web portal, with the signed applications retained in the agents' files. The application forms are approved by the Division.
- Homeowners underwriting and rating criteria include loss history, territory, coverage amount and type, property age, protection class, structure type, distance-to-water, as well as discounts for security features, safety features, and higher deductibles. The Company uses a minimum insurance score, which is based on credit history, in homeowners new business underwriting.
- The Company's underwriting staff review all new business bound by agents. Reviews of submitted applications are completed within two-five business days after submission. If there are questions or additional information needed, the staff will request information from the agent.
- Comprehensive Loss Underwriting Exchange ("CLUE") loss history reports are obtained and reviewed, and on-line information is reviewed about new risks, to ensure that information is consistent with the application information. In some cases, an inspection may be conducted, particularly if the home was built prior to 1950, if the coverage is over \$500,000, or if there are underwriting concerns about the risk, such as business use in the home.
- Homeowners rates are based the Company's internal data and the Company's competitive market rate analysis. Rates are filed with the Division and approved prior to use. Approved rates are loaded in the underwriting and policy administration systems and are tested prior to use.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements.
- The insurance policies are delivered directly to the insureds by the Company, along with all required disclosures including the annual privacy notice.
- The Company's underwriting department conducts periodic desk audits of the independent agencies to ensure that the agents are maintaining signed applications, supporting discount information, and any FCRA adverse action notices that were provided to applicants. If the agencies are not retaining required information, the marketing representatives will monitor the agencies for improvement, and subsequent audits may be conducted to ensure compliance with requirements.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting and rating processes. RNA selected 20 homeowners policies issued or renewed during the examination period, to test rate classifications and underlying policy information. For each of the test selections, RNA verified that each policy's premium and discounts complied with statutory and regulatory requirements, and that premium charges were accurate.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VI-2. All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations.
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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 controls are designed to ensure that new business submissions are accurate and complete, including the use of required forms.
- The Company's insurance policies provide required disclosures.

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 20 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 rate and coverage disclosures to applicants upon initial application and renewal, in accordance with its policies, procedures, and statutory requirements.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

Recommendations: None.

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

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

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for commission processing and producer contracting. In conjunction with new and renewal business testing, RNA selected 20 homeowners policies issued or renewed during the examination period, to review commissions paid to agencies, and for indications of rebating, commission cutting or inducements.

Transaction Testing Results:

Findings: None.

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

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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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:

- The Company uses standard homeowners policy forms, many based on Insurance Services Office forms. 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 20 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.

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
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 20 homeowners policies issued or renewed during the examination period, to test whether new and renewal policies and endorsements were issued timely, accurately and completely.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VI-7. Rejections and declinations are not unfairly discriminatory.
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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.
- Applications 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 underwriting guidelines.
- The Company uses a minimum insurance score, which is based on credit history, in homeowners underwriting. Any applicant declined coverage or refused a quote for an unacceptable insurance score is to be provided a FCRA adverse action notice by the agent, and the agent is instructed to retain that notice in the files for five years.
- Other than providing the FCRA adverse action notice, agents may provide either a written or oral declination notice to the applicant for other declination reasons.

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 20 homeowners declinations for unacceptable insurance score from the independent agency audit declination log to ensure that the declinations were not unfairly discriminatory, and to ensure that a written FCRA adverse action notice was timely provided.

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

Observations: Testing of homeowners audit declination log for unacceptable insurance score indicated that the declinations met the Company's underwriting guidelines, and written FCRA adverse action notices were timely provided.

Recommendations: None.

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

Objective: This Standard addresses notices to policyholders for company-initiated cancellations and non-renewals, including advance notice before expiration for cancellations and non-renewals. Declination procedures are reviewed 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 homeowners policies for underwriting reasons are generally a result of changes in the risk, failure to address inspection deficiencies, material 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 insured and the agent at least five days prior to the cancellation effective date. Written notice is sent to mortgagees at least 20 days prior to the cancellation effective date.
- Written non-renewal notices for unacceptable renewals of homeowners risks are provided to insureds, agents and mortgagees 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. For testing, RNA selected 20 homeowners company-initiated cancellations and 22 homeowners non-renewals. All transactions were evaluated for compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based on testing, the Company provided timely and adequate notice to insureds for company-initiated underwriting cancellations and non-renewals with the specific reasons properly disclosed. The specific reasons were reasonable and in compliance with statutory and regulatory requirements.

Recommendations: None.

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

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

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

- Company policy requires compliance with underwriting guidelines in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks. The Company states that rescissions rarely, if ever, occur.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and discussed procedures for 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 and unfair discrimination. 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 examination was focused on personal lines business.

