



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

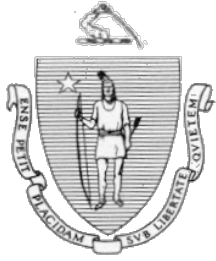
For the Period January 1, 2013 through December 31, 2013

NAIC COMPANY CODE: 14192 AND 37346

EMPLOYER ID NUMBER: 04-1442510 AND 06-0600334

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

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COMMISSIONER OF INSURANCE

September 8, 2014

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

Dear Commissioner Murphy:

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

HINGHAM MUTUAL FIRE INSURANCE COMPANY
DANBURY INSURANCE COMPANY

at their home offices located at:

230 Beal Street
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, 2013 to December 31, 2013, with primary focus on personal lines operations. The examination was called pursuant to authority in Massachusetts General Laws Chapter (“M.G.L. c.”) 175, § 4. The examination 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 *2013 NAIC Market Regulation Handbook*, (“the Handbook”) the examination standards of the Division, the Commonwealth of Massachusetts’ insurance laws, regulations and bulletins, and selected Federal laws and regulations. All procedures were performed under the supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed in the 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.

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EXECUTIVE SUMMARY

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

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

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

SECTION I-COMPANY OPERATIONS/MANAGEMENT

STANDARD I-18

Findings: None.

Observations: Based upon RNA's review of the Company's homeowners underwriting and claims processing data submitted to the Division in 2013 and 2014, no unusual results and concerns were noted, and the statutorily-required data reported to the Division appears to be reasonably complete and accurate. RNA's review of the Company's 2013 MCAS Massachusetts data indicated no unusual underwriting or claims data, although we noted that 45 cancellations requested by agents were improperly classified in Market Conduct Annual Statement ("MCAS") as non-renewals.

Recommendations: The Company should update its procedures to ensure that MCAS-reported non-renewal data is accurate and complete. Also, the Company should complete an independent review of MCAS filings prior to filing with the NAIC, to ensure that the data is accurate, complete and properly reconciled to underlying data contained in the Company's policy administration, underwriting and claims systems. Further, the Company should re-file its MCAS filing with the NAIC for 2014 to reflect corrected insured-requested cancellation and non-renewal activity.

Subsequent Company Actions: The Company has established validation procedures within its policy administration, underwriting and claims systems to ensure that all MCAS-reported non-renewal and cancellation data will be accurate and complete and properly reconciled prior to filing with the NAIC for all future submissions.

SECTION II-COMPLAINT HANDLING

STANDARD II-1

Findings: The Company's definition of a complaint does not include written communications received directly by the Company that primarily express a grievance as required by M.G.L. c. 176D, § 3(10).

Observations: RNA noted that the Company's complaint register included all statutorily-required database elements. Further, the Company's complaint register included all Division complaints. Also, negative comments received on post-claim survey responses appear to be investigated and addressed.

Required Actions: The Company shall define a complaint in accordance with M.G.L. c. 176D, § 3(10) and include written communications received directly by the Company that primarily express a grievance in its complaint register.

Subsequent Company Actions: The Company has established procedures to record within its complaint register written communications that primarily express a grievance received directly by the Company.

SECTION IV-PRODUCER LICENSING

STANDARD IV-1

Findings: One licensed producer, who was contractually appointed as the Company's agent and sold a renewal policy tested by RNA, was not appointed through the Division's On-Line Producer Appointment System ("OPRA") system in accordance with M.G.L. c. 175, § 162S. Also, in testing agent appointment terminations, four contractually appointed agents were never appointed through the OPRA system in accordance with M.G.L. c. 175, § 162S.

Observations: Based upon testing, except as noted above, the Company's independent agents were properly licensed and appointed at the date of sale, and the agents' appointments were properly processed 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 March 31, 2015 or another agreed upon date.

Subsequent Company Actions: The Company appointed the agent in the Division's OPRA system on August 19, 2014. Also, the Company completed a validation check within its systems and has verified that all Company agents have been appointed in the Division's OPRA system. The Company confirmed that its post-affiliation process requires this appointment process.

STANDARD IV-3

Findings: Although one of the tested agent appointments expired on April 1, 2014, the agent appointment termination was not processed in the OPRA system within 30 days of the appointment expiration in accordance with M.G.L. c. 175, § 162T.

