



**THE COMMONWEALTH OF MASSACHUSETTS**

**OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION**

**Division of Insurance**

*Report on the Comprehensive Market Conduct Examination of*

*Holyoke Mutual Insurance Company in Salem*

*Salem, Massachusetts*

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

**NAIC GROUP CODE: 0050**

**NAIC COMPANY CODE: 14206**

**EMPLOYERS ID NUMBER: 04-1448835**

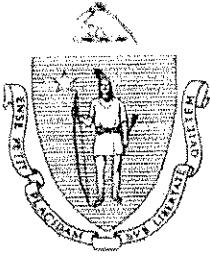
REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF  
HOLYOKE MUTUAL INSURANCE COMPANY IN SALEM

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Appendix A – NAIC Property Casualty Examination Standards and Massachusetts Authorities

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF  
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**COMMONWEALTH OF MASSACHUSETTS**

**Office of Consumer Affairs and Business Regulation**

**DIVISION OF INSURANCE**

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December 31, 2012

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 Law, Chapter 175, Section 4, a comprehensive examination has been made of the market conduct affairs of Holyoke Mutual Insurance Company in Salem, whose home office is located at:

One Holyoke Square  
Salem, MA 01970

The following report thereon is respectfully submitted.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF  
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## SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the "Division") conducted a comprehensive market conduct examination ("examination") of Holyoke Mutual Insurance Company in Salem (the "Company") for the period January 1, 2011 to December 31, 2011. 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 A. M. Bennett & Company ("AMB") were engaged to complete the examination.

## EXAMINATION APPROACH

A tailored examination approach was developed using the guidance and standards of the *2011 NAIC Market Regulation Handbook*, ("the Handbook") the examination standards of the Division, the Commonwealth of Massachusetts' insurance laws, regulations and bulletins, and selected Federal laws and regulations. All procedures were performed under the supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed in the Division's separate financial examination of the Company. For those objectives, AMB and the market conduct examination staff relied upon 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.

## REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF HOLYOKE MUTUAL INSURANCE COMPANY IN SALEM

The Division considers a “finding” to be a violation of Massachusetts insurance laws, regulations or bulletins. An “observation” is defined as 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.

### EXECUTIVE SUMMARY

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

The following is a summary of all findings and observations, along with related 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](http://www.mass.gov/doi).

The examination resulted in no recommendations or required actions with regard to company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, or claims. 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.

### COMPANY BACKGROUND

The Company was chartered on March 14, 1843, and began issuing policies in May of the same year. On January 28, 1975, the Company changed its name from Holyoke Mutual Fire Insurance Company to Holyoke Mutual Insurance Company in Salem, the name it bears today.

In January of 2000, the Company became affiliated with COUNTRY Mutual Insurance Company (“COUNTRY”), an Illinois domiciled company. The Company entered into a pooling agreement with COUNTRY, under which Holyoke cedes premiums and losses to COUNTRY and assumes back a percentage of the pool. From the inception of the agreement until 2006 the pooling percentage was based on Holyoke’s share of the combined surplus. Effective in 2006, the pooling percentage was set at 3.94% for five years.

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Effective January 1, 2006, all Holyoke employees became employees of an affiliated company, Middlesex Mutual Assurance Company ("Middlesex"), a Connecticut domiciled company. Also, in 2006 Holyoke and Middlesex started using the brand name of MiddleOak. This is not a new company, but a way of establishing a common identity for the two companies in the marketplace. The two companies have shared common management since 2003, and common board members since 2007.

Holyoke Mutual writes primarily homeowners and commercial multiple peril risk, but also writes general liability, automobile, and other lines. Holyoke Mutual currently writes business in 21 states, and produces all its business from contractual relationships with independent agencies. Approximately 42% of its gross premium income is written in Massachusetts. Of all Massachusetts business in 2011, homeowners accounted for 53% of premiums written and 63% of policies issued or renewed. Except for commercial multiple peril, no other line exceeded 5% of premiums written, and there were no premiums at all for private passenger auto or workers' compensation.

The Company is rated A+ (Superior) by AM Best Company.

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**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) where applicable, a review of several types of files at the Company.

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

Objective: This Standard addresses the need for effective internal and external/independent audit functions. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard:

- The Company has both internal and external audit functions.
- The internal audit function reports operationally to the Audit Committee of the Board of Directors, providing a degree of independence from internal Company management, to which it reports administratively.
- Internal audit supports the external auditor in various tasks, including evaluation and substantive testing of internal controls.
- Internal audit participates in the Enterprise Risk Management audit, the privacy audit, and compliance/operational reviews of key areas such as new business handling and producer licensing.
- The external auditor, Ernst & Young LLP, gave the Company a clean opinion on its financial statements for the year ended December 31, 2011 (clean with regard to statements prepared "in conformity with accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts").

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

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibilities related to internal audit.

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Testing Results:

Findings: None.

Observations: The Company has internal and external audit functions in place that appear to provide reasonable oversight, assessment and improvement, where warranted, of the Company's internal controls and related procedures.

Recommendations: None.

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

Objective: This Standard addresses the need for effective controls over the security of information maintained by the Company's computer systems. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard:

- The Company has a comprehensive Enterprise Information Security Policies and Procedures document (a Written Information Security Program) that addresses the many aspects of information security, including privacy of individual data.
- Internal audit participates in reviews to evaluate information security policies and procedures and identify the need or opportunities for improvement. Other areas of the Company, including Corporate Insurance Compliance, the Office of General Counsel and operational users of the systems contribute to the same effort.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibilities related to information security.

Testing Results:

Findings: None.

Observations: The Company has policies and procedures in place that appear reasonable and adequate to provide reasonable assurance of the effectiveness of the various aspects of information security.

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Recommendations: None.