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 examination was

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

focused on personal lines business.

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 examination was focused on personal lines business.

Standard VI-14. Verification of experience modification factors.

No work performed. This Standard is not covered in the scope of examination as the examination was focused on personal lines business.

Standard VI-15. Verification of loss reporting.

No work performed. This Standard is not covered in the scope of examination as the examination was focused on personal lines business.

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 examination was focused on personal lines business.

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.
- 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 underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 20 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 reviewed a complaint about policy cancellation due to loss history, 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.

Standard VI-18. 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 and quality assurance audits within the Company's operational areas. See Appendix A for applicable statutes, regulations and bulletins.

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

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

No work performed. This Standard is not covered in the scope of examination as the Company does not write private passenger automobile business.

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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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. Written underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 20 homeowners policies issued or renewed during the examination period, to determine whether any underwriting practices appeared collusive or anti-competitive.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

No work performed. This Standard is not covered in the scope of examination as the Company does not mass market its insurance products.

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

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

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

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 make subsequent changes, as needed.
- The Company has policies and procedures to report complete and accurate premium data quarterly in the required formats to the American Association of Insurance Services ("AAIS"), its homeowners rating bureau.

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 20 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.

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 agents are responsible for completing and retaining signed applications for new business and obtaining information needed to properly underwrite and rate the policies.
- The Company's underwriting department conducts periodic desk audits of the independent agencies to ensure that the agents are maintaining signed applications and supporting discount information. If the agencies are not retaining required information, the marketing representatives will monitor the agencies for improvement, and subsequent audits may be conducted to ensure compliance with requirements.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA reviewed documentation supporting the new and renewal business applications, and underwriting decisions made.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, application information was properly submitted, and policy files adequately supported the Company's decisions.

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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 Standard VII-1 through VII-13:

- The Company's claims department for Massachusetts claims is organized functionally by property, casualty, IT coordination, and subrogation collection areas.
- The Company has adopted a teams and supervisory structure to ensure that settlement procedures are followed. Individual claim settlement authority limits are assigned commensurate with claims adjusters' experience. Staff and contract adjusters are responsible for verifying coverage, coordinating claim investigations, establishing liability and determining damages.
- The Company utilizes contract field adjusters in Massachusetts to supplement its employee field staff, as needed. In addition, the Company has contracts with two independent adjusting firms to handle catastrophe claims when claim volume is high, and quick responses are needed.
- Written policies and procedures govern claims handling processes. Claims are generally reported through calls to the Company's 800 phone number, agents, the Company's website, or by fax/email. A claim number is established, and key information is obtained and recorded in the electronic claims processing system, which includes a claims diary and history notes.
- Claims are investigated to determine existence of coverage, so that an initial liability determination can be made. Field adjusters 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. An internally-developed bodily injury evaluation methodology is used to document the casualty losses and establish reserves. Also, underwriting risk referrals are made to the underwriting department, as necessary.
- 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.
- For property claims, the Company's process for reporting claims in excess of \$1,000 to municipal authorities is to send the required letter to the appropriate municipality when the adjuster sets the claim reserve at or above \$1,000. A daily report is prepared showing claims that have exceeded the \$1,000 reserve threshold.
- Department of Revenue checks are to be performed as required by statute and are to be documented in the claim files.
- Criteria for supervisor and manager periodic reviews of the claim adjusters' work have been established, and such reviews are documented in the claims system.
- 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.
- Signed proof of loss statements are required for larger claims, or when the claimant is represented by a public adjuster.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

- The Company uses standardized settlement letters to explain its appraisal and hold-back provisions. For claims greater than \$2,500 in which the claimant notifies the Company within the first 180 days of the claim report date of the intent to complete repairs, the hold-back amounts will be held open until the repairs are completed. If notice is not received within the first 180 days of the intent to complete repairs, the claim will be closed at the end of that period, and after any non-holdback claim payments made.
- The claims system produces data for the monthly claims reporting of service and quality metrics including claims cycle time and diary maintenance.
- The SIU function includes a trained SIU investigator, who supports the claims operations with field investigations and surveillance. Claim professionals receive training regarding SIU red flags and also use judgment to make referrals to SIU. If the claim is accepted by SIU, the SIU adjuster conducts an investigation, and documents his findings in a separate file that is not included in the claim file. The SIU findings are discussed and reported to claims supervisors at the conclusion of the SIU investigation.
- Procedures 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 IFB. The SIU is responsible for investigating claimant fraud, producer fraud and underwriting fraud.
- The Company has also established a claims QA program through monthly reviews of five open or closed claim files per adjuster by claims managers. The QA includes a sample of claims for each adjuster to assess adherence to Company policies and procedures. The QA results are documented and scored in checklists. Results are reported for each adjuster for use by claims management as part of the employee training and performance evaluations.
- The Company conducts post-claim payment surveys to all first party claimants. The survey results are summarized for management reporting. Any negative comments from respondents are investigated and addressed.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 15 paid claims, five denied or closed-without-payment claims, and five 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 recorded according to the Company's policies and procedures, with timely initial contact from the Company. Based upon testing, it appears that the Company's processes for providing timely initial contact with claimants are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VII-2. Timely investigations are conducted.