Observations: Two of the agent appointment terminations selected for testing are not scheduled for processing in the OPRA system until later in the year as the agents' policy servicing authority is still valid. As noted in Standard IV-1, for four scheduled agent appointment terminations, the contractually appointed agents were never appointed through the OPRA system, so the terminations cannot be processed in the OPRA system. Finally, for each of the tested appointment terminations, the Company was able to provide evidence of timely notice to the agents in compliance with statutory requirements, as appropriate.

Required Actions: The Company shall enhance its agent appointment termination controls and procedures, provide guidance to staff about the processing of these terminations, and complete monitoring of the new controls and procedures to ensure that agent appointments are properly terminated in the OPRA system in accordance with statutory requirements. The Company shall provide the Division with the results of the completed monitoring by March 31, 2015 or another agreed upon date.

Subsequent Company Actions: The Company updated the Division's OPRA system to include all agent appointment terminations and will continue to process future terminations within the required timeframe.

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-7

Findings: None.

Observations: Based upon review of the information available, RNA was not able to conduct testing of declinations, or refusals to quote homeowners coverage based on insurance scores, since no such information was available. The Company's procedures and directives to agents about providing Fair Credit Reporting Act ("FCRA") adverse action notices to applicants appear adequate and reasonable.

Required Actions: The Company shall require agents to provide information to the Company about applications declined, or refused quoting, by the agents on the Company's behalf, due to inadequate insurance score. The Company shall conduct periodic agency desk audit procedures from that information to ensure that the FCRA adverse action notices have been properly and timely provided to applicants. The Company shall provide the results of its initial desk audit reviews to the Division by March 31, 2015, or another agreed upon date.

Subsequent Company Actions: The Company will reinforce FCRA adverse action notice requirements through its agency communications and establish a process to monitor compliance.

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STANDARD VI-8

Findings: For one of the company-initiated underwriting cancellations for unacceptable insurance score, a FCRA adverse action notice was not provided in accordance with the FCRA § 615(a).

Observations: Based on testing, except as noted above, the Company provided timely and adequate notice to the policyholders 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.

Required Actions: The Company shall provide a FCRA adverse action notice to the former insured noted above. Also, the Company shall enhance its FCRA adverse action notice controls and procedures and provide guidance to staff about the processing of these notices to ensure that they are properly and timely provided when underwriting cancellation notices or non-renewal notices are issued for unacceptable insurance score.

Subsequent Company Actions: The Company has provided a cover letter and a FCRA adverse notice to the former insured noted above. Also, the Company has held departmental retraining sessions regarding procedures to ensure that underwriting cancellation and non-renewal notices are processed properly and timely.

STANDARD VI-26

Findings: None.

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

Recommendations: The Company should consider conducting periodic agency desk audit procedures to ensure that the agents are retaining signed applications and other required underwriting information, such as support for discounts.

Subsequent Company Actions: The Company will consider this recommendation and develop processes as needed.

SECTION VII-CLAIMS

STANDARD VII-6

Findings: Testing indicated that eight tested homeowners claims over \$1,000 were not properly and timely reported to local building and health authorities to disclose a potentially dangerous condition in accordance with M.G.L. c. 139, § 3B. Also, testing identified one homeowners claim where the required Department of Revenue checks were not completed in violation of M.G.L. c. 175, § 24D, 24E and 24F.

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

Required Actions: The Company shall adopt new policies and control procedures to address the requirements of M.G.L. c. 139, § 3B, and review its current policies and controls for compliance with required Department of Revenue checks. Further, the Company shall provide training or guidance to claims adjusters on proper and timely implementation of these related policies and procedures. Finally, the new M.G.L. c. 139, § 3B 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 March 31, 2015, or another agreed upon date.

Subsequent Company Actions: The Company has developed internal procedures and conducted claims department training sessions to address the requirements of M.G.L. c. 139, § 3B for all applicable Massachusetts claims. Also, the Company has conducted training sessions to review all procedures for completing the required Department of Revenue checks.