**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 need for an effective anti-fraud plan. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard:

- The Company has a written antifraud plan, and maintains a list of specific fraud indicators to assist its personnel in identifying potential fraud.
- The Company has a Special Investigation Unit ("SIU") dedicated to the prevention and handling of fraudulent activities.
- The SIU is involved in training of Company personnel regarding fraud prevention and control, and works especially closely with claims, compliance, internal audit and Corporate Counsel.
- The SIU tracks and investigates potentially fraudulent activity with the assistance of other departments. Such activity is reported to Company management, Corporate Counsel and regulators as necessary.
- The SIU works with the Massachusetts Insurance Fraud Bureau to investigate and properly handle possible fraud.
- The Company performs criminal background checks for all new employees. Criminal conviction guidelines have been established to provide guidance on which convictions are prohibitions for employment.
- The Company requires all employees to annually complete conflict of interest forms.
- The Company has ethics hotlines to Corporate Counsel and Human Resources to enable any employee to address any issue that may arise during the course of his/her work.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibilities related to antifraud initiatives.

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Testing Results:

Findings: None.

Observations: The Company has anti-fraud initiatives in place that appear reasonable and adequate to prevent, detect, and prosecute fraudulent insurance acts.

Recommendations: None.

<b>Standard I-4. The regulated entity has a valid disaster recovery plan.</b>
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Objective: This Standard addresses the need for an effective disaster recovery plan. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard:

- The Company has a comprehensive written Business Continuity Plan that covers all key aspects of Company operations, including general Company operations, sales and marketing, underwriting, claims and other areas.
- The plan is reviewed and updated semi-annually, and system recovery operations are tested annually.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibilities related to the Company's business continuity/disaster recovery plan.

Testing Results:

Findings: None.

Observations: The Company has a business continuity/disaster recovery plan in place that appears to provide reasonable assurance that the Company could handle a major disruption to its operations.

Recommendations: None.

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**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 points were noted in connection with the review of this Standard and Standard I-6:

- The Company does not use MGAs or TPAs. Its primary contractual relationships are with agencies/producers.
- The Company uses a standard Agency-Company Agreement to govern the relationship between the Company and its producers. Among other things, the agreement covers:
  - Authority and limitations on authority of the producer.
  - Standards of performance, including compliance with federal and state laws and regulations, and with Company policies and procedures.
  - Use of the Company's systems and forms, including retention of forms and documents.
  - Privacy of personally identifiable information related to policyholders.
  - Ownership of material.
- The Company also uses a separate Agency Privacy Agreement to emphasize matters related to privacy of individual information.
- The Company also has contractual relationships with companies to support agency communications, claim handling and IT services. In addition to the individual contracts involved, the relationships are subject to documented Company Privacy Initiatives, which address security and privacy of individual information.

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

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibilities related to the Company's use of third parties to perform Company functions as described above.

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Testing Results:

Findings: None.

Observations: The Company's contracts with entities assuming a business function on its behalf that appear to comply with statutory and regulatory requirements.

Recommendations: None.

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

Objective: This Standard addresses the need for the Company 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.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibilities related to the Company's use of third parties to perform Company functions as described above and the monitoring procedures conducted.

Testing Results:

Findings: None.

Observations: The Company appears to be adequately monitoring the activities of third parties and affiliated entities assuming a business function on the Company's behalf, in compliance with statutory and regulatory requirements.

Recommendations: None.

**Standard I-7. Records are adequate, accessible, consistent and orderly and comply with state 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.

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Controls Assessment: The following points were noted in connection with the review of this Standard:

- The Company follows an established and written Records Retention Plan in accordance with state and federal laws. The Company has adopted a seven year retention period for most records. There are exceptions for certain documents which may extend the retention period (open claim files, litigation files, and certain corporate documents, for example).
- The Agency-Company Agreement requires that agencies/producers keep complete records and accounts of all insurance transactions, and identifies retention periods.
- The Agency-Company Agreement includes the right of the Company and state regulators to examine producers' accounts and records upon reasonable notice and requires the producer to correct any deficiency noted.
- The Agency Licensing Department audits 20 producers per month to assess document retention practices. A set of randomly selected policies are reviewed, and any issues detected are reported to Underwriting for follow-up and monitoring.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibilities related to this Standard. AMB also assessed compliance with this Standard as part of its transaction testing of records of new/renewal business, claims, and other areas.

Testing Results:

Findings: None.

Observations: In connection with individual transaction testing in various examination areas, AMB found documents to be adequate and accessible. Specific testing results, together with findings and observations, if any, are noted in the various examination areas.

Recommendations: None.

<b>Standard I-8. The company is licensed for the lines of business that are being written.</b>
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Objective: This Standard addresses the need for the Company to be licensed by the Division to conduct its various lines of business written. See Appendix A for applicable statutes, regulations and bulletins.

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Controls Assessment: The following points were noted in connection with the review of this Standard:

- The Company provided AMB with its current Certificate of Authority, which is dated January 1, 2003.

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 testing procedures.

Testing Procedure: AMB reviewed the Company's Certificate of Authority and compared it to the lines of business written in the Commonwealth.

Testing Results:

Findings: None.

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

Recommendations: None.

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

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.

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

Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard is concerned with the need for the Company to minimize improper intrusion into the privacy of individuals. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard and Standards I-11 through I-17:

- The Company has a comprehensive Enterprise Information Security Policies and Procedures document that addresses the many aspects of information security, including privacy of individual data, as well as insurance information of a more general nature. Additional guidance is provided in the Company Privacy Initiatives document.
- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations and third parties who assist the Company in processing business transactions for its policyholders.
- The Company's policies and procedures also address the security of nonpublic policyholder and consumer information.
- Company policy requires that a consumer privacy notice be provided to policyholders at the time an application is taken.
- The Company's internal audit function has conducted reviews of privacy policies and procedures.

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

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibilities related to this Standard.

Testing Results:

Findings: None.

Observations: The Company's policies and procedures related to this Standard appear adequate to minimize the possibility of improper intrusion into the privacy of applicants and policyholders.

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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 the need for policies and procedures for the management of insurance information of a more general nature, not just personally identifiable information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedure, provided by personnel with responsibilities related to this Standard.