Objective: The Standard addresses the timeliness 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 homeowners claims including 15 paid claims, five denied or closed-without-payment claims, and five 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: Based upon testing, claims were investigated timely and completely in accordance with Company's policies 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 homeowners claims including 15 paid claims, five denied or closed-without-payment claims, and five 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 in accordance with Company's policies and statutory requirements. Based upon testing, it appears that the Company's processes for timely handling claims are functioning in accordance with its policies, procedures, and statutory requirements.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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 general 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 homeowners claims including 15 paid claims, five denied or closed-without-payment claims, and five open claims for testing. RNA tested each selected claim noting whether the Company timely responded to general claim correspondence.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 15 paid claims, five denied or closed-without-payment claims, and five open claims for testing. RNA reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

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

Recommendations: None.

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

Objective: The Standard addresses whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee, and whether the Company meets specific Massachusetts regulatory requirements. 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 homeowners claims including 15 paid claims, five denied or closed-without-payment claims, and five 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.

Transaction Testing Results:

Findings: RNA testing noted that one homeowners claim did not have a properly completed Department of Revenue check completed prior to settlement in accordance with M.G.L. c. 175, §§ 14D, 25D, and 26D.

Observations: Based upon testing, and except as noted above, it appears that the Company generally handles claims in accordance with policy provisions and statutory requirements.

Required Actions: The Company shall adopt any needed policies and control procedures to address the statutory requirement to conduct Department of Revenue checks. Further, the Company shall provide training or guidance to claims adjusters on proper and timely implementation of related policies and procedures. Finally, the policies and control procedures shall be monitored to ensure that they are effectively implemented, with the results of the completed monitoring reported to the Division by December 31, 2021, or another agreed upon date.

Subsequent Company Actions: The Company issued guidance to claims adjusters, offered training on the new guidance, and implemented new supervisory procedures over the Department of Revenue checks. Also, the Company is considering including a business rule in the new claim system requiring claim adjusters to consider the need for Department of Revenue checks before a bodily injury settlement payment is issued.

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.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 15 paid claims, five denied or closed-without-payment claims, and five 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 homeowners claims including 15 paid claims, five denied or closed-without-payment claims, and five open claims for testing. RNA reviewed the file for each selected claim, and noted whether case reserves were evaluated, established and adjusted in a reasonably timely manner. The Division's financial examiners and actuaries also test reserving in conjunction with the financial examination of the Company.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that case 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 case reserves are

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

generally 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 five denied or closed-without-payment 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

Transaction Testing Results:

Findings: None.

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. Full claim settlement attestation is required for certain liability claims through a written settlement agreement, or for large and public adjuster claims using a proof of loss statement. 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 homeowners claims including 15 paid claims, five denied or closed-without-payment claims, and five 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.

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 homeowners claims including 15 paid claims, five denied or closed-without-payment claims, and five 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 noted one homeowners claim where a reservation of rights letter was used. The use of the letter appeared appropriate. No use of excess of loss letters was noted. RNA noted no instances where reservation of rights or excess of loss letters should have been used, but were not. Based upon review and testing, it appears that the Company's processes for utilizing excess of loss and reservation of rights letters are functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 15 paid claims, five denied or closed-without-payment claims, and five 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company's policy appears reasonable for providing deductible reimbursement to insureds upon subrogation recoveries. None of the tested claims indicated that deductibles were reimbursed, and RNA noted no instances where deductibles should have been reimbursed, but were not. Based upon review, it appears that the Company's processes, policies and procedures are reasonable for making deductible reimbursement to insureds upon subrogation recoveries.

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:

- The Company has policies and procedures to report complete and accurate loss data quarterly in the required formats to AAIS, its homeowners rating bureau.
- The Company has processes to correct loss data coding errors and 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 homeowners claims including 15 paid claims, five denied or closed-without-payment claims, and five 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
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

SUMMARY

Based upon the procedures performed in this examination, RNA has reviewed and tested Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims as set forth in the *2018 NAIC Market Regulation Handbooks*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. RNA has provided required actions to address standards in Producer Licensing and in Claims.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY 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.



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