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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. 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, 2013:

Hingham Mutual Fire Insurance Company:

Admitted assets	\$64.9 million
Statutory surplus	\$37.1 million
Direct written premium	\$22.5 million
Massachusetts direct written premium	\$19.1 million

Danbury Insurance Company:

Admitted assets	\$12.7 million
Statutory surplus	\$6.8 million
Direct written premium	\$1.4 million
Massachusetts direct written premium	\$1.1 million

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

I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

- The Company's statutory financial statements are audited annually by an independent auditor.
- HMFIC and DIC have identical Boards of Directors. Seven of the ten members of the HMFIC and DIC Boards of Directors are independent directors. The Chief Executive Officer, Vice-President-Claims, and the Chief Financial Officer also serve 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; however, the Company has established a Compliance Committee of management, which implements and monitors compliance activities.
- The Company conducts a claims quality assurance program through monthly reviews by claims managers of five open or closed files per claims adjuster. The review includes a sample of files from each claims adjuster to assess adherence to Company policies and procedures. The results are documented and evaluated using checklists, and the results are reported to claims management for employee training and performance evaluation.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for corporate governance, compliance risk assessment and claims quality assurance audit processes. RNA reviewed minutes of the Boards of Directors meetings and claims quality assurance checklists.

Transaction Testing Results:

Findings: None.

Observations: The Company has documented its corporate decisions in its Boards of Directors minutes. Also, the Company has developed a claims quality assurance process that appears to be well documented.

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 Division's financial examination of the Company.

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

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

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

- The Company's antifraud efforts are coordinated through the Company's Special Investigative Unit ("SIU"). 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.
- Claim adjusters receive training regarding fraud red flags, and also use judgment to make referrals to SIU; however, the claims adjuster maintains ownership of the claims adjudication. Any SIU findings are reported to claims supervisors at the conclusion of the SIU investigation. In cases where fraud is believed to have occurred, SIU will assist with criminal investigation and prosecution.
- 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* ("Handbook"), which is provided to all employees. All new employees must attest to compliance with the *Handbook*. Also, all employees must attest to compliance when the *Handbook* is updated. 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.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

- The Company's sales distribution in Massachusetts is through independent agents. Company policy is to verify that independent agents are properly licensed as Massachusetts producers prior to contracting with them. Agent contracts address 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 independent agents to maintain an errors & omissions insurance policy with minimum coverage of \$1 million. The independent agents are solely responsible for maintaining their producer licensing and continuing education requirements.
- 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 that are available to handle catastrophe claims, when claim volume is high, and a quick response is needed.
- Certain claims litigation defense duties are outsourced to various law firms and attorneys. The Company monitors the performance of the law firms and attorneys conducting litigation defense duties.

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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. Further, RNA reviewed standard agent contracts and related documentation, as applicable, in connection with new and renewal business testing and claims testing.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard I-6. The regulated entity is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the regulated entity.
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Objective: This Standard addresses the Company's efforts to adequately monitor the activities of the contracted entities that perform business functions on its behalf. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-5.

Controls Reliance: See Standard I-5.

Transaction Testing Procedure: RNA interviewed management about its monitoring of third parties that perform Company functions. RNA reviewed producer documentation that supports the new or renewal business sold and claims handling documentation during testing, as appropriate.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review, the Company's policies and procedures adequately protect consumers' nonpublic personal information. RNA noted no instances where the

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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 supporting privacy policies and procedures, and examined whether the privacy notice provided sufficient information and disclosures. RNA selected 30 homeowners policies issued or renewed during the examination period, to test whether a consumer privacy notice was provided.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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 with regard to opt out rights. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures including whether the Company uses opt out notices, and if so, how such notices are used.

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Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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.
--

Objective: This Standard is concerned with the Company's information security efforts to ensure that nonpublic consumer information is protected. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has developed and implemented information technology security policies and practices to safeguard nonpublic personal and health information.
- The Company has adopted specific information technology controls such as user access controls and annual audits thereof, deployment of several virus prevention and detection tools, use of an encrypted file transfer protocol, and monthly processes to apply security patches to database servers and the Company's operating systems.
- Only individuals approved by Company management are granted access to the Company's electronic and operational areas where non-public personal financial and health information is located. Access is frequently and strictly monitored.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for underwriting and claims processing. RNA reviewed the statutorily-required homeowners underwriting and claims data submitted to the Division in 2013 and 2014, and the 2013 MCAS data for unusual results and concerns.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's homeowners underwriting and claims processing data submitted to the Division in 2013 and 2014, no unusual results and concerns were noted, and the statutorily-required data reported to the Division appears to be reasonably complete and accurate. RNA's review of the Company's 2013 MCAS Massachusetts data indicated no unusual underwriting or claims data, although we noted that 45 cancellations requested by agents were improperly classified in MCAS as non-renewals.