Testing Results:

Findings: None.

Observations: The Company's policies and procedures related to this Standard appear adequate to manage and protect the information of concern in this Standard.

Recommendations: None.

**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 the need for 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.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibilities related to this Standard. AMB also assessed compliance with this Standard as part of its transaction testing of new and renewal business and claims, by reviewing for evidence that may indicate that the Company provided personal information to inappropriate parties. A sample of 50 policies was selected randomly from new/renewal business for individual review. A sample of 50 claims was selected randomly also for individual review.

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Testing Results:

Findings: None.

Observations: It appears that the Company's policies and procedures are adequate to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.

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 is concerned with the need for the Company to inform customers and other consumers of their rights and the Company's responsibilities concerning the handling of personal information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibilities related to this Standard. AMB also assessed compliance with this Standard as part of its transaction testing of new and renewal business, by reviewing for evidence that the Company provided the required privacy notices.

Testing Results:

Findings: None.

Observations: Based on testing, it appears that the Company provides privacy notices to its customers and other consumers regarding treatment of nonpublic personal information as required.

Recommendations: None.

**Standard I-14. If the regulated entity discloses information subject to an opt out right, the regulated entity 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 regulated entity provides opt out notices to its customers and other affected consumers.**

Objective: This Standard is concerned with the need for the Company to maintain the privacy of consumers' personal information. See Appendix A for applicable statutes, regulations and bulletins.

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Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibilities related to this Standard.

Testing Results:

Findings: None.

Observations: It appears from our review of the Company's privacy notice, and discussion with Company personnel, that the Company provides consumer information to business partners or other third parties only to help provide essential services to the consumer, which are not subject to an opt out right, therefore the Company does not provide an opt out option.

Recommendations: None.

**Standard I-15. The company'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 need for the Company to maintain the privacy of consumers' personal information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibilities related to this Standard. AMB also assessed compliance with this Standard as part of its testing of new/renewal business and claims, by reviewing for any evidence that the Company provided personal information to inappropriate parties.

Testing Results:

Findings: None.

Observations: It appears that the Company's privacy policies and procedures are adequate to protect nonpublic personal financial information.

Recommendations: None.

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**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 the 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.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibilities related to this Standard. AMB also assessed compliance with this Standard as part of its testing of new/renewal business and claims, by reviewing for evidence that the Company provided personal information to inappropriate parties.

Testing Results:

Findings: None.

Observations: It appears that the Company's privacy policies and procedures are adequate to protect nonpublic personal health information.

Recommendations: None.

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

Objective: This Standard is concerned with the need for the Company to safeguard nonpublic consumer information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard:

- The Company has a comprehensive Enterprise Information Security Policies and Procedures document that addresses the many aspects of information security, including privacy of individual data, as well as insurance information of a more general nature. Additional guidance is provided in the Company Privacy Initiatives document.
- Internal audit participates in reviews to evaluate information security policies and procedures and identify the need or opportunities for improvement. Other areas of the Company, including

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Corporate Insurance Compliance, the Office of General Counsel and operational users of the systems contribute to the same effort.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, including its privacy policy and written information security plan, provided by personnel with responsibilities related to this Standard. Review of the information technology access and authorization controls is also included in the scope of the ongoing financial examination of the Company.

Testing Results:

Findings: None.

Observations: It appears from our review of the Company's privacy notice and written information security and privacy policy that it has adequate and properly documented policies and procedures for the protection of nonpublic policyholder and consumer information.

Recommendations: None.

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

Objective: This Standard is concerned with the Company's policies and procedures for submission of data to the Division of Insurance. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The Company has procedures in place for submitting required data to the Division for personal lines business, producer licensing information, rate filings and other information requested on behalf of the Division.

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 testing procedures.

Testing Procedure: AMB performed various procedures throughout this examination related to assessing the accuracy and completeness of information submitted to the Division.

Testing Results: Such testing results are noted in the various examination areas.

Recommendations: None.

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## 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) where applicable, 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 the need for the Company to formally track complaints or grievances as required by statute. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard and Standards II-2 through II-4:

- The Company has written policies and procedures governing the complaint handling process.
- The Company records complaints in a consistent format in the complaint log.
- The Company defines a complaint as "a formal expression of a grievance, whether received orally (in person or by telephone) or in writing (by letter, fax or e-mail) directly from the complainant, their [sic] representative, or via a regulatory source."
- All consumer complaints, regardless of delivery method or where received, are to be forwarded immediately to the Records/Billing Administrator's office, where they are logged and forwarded to the appropriate person(s) for timely response.
- Complaints are to be acknowledged immediately (generally the date received), and a response is due within ten business days. Responses must be reviewed and approved by a Senior Manager or Vice President.
- Complaints and responses are reviewed also by Compliance personnel and/or the Office of General Counsel, depending on the circumstances.
- Quarterly reports of complaint activity are prepared for management and other Company personnel to evaluate trends over time and address significant or recurring issues or concerns.

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 testing procedures.

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Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, including the complaint log, provided by personnel with responsibilities related to handling complaints.

Testing Results:

Findings: None.

Observations: The Company appears to maintain a complete log of complaints, and includes all the required information.

Recommendations: None.

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

Objective: This Standard addresses the need for the Company to have adequate complaint handling procedures in place, and to communicate those procedures to policyholders. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as claim handling procedures, obtained from personnel responsible for handling complaints.

Testing Results:

Findings: None.

Observations: The Company appears to have adequate complaint procedures in place, but does not communicate such procedures to policyholders in advance of the complaint being made.

Recommendations: The Company should consider making policyholders aware of complaint procedures in advance of any complaint that may arise.

**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 the need for the Company to respond adequately to the complaint. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

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Controls Reliance: See Standard II-1.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibilities related to complaint handling. There were only three complaints related to homeowners business during the examination period, and AMB reviewed each of them to determine if it was logged and handled appropriately.

Testing Results:

Findings: None.

Observations: The Company responded adequately to each complaint; that is, the response clearly and completely addressed the issue raised in the complaint.

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 need for the Company to process each complaint in a timely manner. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibilities related to complaint handling. AMB reviewed the complaint log and complaint files and calculated the business days taken to respond to each complaint.

Testing Results:

Findings: None.

Observations: The Company responded to each complaint within the time required.

Recommendations: None.

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## 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) where applicable, 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 the need for the Company to maintain control over the content, form and dissemination of advertising and sales material. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard:

- The Company has written policies and procedures in place to govern the development of advertising and sales material.
- The Company's marketing materials consist of primarily of product brochures, fact/sell sheets, and qualification guides. The material is made available via the Company's secure web site to the independent producers and brokers who distribute the Company's products (the Company does not distribute its products directly to consumers). When new material is made available via the web site, producers are instructed to replace existing stock with the new/current version.
- Sales and advertising material is developed by the National Marketing Department. Proposed material is circulated to appropriate business areas for review and approval of content and design. A final review of advertising and sales material is conducted by the Office of General Counsel for additional input and to help ensure compliance with regulations. The entire process is controlled through the use of the Marketing Review Form.
- The Company has a web site designed for use by consumers. The web site provides a variety of information about the Company and its products, including contact information showing the proper name of the Company.

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

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibilities related to marketing and sales. AMB reviewed selected advertising and sales materials produced by the Company, including

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material available on the secure web site. AMB also reviewed the Company's web site for proper disclosure of Company name and address.

Testing Results:

Findings: None.

Observations: The Company's procedures for developing sales and marketing material appear adequate and the material reviewed complied with Company policy and applicable regulations.

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 the need for the Company's producer training materials to be in compliance with the Commonwealth's statutes, rules and regulations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard:

- The Company's sales force consists of independent producers and brokers, not Company employees.
- The Company provides producers with training related to the Company's products, programs, processes, systems and procedures. Continuing Education Unit ("CEU") training requirements of Massachusetts are addressed by the agency that employs the producer. If a producer fails to achieve the required CEU credits and the Division takes action on the producer's license, the Company would be advised via the National Insurance Producer Registry ("NIPR") and would take appropriate action.
- Producer training occurs in a variety of ways, depending on the need. Considering experience in the industry, subject matter knowledge, complexity of material, and similar factors, training is delivered in individual or group sessions, either in person or via interactive webinars.
- Special compliance-related matters are addressed through regular training or specially scheduled training, depending on the urgency of the issue. Ordinary compliance updates that are broadly applicable are typically communicated through the agency communication process, as described below.

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 testing procedures.

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Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibilities related to producer training.

Testing Results:

Findings: None.

Observations: The Company's procedures related to producer training appear to be adequate and reasonable.

Recommendations: None.

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

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

Controls Assessment: The following points were noted in connection with the review of this Standard:

- The Company communicates regularly with its producers through the distribution of sales and marketing material and producer training as described above.
- The Company has a formal procedure for other communications with producers:
  - The functional head responsible for the particular item to be communicated creates the communication, with input from other areas as appropriate.
  - When the communication piece is final, it is passed to the National Agency Manager who controls outgoing communications with producers.
  - Communications go to all appointed agencies in the Commonwealth, including resident and non-resident producers to help ensure complete communications.
- Communications to producers may occur via U. S Postal Service, e-blast fax, or e-mail depending on circumstances.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel involved in producer communication.

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Testing Results:

Findings: None.

Observations: The Company's procedures for communicating with producers appear to be adequate and reasonable.

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. The Company does not engage in mass marketing. Its marketing materials are distributed through independent producers as described elsewhere in the report. The Company's web site is informational in nature and refers prospective customers to producers.

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## 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) where applicable, a review of several types of files at the Company.

**Standard IV-1. Regulated entity records of licensed and appointed (if applicable) producers agree with insurance department records.**

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

Controls Assessment: The following points were noted in connection with the review of this Standard and Standards IV-2 and IV-4:

- The Company distributes its products in Massachusetts through independent producers and brokers; it does not contract with individual producers or hire them as employees.
- The Company appoints and contracts with agencies to distribute its products, as described above. Among other things, the Agency-Company Agreement requires the agency to maintain Errors & Omissions coverage.
- At an agency's request, the Company will appoint individual producers employed by the agency. As part of the appointment process, the Company requires copies of the Accord 817 P&C Producer Appointment Form – Appointment Section, Accord 818 P&C Producer Appointment Form – Background Questions, and the producer's license. When those documents are received, the Company confirms the status of the producer's license, and orders a criminal background check. If everything is satisfactory, the Company appoints the producer through the online system made available by the Division.
- The Company notifies the Division of producer terminations on an as needed basis through the Division's Online Producer Appointment website ("OPRA") and will send a copy of the termination letter to the Commissioner when appropriate.
- Bi-annually the Company sends to each agency a letter listing all entities and producers currently appointed by the Company, and requests the agency to review the list and confirm that it is up to date. The Company also requests the agency to confirm that each producer representing the Company to the public is properly appointed.

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- Annually, upon receipt of the Massachusetts appointment renewal form, the Company orders an NIPR report of appointments and all information is reconciled to ensure that the various records are in agreement.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for producer contracting and processing of appointments. AMB also assessed compliance with this Standard in connection with the testing of new and renewal business, and compared the Company's list of appointed producers with a list provided by the Division.

Testing Results:

Findings: None.

Observations: The Company's records agree with those of the Division, and the producers responsible for the new and renewal business tested were properly licensed and appointed.

Recommendations: None.

<b>Standard IV-2. Producers are properly licensed and appointed and have appropriate continuing education (if required by state law) in the jurisdiction where the application was taken.</b>
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Objective: This Standard also addresses licensing and appointment of the Company's producers, as well as their continuing education. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard IV-1 and Standard III-2.

Controls Reliance: See Standard IV-1 and Standard III-2.

Testing Procedure: See Standard IV-1.

Testing Results:

Findings: None.