Recommendations: The Company should update its procedures to ensure that MCAS-reported non-renewal data is accurate and complete. Also, the Company should complete an independent review of MCAS filings prior to filing with the NAIC, to ensure that the data is accurate, complete and properly reconciled to underlying data contained in the Company's policy administration, underwriting and claims systems. Further, the Company should re-file its MCAS filing with the NAIC for 2014 to reflect corrected insured-requested cancellation and non-renewal activity.

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Subsequent Company Actions: The Company has established validation procedures within its policy administration, underwriting and claims systems to ensure that all MCAS-reported non-renewal and cancellation data will be accurate and complete and properly reconciled prior to filing with the NAIC for all future submissions.

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 an insurance regulator or attorney general. Concerns expressed by phone and in writing when received directly by the Company are handled in operational areas and are not recorded on the Company's complaint register.
- 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 regulatory authority, and providing a copy to the administrative assistant. The administrative assistant 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, insured's name, claim or underwriting file number, operational function code, nature of complaint, and any additional remarks.
- The Company provides a telephone number and address in its written responses to complaints, inquiries and on its web-site.
- The Company does not use social media as a means to promote brand awareness or receive customer feedback; thus, the Company does not receive complaints from social media.
- The Company conducts written post-claim payment surveys of all first party claimants. The results are summarized with any negative comments investigated, addressed and monitored.
- The Company reviews all complaint activity for identification of any recurring, systemic or potential problems. Management reporting of complaint activity is provided as deemed 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 complaint registers for 2013 and 2014 to evaluate the Company's compliance with statutory complaint requirements. RNA also reviewed the Company's complaint registers for that period to determine whether they properly contained all Division complaints. Finally, RNA reviewed summaries

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of post-claim payment survey responses to ensure that all negative comments are investigated, addressed and monitored.

Transaction Testing Results:

Findings: The Company's definition of a complaint does not include written communications received directly by the Company that primarily express a grievance as required by M.G.L. c. 176D, § 3(10).

Observations: RNA noted that the Company's complaint register included all statutorily-required database elements. Further, the Company's complaint register included all Division complaints. Also, negative comments received on post-claim survey responses appear to be investigated, addressed and monitored.

Required Actions: The Company shall define a complaint in accordance with M.G.L. c. 176D, § 3(10) and include written communications received directly by the Company that primarily express a grievance in its complaint register.

Subsequent Company Actions: The Company has established procedures to record within its complaint register written communications that primarily express a grievance received directly by the Company.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed all four Division complaints from 2013 and 2014, to evaluate the Company's compliance with statutory complaint requirements. RNA reviewed the complaint handling for these complaints, including the adequacy of documentation supporting the facts and resolution of the complaints. In addition, RNA reviewed the Company's website and communications to consumers, to determine whether the Company provides contact information for consumer inquiries.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed all four Division complaints from 2013 and 2014, to evaluate the Company's efforts to properly dispose of complaints.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed all four Division complaints from 2013 and 2014, to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

III. MARKETING AND SALES

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

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

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

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

- The Company does not conduct any advertising to the public and has no co-op advertising program for agents. The Company does sponsor some public events for name awareness and recognition.
- The Company does not use social media as a means to promote brand awareness or receive customer feedback.
- 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 that 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 is concerned with whether the Company's producer training materials are in compliance with state statutes, rules and regulations. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's sales distribution in Massachusetts is through independent agents.

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- Agency relationships are managed through the Company's marketing representatives, who regularly visit the agencies approximately every two months, to provide guidance and training on Company products, sales assistance and business processing help.
- Training and underwriting information is available to agents through the Company's agent web portal on the Company's 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 developing and distributing agent training materials to understand the nature and breadth of the Company's producer training.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Controls Assessment: See Standard III-2.