Observations: The Company's records agree with those of the Division, and the producers responsible for the new and renewal business tested were properly licensed and appointed. Furthermore, the Company's procedures related to continuing education seem reasonable and adequate.

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Recommendations: None.

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

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

Controls Assessment: The following points were noted in connection with the review of this Standard and Standards IV-4 and IV-5:

- The Company's contractual relationship is with the agency rather than an individual producer, the Company does not terminate a producer for lack of production, loss ratio, or similar performance criteria. An agency facing termination for lack of production or similar reason would have discussions over a period of time with its sales manager or other Company representative to develop plans to remedy the problem. If a point is reached where a decision is made to terminate the agency, the agency is advised orally, then by letter stipulating terms and conditions of the termination, including 180 days notice prior to the contract being terminated.
- Producers are terminated at the request of the agency. When an agency notifies the Company that a producer is no longer with the agency and the agency wants the appointment terminated, the Company terminates the producer using OPRA.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures and records of terminations during the examination period, provided by personnel involved in producer terminations. AMB also assessed compliance with this Standard as part of its transaction testing of producer terminations. There were only 25 terminations during the examination period and AMB reviewed each one.

Testing Results:

Findings: None.

Observations: The Company's procedures for producer termination appear reasonable and adequate. Also, termination of producers complied with applicable standards, rules and regulations regarding notification to the producer and notification to the state, if applicable, and the reasons for termination are adequately documented. Finally, there were no terminations for cause during the exam period.

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Recommendations: None.

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

Objective: This Standard addresses the Company's policy for ensuring that producer 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.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel involved in producer appointment and termination. AMB also reviewed documentation for evidence of unfair discrimination against policyholders as part of its testing of new/renewal business and termination records.

Testing Results:

Findings: None.

Observations: There was no evidence of unfair discrimination against policyholders resulting from the Company's policies regarding producer appointments and terminations.

Recommendations: None.

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

Objective: This Standard addresses need for the Company to maintain adequate records of agency and producer terminations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Testing Procedure: See Standard IV-3.

Testing Results:

Findings: None.

Observations: The Company's records adequately document the reasons for termination.

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Recommendations: None.

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

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

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**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) where applicable, 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 the need for the Company to provide policyholders with sufficient advance notice of premiums due. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard:

- The Company offers a variety of premium payment plans, including annually, quarterly, monthly and others.
- Billing notices are produced automatically by the billing system. Billing notices for new business are sent after the policy effective date. Billing notices for renewal business are sent prior to the renewal date.
- Payments are due 20 days from the billing notice date. If payment is not received by the due date, a final notice will be sent five days later. If the payment is not received within 20 days of the final notice, the policy will be cancelled.
- Renewals are issued 62 days prior to the renewal effective date. The automated process is subject to manual intervention when underwriter review is necessary. A final decision on renewal is made prior to the 45 day regulatory requirement.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for policyholder service. AMB also reviewed billing practices as part of the transaction testing of new/renewal business.

Testing Results:

Findings: None.

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Observations: Billing notices appeared to be mailed with an adequate amount of advance notice.

Recommendations: None.

<b>Standard V-2. Policy issuance and insured requested cancellations are timely.</b>
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Objective: This Standard is concerned with the need for the Company to issue policies and handle cancellations procedures in a timely manner. Policy issuance is also addressed in Standard VI-6, and return of premium is addressed in Standard V-7. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard and Standards V-7 and VI-6:

- Policy numbers are assigned and coverage is bound by the producer, who then sends the application and other forms to the Company for review and handling. The Company's policy is to issue the policy promptly, after reviewing the information submitted and addressing any errors or omissions.
- Company policy is to cancel a policy upon notification by the producer of the policyholder's request, and to process premium refunds in a timely manner.
- Unearned premium to be returned to the policyholder is calculated on a pro rata basis. This is also true for cancellations initiated by the Company.

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

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for policyholder service. AMB also assessed compliance with this Standard as part of the testing of new/renewal business and cancellations by insureds. A sample of 50 cancellations was selected randomly for individual review.

Testing Results:

Findings: None.

Observations: The Company appears to issue policies and process insured-requested cancellations in a timely manner.

Recommendations: None.

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**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 is concerned with the need for the Company to respond in a timely manner to communications from policyholders, as well as producers and others. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard:

- The Company receives correspondence or other communications in a variety of ways, including U.S. mail, email, fax and by telephone, and such communications can be received from producers, policyholders, prospective customers, or other interested parties.
- The correspondence can involve cancellations, requests for reinstatement, policy changes or questions of a general nature.
- The Company's policy is to acknowledge any communication within 24 hours of receiving it. General inquiries from policyholders are referred to the producers, but billing inquiries are handled directly by the Company. All telephone inquiries are documented in notes and tracked.
- Policy changes are processed as requested and updated declaration pages are sent to named insureds, additional insureds, producers and mortgagees/lien holders as applicable.
- Reinstatement requests from policyholders are referred to their producers for handling. Reinstatement requests from producers are referred to Customer Care Underwriting (CCU). CCU may approve reinstatement if several conditions are met, including the lapse period not exceeding 30 days, having an acceptable reason for incurring the lapse, and not having a lapse period in the past 18 months. If the reinstatement request is denied, the Company will notify the producer. If the request is approved, the Company will notify the producer of the payment due and of any additional documentation required, including a no-loss letter. When the premium and signed no-loss letter are received, the policy will be reinstated.
- Randomly selected transactions go through a quality audit process. Quality review sessions are conducted monthly or quarterly with team supervisors by a Quality Assurance specialist.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for policyholder service. AMB also reviewed for compliance as part of testing of new/renewal business and other areas.

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Testing Results:

Findings: None.

Observations: It appears that policies and procedures are in place to ensure that correspondence directed to the Company is responded to appropriately and in a timely manner.

Recommendations: None.

**Standard V-4. Whenever the regulated entity transfers the obligations of its contracts to another company 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 did not enter into assumption reinsurance agreements during the examination period.

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

Objective: This Standard addresses the general need for policy transactions to be processed accurately. See Appendix A for applicable statutes, regulations and bulletins.

This objective is addressed more specifically by Standard V-1 for billing transactions, Standard V-2 for policy issuance and insured-requested cancellations, Standards V-2, VI-3 and VI-8 for Company-initiated cancellations, Standard V-7 for return of premium and Standard VI-6 for renewals and endorsements. Assessment of those standards is contained in their respective sections of the report. Otherwise, no additional work was performed.

**Standard V-6. Reasonable attempts to locate missing policy holders 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 points were noted in connection with the review of this Standard:

- The Company has procedures in place to address this Standard, but it does not often experience these problems with homeowners policies.
- The Company follows the following escheatment procedures:
  - Checks are tracked in the bank reconciliation process until they have been outstanding for six months.

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- At the six month mark, uncashed checks are added to the unclaimed property database and Accounting records the amount as an uncashed checks liability.
- Also, at the six month mark, for any check \$25 or larger, a letter is sent to the last known address requesting a signature for reissue.
- If there is no response, the uncashed checks remain dormant for three years, at which point they are due escheatment to the state.
- A due diligence letter is sent at least 60 days prior to the November 1<sup>st</sup> escheatment deadline. Typically these letters are sent at the beginning of July.
- If no response is received, the Company escheats all items dormant for three years or longer to the state.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for policyholder service.

Testing Results:

Findings: None.

Observations: The Company' procedures for locating missing policyholders and claimants appear reasonable and adequate.

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 the need to calculate unearned premium correctly and return it to the appropriate party in a timely manner when policies are cancelled. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard V-2.

Controls Reliance: See Standard V-2.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for policyholder service. AMB also assessed compliance with this Standard as part of its testing of cancellations made at insureds' request and cancellations made by the Company, where cancellations were made for reasons other than non-payment of premium. A sample of 50 cancellations was selected randomly for individual review.

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Testing Results:

Findings: None.

Observations: Premium refunds appeared to be processed accurately and in a timely manner.

Recommendations: None.

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

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

Controls Assessment: The following points were noted in connection with the review of this Standard:

- Claims history requests are handled in Underwriting. A report is generated from the claims database and emailed or faxed to the producer.
- The insured's loss history is readily accessible in the software used by the Company and is also provided to the producer as necessary.

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

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for policyholder service.

Testing Results:

Findings: None.

Observations: The Company appears to respond in a timely manner to inquiries regarding claims history and loss information.

Recommendations: None.

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## 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) where applicable, 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 the need for the Company to charge premiums using properly filed rates. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard and Standard VI-10:

- The Company has written policies and procedures for processing new and renewal business, some provisions of which are intended to help ensure consistency and accuracy in classification and rating.
- The Company files proposed rate changes with the Division based on rate need.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for underwriting. AMB also assessed compliance with this Standard as part of its transaction testing of new and renewal business.

Testing Results:

Findings: None.

Observations: The Company appears to properly calculate premiums and discounts in compliance with its policies, procedures and statutory requirements.

Recommendations: None.

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**Standard VI-2. All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations.**

Objective: This Standard addresses the need to provide mandated disclosures for rates and coverages to insureds in accordance with statutes and regulations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard:

- The Company has written policies and procedures for processing new and renewal business, some provisions of which are intended to help ensure consistent documentation of disclosures and other policy features.
- Producers are trained by the Company regarding Company policies and procedures for accepting and submitting new and renewal business.
- Underwriting uses Oden to help ensure that the submissions from producers are accurate, complete and in compliance with Company policies and procedures. If information or forms are missing from new business or renewal applications, the Company requests the producer to provide the missing information.

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

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility handling new and renewal business. AMB also assessed compliance with this Standard as part of its transaction testing of new and renewal business.

Testing Results:

Findings: None.

Observations: The Company appears to provide the required coverage disclosures to insureds in accordance with statutory guidelines.

Recommendations: None.

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**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 producer commissions adhere to the commission schedule. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard:

- The Company has written policies and procedures for processing new and renewal business, some provisions of which are intended to prohibit these practices.
- The Company pays commissions in accordance with established commission payment schedules and its Agency-Company Agreement.
- The Company does not advance commissions nor allow debit balances.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for underwriting. AMB also reviewed for evidence of improper practices in its transaction testing of new and renewal business.

Testing Results:

Findings: None.

Observations: The Company's policies and procedures for prohibiting illegal acts, including special inducements and rebates, appear reasonable and adequate. There was no evidence of illegal inducements or similar practices in the new and renewal business examined.

Recommendations: None.

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

Objective: This Standard addresses the need to avoid unfair discrimination in underwriting. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard and Standards VI-7, VI-21 and VI-22:

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- The Company has written policies and procedures for processing new and renewal business, some provisions of which are intended to prohibit these practices and help ensure appropriate acceptance and rejection of risks.
- Although producers bind coverage before sending the policy to the Company, all new business is referred to Underwriting for independent review and acceptance/rejection, re-engineering, inspections and pricing to help ensure compliance with regulations and Company guidelines.
- The Company does not have declinations because coverage is already bound when it receives the policy. The Company could reject and cancel the policy if the risk was deemed unacceptable or there was an uncorrected problem with the application.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for underwriting. AMB also reviewed for evidence of unfair discrimination in its transaction testing of new and renewal business.

Testing Results:

Findings: None.

Observations: AMB noted no evidence that the Company's underwriting practices are unfairly discriminatory.

Recommendations: None.

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

Objective: This Standard addresses the need for the Company to file policy forms and endorsements with the Division for approval. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard and Standard VI-19:

- The Company's procedures require that all forms and endorsements be filed with the Division for approval.
- The Company stated that all forms have been filed with and approved by the Division.

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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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for underwriting. AMB also assessed compliance with this Standard in its transaction testing of new and renewal business.

Testing Results:

Findings: None.