Controls Reliance: See Standard III-2.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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 Standards IV-2 and IV-4:

- The Company sells homeowners policies in Massachusetts through its network of independent agencies.
- All producers are licensed and 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 evidence of the agent producer license, review the agent's current book of business for profitability and risk characteristics, and obtain a copy of the producer's errors and omissions insurance.
- Standard independent agent contracts contain terms and conditions that 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 independent agents to maintain errors and omissions insurance coverage of \$1 million. Finally, the independent agents are solely responsible for maintaining their producer licensing and continuing education requirements.
- The Company uses the Division's On-Line Producer Appointment System ("OPRA") system to process agent appointments and terminations.
- The Company 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 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 processing of agent appointments. RNA selected 30 homeowners policies issued or renewed during the examination period, to determine whether the independent agents involved in these sales were included on the Division's list of the Company's appointed agents. Also, as part of the agent appointment termination testing, we reviewed any unusual appointment information.

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Transaction Testing Results:

Findings: One licensed producer, who was contractually appointed as the Company's agent and sold a renewal policy tested by RNA, was not appointed through the Division's OPRA system in accordance with M.G.L. c. 175, § 162S. Also, in testing agent appointment terminations, four contractually appointed agents were never appointed through the OPRA system in accordance with M.G.L. c. 175, § 162S.

Observations: Based upon testing, except as noted above, the Company's independent agents were properly licensed and appointed at the date of sale, and the agents' appointments were properly processed 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 March 31, 2015 or another agreed upon date.

Subsequent Company Actions: The Company appointed the agent in the Division's OPRA system on August 19, 2014. Also, the Company completed a validation check within its systems and has verified that all Company agents have been appointed in the Division's OPRA system. The Company confirmed that its post-affiliation process requires this appointment process.

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

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

Controls Assessment: See Standard IV-1.

Controls Reliance: See Standard IV-1.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting, appointments and terminations. RNA reviewed the standard independent agent contract for responsibility related to agent continuing education compliance.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, independent agents are solely responsible for monitoring and 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 agents in accordance with applicable statutes requiring notification to the Division and the agent. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's appointment terminations are generally due to lack of production or profitability, or at the request of the agent. The Company's policy is to give required written notice to all agents whose appointments are terminated. The termination effective date reported in the OPRA system by the Company is the date that all outstanding business from that producer has expired.
- The Company uses the Division's OPRA system to process agent appointments and terminations.
- The Company's policy is to give additional information to the Division about agents whose appointments are terminated "for cause" including the reason for the terminations.
- The Company obtains OPRA system data at least annually. Differences in the Company's and OPRA system data are to be 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 agent supervision, producer contracting and appointment termination processing. RNA selected seven appointment terminations from the Company's data and compared that to corresponding information in the Division's OPRA system. Finally, RNA reviewed evidence that notices to the agents complied with statutory requirements.

Transaction Testing Results:

Findings: Although one of the tested agent appointments expired on April 1, 2014, the agent appointment termination was not processed in the OPRA system within 30 days of the appointment expiration in accordance with M.G.L. c. 175, § 162T.

Observations: Two of the agent appointment terminations selected for testing are not scheduled for processing in the OPRA system until later in the year as the agents' policy servicing authority is still valid. As noted in Standard IV-1, for four scheduled agent appointment terminations, the contractually appointed agents were never appointed through the OPRA system, so the terminations cannot be processed in the OPRA system. Finally, for each of the tested appointment terminations, the Company was able to provide evidence of timely notice to the agents in compliance with statutory requirements, as appropriate.

Required Actions: The Company shall enhance its agent appointment termination controls and procedures, provide guidance to staff about the processing of these terminations, and complete monitoring of the new controls and procedures to ensure that agent appointments are properly terminated in the OPRA system in accordance with statutory requirements. The Company shall provide the Division with the results of the completed monitoring by March 31, 2015 or another agreed upon date.

Subsequent Company Actions: The Company updated the Division's OPRA system to include all agent appointment terminations and will continue to process future terminations within the required timeframe.