Observations: The Company appears to be 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 the need for the Company to issue policies and endorsements accurately and in a timely manner. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard:

- The Company has written policies and procedures for processing new and renewal business, some provisions of which are intended to help ensure accuracy and timeliness in issuing policies, riders and endorsements.
- The Company's producers are required to use such forms and endorsements as guidelines when providing quotes to consumers at the time of application.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for underwriting. AMB also assessed compliance with this Standard in its transaction testing of new and renewal business.

Testing Results:

Findings: None.

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Observations: The Company appears to issue new and renewal policies, including riders and endorsements, accurately and in a timely manner.

Recommendations: None.

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

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

Controls Assessment: See Standard VI-4.

Controls Reliance: See Standard VI-4.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for underwriting. AMB also assessed compliance with this Standard as part of its transaction testing of cancellations made on the Company's initiative.

Testing Results:

Findings: None.

Observations: There was no evidence of unfair discrimination in the Company's handling of new business or cancellations made by the Company. The cancellations reviewed did not represent rejections.

Recommendations: None.

**Standard VI-8. Cancellation/nonrenewal, 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. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard and Standard VI-24:

- The Company has written policies and procedures for processing new and renewal business, cancellations and non-renewals, some provisions of which are intended to address this Standard.

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- Company initiated cancellations and non-renewals are processed with the Oden Policy Terminator System. The system is populated with state notification requirements and the action will be flagged if a notice does not meet such requirements.
- Underwriters first communicate their intentions to producers by phone or email, and then prepare notices to be sent. The Company obtains a certificate of mailing for all cancellation and non-renewal notices.
- During the first 60 days of a renewal period, Underwriting can cancel for specific reasons specified in the Underwriting Manual. Mid-term cancellations due to changes in property that result in property being uninsurable are referred to the Underwriting Manager for review and approval.
- Company policy is that cancellation and non-renewal notices to the policyholder provide reasons for discontinuing coverage and those notices must be in writing.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for underwriting. AMB also assessed compliance with this Standard as part of its transaction testing of cancellations by the Company and non-renewals. A sample of 50 non-renewals was selected randomly for individual review.

Testing Results:

Findings: None.

Observations: The Company's notices comply with applicable policy provisions, state laws, and Company guidelines.

Recommendations: None.

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

Objective: This Standard addresses the need for decisions to rescind and cancel coverage to be made for appropriate reasons. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard:

- The Company's written underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.

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- Company policy prohibits unfair discrimination in its underwriting criteria.
- The Company stated that it has not experienced a situation involving material misrepresentation in recent years.
- Company procedures require that potential rescissions be referred to the Underwriting Manager, Underwriting Vice President, Distribution Vice President, and Claims Vice President (if a claim is involved). If the Company decides to proceed with adverse action, rescission, the matter would be referred to the Office of General Counsel for action and communication.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for underwriting.

Testing Results:

Findings: None.

Observations: The Company's policy and procedures regarding rescissions appear reasonable and adequate to prevent rescissions based on non-material misrepresentation. There were no rescissions during the examination period.

Recommendations: None.

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

Objective: This Standard is concerned with the need to avoid unfair discrimination in the application of premium discounts and surcharges. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VI-1.

Controls Reliance: See Standard VI-1.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for underwriting.

Testing Results:

Findings: None.

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Observations: The Company's procedures for applying credits, debits and deviations appear reasonable and adequate to help ensure such adjustments would be applied on a consistent and on a non-discriminatory basis.

Recommendations: None.

**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. The Company does not write private passenger automobile or workers compensation lines in Massachusetts, and the scope of work did not include commercial lines.

**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. The Company does not write workers compensation in Massachusetts.

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

No work performed. The Company does not write workers compensation in Massachusetts.

**Standard VI-14. Verification of experience modification factors.**

No work performed. The Company does not write workers compensation in Massachusetts.

**Standard VI-15. Verification of loss reporting.**

No work performed. The Company does not write workers compensation in Massachusetts.

**Standard VI-16. Verification of the regulated entity's data provided in response to the National Council on Compensation Insurance (NCCI) call on deductibles.**

No work performed. The Company does not write workers compensation in Massachusetts and the Company is not subject to NCCI data calls.

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

Objective: This Standard addresses the need to base underwriting, rating and classification decisions 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.

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Controls Assessment: The following point was noted in connection with the review of this Standard and Standard VI-26:

- The Company has written policies and procedures for processing new and renewal business, some provisions of which are intended to address this Standard and Standard IV-26.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed information provided by personnel with responsibility for the underwriting process. AMB also assessed compliance with this Standard as part of its transaction testing of new and renewal business.

Testing Results:

Findings: None.

Observations: The Company's underwriting, rating and classification appear to be based on adequate information developed at or near the inception of coverage.

Recommendations: None.

**Standard VI-18. Audits, when required are conducted accurately and timely.**

No work performed. The Company does not offer policies where premium audits are required.

**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).**

See Standard VI-5 for testing of this Standard.

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

No work performed. The Company does not write private passenger auto insurance in Massachusetts, and commercial lines were not included in the scope of work.

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

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

Controls Assessment: See Standard VI-4.

Controls Reliance: See Standard VI-4.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for underwriting. AMB also assessed compliance with this Standard as part of its transaction testing of new and renewal business.

Testing Results:

Findings: None.

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

Recommendations: None.

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

See Standard VI-4 for testing of this Standard.

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

No work performed. The Company does not provide group coverage for homeowners.

**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.**

See Standard VI-8 for testing of this Standard.