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

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

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

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for agent contracting and appointment termination processing. RNA selected seven appointment terminations during the examination period, and reviewed the reasons for each appointment termination. RNA also inquired about any agent that was terminated "for cause" during the examination period.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

V. POLICYHOLDER SERVICE

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

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

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

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

- The Company's billing and payment methods include payment in full at inception or direct bill in installments. Installment payments may be made monthly or quarterly. Payments are accepted using a check, credit card, debit card, electronic funds transfer, by phone or on the internet. Homeowner policies may also be mortgagee-billed.
- For billed installments, the initial bill is sent approximately 18 days prior to the due date. If the premium is not paid by the due date, and unearned premium equity is not sufficient, a notice of cancellation is sent to the insured providing approximately 14 days to make the installment payment. If the payment is not received during that 14 day period, the policy is cancelled.
- Payments received three or more days after the cancellation date are referred to the underwriter for review for possible reinstatement. Such 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 is concerned with whether the Company has procedures to ensure that policyholder cancellation requests are processed timely. Policy issuance testing is included in Standard VI-6. Return of premium testing is included in Standard V-7. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy is to process insured-requested policy cancellations and applicable premium refunds in a timely manner. Policy cancellation requests from insureds are generally made through the agents, but may be made directly with the Company by the insured if the request is in writing with a signature of the insured.
- Any unearned premium resulting from the cancellation is refunded directly from the Company to the insured using a pro-rata calculation. The Company's policy is to process requested cancellations within two 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 13 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.

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.

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- The Company has underwriting representatives, who may assist independent agents with policyholders' general questions about their policies.
- The Company considers its independent agents as having the primary relationship with policyholders, who must request endorsements and policy changes through the agents. If a policyholder requests endorsements and policy changes directly with the Company, the policyholder will be 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 and obtained documentation of underwriting and policyholder service standards. RNA reviewed customer correspondence in conjunction with new and renewal business and claims testing.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

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

- The Company researches returned mail, such as policies, required notices, and billing notices by reviewing Company information and asking for assistance from the agent. The Company may also assist 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 still 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 the Company's procedures for locating missing policyholders and claimants and escheating funds. RNA also reviewed supporting documentation. RNA compared the Company's policies and procedures to the Division's best practices in these areas. Finally, RNA reviewed the 2012 and 2013 escheatment filings with the Massachusetts State Treasurer.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

- The Company's claims personnel and independent agents have access to policyholders' claims history and paid loss information.
- 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 that the Company was non-responsive to any policyholder inquiries. Policies and procedures relating to how the Company responds to policyholder inquiries on claims history and paid loss information appear adequate and reasonable.

Recommendations: None.

VI. UNDERWRITING AND RATING

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

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

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

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- The Company has provided agents with underwriting requirements for use in evaluating risks and has granted the agents binding authority.
- Agents may obtain homeowners quotes using the Company's agent portal or other third party comparative rating tools. Agents electronically submit application information with the signed applications retained in the agents' files. The standard forms for the applications are approved by the Division.
- Homeowners underwriting and rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for security features, safety features, 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. If there are questions or additional information needed, the staff will request such information. Company management monitors the underwriters' electronic workbaskets to ensure timely processing.
- Homeowners rates are based the Company's internal data and the Company's competitive analysis of market rates. Rates are filed with the Division and approved prior to use. All approved rates are loaded in the Company's underwriting and policy administration systems and are tested prior to use.
- 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.

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 30 homeowners policies issued or renewed during the examination period, to test rate classifications and underlying policy information. From these test selections, RNA selected 15 homeowners policies and verified that each policy's premium, discounts and surcharges were accurate and complied with statutory and regulatory requirements.

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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's controls are designed to ensure that new business submissions are accurate and complete, including the use of all Company-required forms and instructions.
- The Company's insurance policies provide disclosures as required by statutory and regulatory guidelines.

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 30 homeowners policies issued or renewed during the examination period, to test for timely disclosure of rates and coverages.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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 contracts.
- The Company's independent agent contracts, policies and procedures are designed to comply with statutory underwriting and rating requirements, which prohibit special inducements and rebates.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer licensing, agent appointment and agent compensation. In connection with the review of producer contracts, RNA inspected new business materials, producer training materials and manuals for indications of rebating, commission cutting or improper inducements. RNA selected 30 homeowners policies issued or renewed during the examination period for indications of rebating, commission cutting or improper inducements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

- Company policy requires the use of standard homeowners policy forms, many based on Insurance Services Office forms. Homeowners policy forms and endorsements are filed with, and approved by, the Division prior to use.
- Approved forms and endorsements are required to be used when providing quotes to customers.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 30 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.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 30 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 the Company's 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 Fair Credit Reporting Act ("FCRA") adverse action notice by the agent, and the agent is instructed to retain that notice in their files.
- 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. For applications during the examination period, RNA requested applications declined, or instances where the agents could not provide a quote based on the applicants' credit-based insurance scores. The Company does not have declination information for applicants declined by the agents, or for applicants refused a homeowners quote due to an unacceptable insurance score.

Transaction Testing Results:

Findings: None.

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Observations: Based upon review of the information available, RNA was not able to conduct testing of declinations, or refusals to quote homeowners coverage based on insurance scores, since no such information was available. The Company's procedures and directives to agents about providing FCRA adverse action notices to applicants appear adequate and reasonable.

Required Actions: The Company shall require agents to provide information to the Company about applications declined, or refused quoting, by the agents on the Company's behalf, due to inadequate insurance score. The Company shall conduct periodic agency desk audit procedures from that information to ensure that the FCRA adverse action notices have been properly and timely provided to applicants. The Company shall provide the results of its initial desk audit reviews to the Division by March 31, 2015, or another agreed upon date.

Subsequent Company Actions: The Company will reinforce FCRA adverse action notice requirements through its agency communications and establish a process to monitor compliance.

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

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

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

- Company-initiated cancellations of homeowners policies for underwriting reasons are generally a result of changes in the risk, failure to address inspection deficiencies, material misrepresentation, or an unacceptable insurance score, with most occurring within the first 60 days of coverage. Written notice of cancellation with the specific reason for the cancellation is sent to the policyholder and the agent at least nine days prior to the cancellation effective date. Written notice is sent to mortgagees at least 20 days prior to the cancellation effective date. In addition, any insured cancelled for an unacceptable insurance score is to be provided a FCRA adverse action notice with the cancellation notice.
- Written non-renewal notices for unacceptable renewals of homeowners risks are provided to policyholders, agents and mortgagees at least 49 days prior to the non-renewal effective date. The notices state the specific reasons for the non-renewals.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA tested 30 homeowners company-initiated underwriting cancellations for testing. In addition, RNA selected 25 homeowners non-renewal transactions for testing. All transactions were evaluated for compliance with statutory and Company policy requirements.

Transaction Testing Results:

Findings: For one of the company-initiated underwriting cancellations for unacceptable insurance score, a FCRA adverse action notice was not provided in accordance with the FCRA §

615(a).

Observations: Based on testing, except as noted above, the Company provided timely and adequate notice to the policyholders 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.

Required Actions: The Company shall provide a FCRA adverse action notice to the former insured noted above. Also, the Company shall enhance its FCRA adverse action notice controls and procedures and provide guidance to staff about the processing of these notices to ensure that they are properly and timely provided when underwriting cancellation notices or non-renewal notices are issued for unacceptable insurance score.

Subsequent Company Actions: The Company has provided a cover letter and a FCRA adverse notice to the former insured noted above. Also, the Company has held departmental retraining sessions regarding procedures to ensure that underwriting cancellation and non-renewal notices are processed properly and timely.

<u>Standard VI-9. Rescissions are not made for non-material misrepresentation.</u>

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 inquired about procedures for issuing rescissions.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

No work performed. This Standard is not covered in the scope of examination as the Company only writes 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 Company only writes 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 Company only writes 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 Company only writes 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 Company only writes 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 Company only writes 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 Company 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 30 homeowners policies issued or renewed during the examination period to test whether underwriting, rating and classification are based on adequate information developed at or near inception of coverage. RNA also sought evidence of complaints to ensure that underwriting is completed at or near inception of the coverage.

Transaction Testing Results:

Findings: None.

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

Recommendation: None.

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.

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 Company 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 30 homeowners policies issued or renewed during the examination period to determine whether any underwriting practices appeared collusive or anti-competitive.

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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 as the Company does not mass market its insurance 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 to make subsequent changes, as needed.

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- 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 30 homeowners policies issued or renewed during the examination period to test data coding for selected policy determinants.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

- Company policy requires that the underwriting files support underwriting and rating decisions.
- The Company’s independent agents are responsible for completing and retaining signed applications for new business and obtaining information needed to properly underwrite and rate the policies.

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 30 homeowners policies issued or renewed during the examination period to test data coding for selected policy determinants. Also, RNA requested signed applications for the 13 homeowners policies issued. Finally, RNA sought evidence of complaints related to unusual underwriting decisions.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, application information was properly submitted, and policy files, including signed applications, adequately supported the Company’s decisions. No evidence

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of complaints related to unusual underwriting decisions was noted. The Company does not conduct desk audits of independent agents to ensure that the agents are obtaining signed and dated applications and other required underwriting information, such as support for discounts.

Recommendations: The Company should consider conducting periodic agency desk audit procedures to ensure that the agents are retaining signed applications and other required underwriting information, such as support for discounts.

Subsequent Company Actions: The Company will consider this recommendation and develop processes as needed.

VII. CLAIMS

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

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

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

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

- The Company's personal lines claims handling process is organized in two units including casualty, litigation and recovery in one unit, and property, field adjusters and claims support staff in the other unit.
- The Company has adopted a supervisory structure to ensure that settlement authorities and procedures are followed. Individual claim settlement authority limits are assigned commensurate with claims adjusters' experience. Staff and contract adjusters are responsible for verifying coverage, coordinating claim investigations, establishing liability and determining damages.
- Written policies and procedures govern claims handling processes. The first notice of loss is generally reported through the Company's 800 phone number by the claimant or the agent. 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.
- Department of Revenue checks are to be performed as required by statute and are to be documented in the claim files.
- Third party property damage claimants are generally not required to sign a liability release unless there is a settlement dispute or general damages awarded. Releases are routinely required from third party bodily injury claimants.
- Criteria for supervisor and manager periodic reviews of the claim adjusters' work have been established, and such reviews are documented in the claims system.
- The claims system produces data for the monthly claims reporting of service and quality metrics including claims cycle time and diary maintenance.
- The Company's SIU function includes a trained SIU manager, 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, which are discussed and reported to claims supervisors at the conclusion of the investigation. In cases

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where fraud is believed to have occurred, SIU will assist with criminal investigation and prosecution. SIU is responsible for reporting potential fraud to the IFB.

- The Company conducts a claims quality assurance program through monthly reviews by claims managers of five open or closed files per claims adjuster. The review includes a sample of files from each claims adjuster to assess adherence to Company policies and procedures. The results are documented and evaluated using checklists, and the results are reported to claims management for employee training and performance evaluation processes.
- 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 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA verified the date each selected claim was recorded by the Company, and noted whether the initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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

Transaction Testing Results:

Findings: Testing indicated that eight tested homeowners claims over \$1,000 were not properly and timely reported to local building and health authorities to disclose a potentially dangerous condition in accordance with M.G.L. c. 139, § 3B. Also, testing identified one homeowners claim where the required Department of Revenue checks were not completed in violation of M.G.L. c. 175, § 24D, 24E and 24F.

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

Required Actions: The Company shall adopt new policies and control procedures to address the requirements of M.G.L. c. 139, § 3B, and review its current policies and controls for compliance with required Department of Revenue checks. Further, the Company shall provide training or guidance to claims adjusters on proper and timely implementation of these related policies and procedures. Finally, the new M.G.L. c. 139, § 3B 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 March 31, 2015, or another agreed upon date.

Subsequent Company Actions: The Company has developed internal procedures and conducted claims department training sessions to address the requirements of M.G.L. c. 139, § 3B for all applicable Massachusetts claims. Also, the Company has conducted training sessions to review all procedures for completing the required Department of Revenue checks.

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 12 paid claims, four denied or closed-without-payment claims, and nine 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 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

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

in accordance with its policies and procedures.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected four 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.

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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. 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 12 paid claims, four denied or closed-without-payment claims, and nine 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 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed the file for each selected claim, and noted whether reservation of rights or excess of loss letters were warranted and issued as appropriate.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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

Transaction Testing Results:

Findings: None.

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 to make subsequent changes, as needed.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine 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 its rating bureau in accordance with its policies and statutory requirements.

Recommendations: None.

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SUMMARY

Based upon the procedures performed in this examination, RNA has reviewed and tested Company, Complaint Handling, Marketing and Sales, Policyholder Service, Underwriting and Rating, and Claims as set forth in the 2013 *NAIC Market Regulation Handbook*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. RNA has provided recommendations and required actions to address standards in Company Operations/Management, Complaint Handling, Producer Licensing, Underwriting and Rating, and Claims.

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ACKNOWLEDGEMENT

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

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

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

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