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**Standard VI-25. All policies are correctly coded.**

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

Controls Assessment: The following points were noted in connection with the review of this Standard:

- The Company has written underwriting policies and procedures that are designed to assure reasonable consistency in classification and rating.
- Upon receipt of updates or new rules from either ISO or Commonwealth Automobile Reinsurers (who distributes the rules for Massachusetts Commercial Automobile Statistical Plans), documentation is reviewed to determine if any changes are necessary. If a change is necessary, a change request is prepared with the pertinent data and logged into the request tracking system to ensure the change is made.
- To help ensure that the Company receives all notifications of changes, an analyst compares the Summary Index of Upcoming Statistical Reporting Changes with the list of the individual circulars received to verify that all have been received.
- All circular page updates are placed in the appropriate manual. Prior versions are maintained to help ensure that anyone looking at the manual obtains the correct data based on the effective dates.
- A monthly meeting is scheduled to review any product changes that may affect statistical reporting, such as implementation of a new coverage that would use a new coverage code.
- Prior to submission, data is verified for accuracy via an edit program. If any errors are identified, they are corrected and any necessary changes are implemented.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for underwriting. AMB also assessed compliance with this Standard as part of its transaction testing of new and renewal business.

Testing Results:

Findings: None.

Observations: The Company's statistical coding appears accurate.

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Recommendations: None.

**Standard VI-26. Application or enrollment forms are properly, accurately and fully completed, including any required signatures, and file documentation supports decisions made.**

Objective: This Standard addresses whether policy file documentation adequately supports decisions made in underwriting and rating. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VI-17.

Controls Reliance: See Standard VI-17.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for underwriting and handling of new and renewal business. AMB also assessed compliance with this Standard as part of its transaction testing of new and renewal business.

Testing Results:

Findings: None.

Observations: Application or enrollment forms appear to be properly and fully completed, including any required signatures, and file documentation adequately supports decisions made.

Recommendations: None.

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## 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) where applicable, 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 is concerned with the timeliness of the Company's initial contact with the claimant. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following points were noted in connection with the review of this Standard and Standards VII-2 through VII-14:

- The Company has written policies and procedures governing the claim handling process.
- Claims are reported to the Company by several means, including telephone, mail, e-mail, and fax. The new loss is established when notification is received. The insured's producer is notified and an adjuster is assigned. Initial claim data are entered into ISO.
- Company policies require the insured and/or claimant to be contacted as soon as possible, and within 24 hours of the report of loss unless such contact is not possible for reasons beyond the claim handler's control.
- Assessment of the claim regarding coverage, liability and damages begins immediately and reserves are established to reflect likely exposure.
- Company procedures require regular communication with the insured and/or claimant regarding damage appraisals, reports and status of the claim. Claims are to be resolved as soon as possible, and appropriate payment made. Any questions or issues are addressed as they arise.
- If a third party is responsible for the damage to the insured property, the claim is referred to the Company's subrogation unit to undertake recovery actions. Every attempt is to be made to resolve early any issues of liability with the third party's carrier to expedite return of the insured's deductible. A release generally is not required from an insured to resolve his claim.
- The Company does not use third-party administrators to manage its claims. The Company does, however, use several outside companies to help facilitate specific aspects of claims processing:
  - Netcost Claim Services handles glass claims.

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- Netcost also provides First Notice of Loss for catastrophic claims.
  - Agero handles the Company's roadside assistance program.
  - VoiceSage is used to help communicate detailed claim information to the customer in the event of a catastrophe.
  - The Company has a contract with ISO for capturing claims data, including compliance with Medicare reporting requirements.
- Claims suspected of involving fraud are directed to the Company's SIU.
    - Claims may be referred directly by claims adjusters who receive training on how to recognize claim characteristics the might suggest a fraudulent claim pattern.
    - Claims also may be referred by ISO. The Company subscribes to ISO's Claim Director Program, which evaluates claims information, including claims history, for possible fraud indicators.
    - In either case, once the SIU investigation is completed, the results are communicated to the claims adjuster for review and next steps.
  - The Company uses the following measures to assist in monitoring claims processing activity:
    - Customer Service survey cards are sent to all insureds at the conclusion of their claims. Six aspects of claims handling are assessed, including critical measurement of overall level of satisfaction with the outcome of the claim.
    - Various aspects of telephone service are measured, including speed of answer, average talk time and abandon rate.
    - For adjusters, the Company measures close-to-intake ratio (production). The Company also reviews the overall cycle time to assess speed of closure.
    - For subrogation, the Company measures the level of referral to the subrogation unit and the ability to expedite recovery, the speed of recovery from date of loss to date recovered, amounts recovered and arbitration filing effectiveness.
    - Overall quality of claims files is measured against internal standards on an audit basis.
    - The Company also evaluates claim adjusters in terms of how effectively expenditures are managed.
  - Contested claims are reviewed by claims management for proper handling in accordance with claim practices. Reservation-of-rights letters are supplied to the insured as soon as the Company is made aware of a potential coverage issue that will require further investigation to determine the actual cause, damage and application of coverage. In situations that present unusual or non-routine issues, the reservation-of-rights letters are reviewed by internal or outside counsel to help ensure the Company's actions are appropriate. All claim denials are reviewed by both the line Vice President and the Executive Vice President of Claims and are tracked in a log for reference.

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- Concerning statistical coding of claims, when the claim code on the file is inconsistent with the activity on the file, an error report is generated. The report and the claim file are reviewed, and if necessary the coding is modified to reflect the correct status.
- Quality reviews of claims processing are performed on a quarterly basis to help ensure compliance with the Company's prescribed practices. The reviews can vary depending on the unit, the focus of the review, and the needs of the organization. File reviews can include a review of current claim activity on open files, coding on open or closed files, and closed files to assess proper handling.
- Theft and fire losses are reported to the National Insurance Crime Bureau ("NICB") within two business days of receipt of notification from the insured, which is an automated process of transmittal to ISO/NICB during the loss intake process.

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 testing procedures.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for claims handling. AMB also assessed compliance with this Standard as part of its transaction testing of claims.

Testing Results:

Findings: None.

Observations: The Company's procedures for responding to claim reports are reasonable and adequate, and the responses were prompt and in accordance with the Company's procedures.

Recommendations: None.

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for claims handling. AMB also assessed compliance with this Standard as part of its transaction testing of claims.

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Testing Results:

Findings: None.

Observations: It appears that the Company conducts timely investigations of claims in accordance with applicable statutes, regulations and bulletins.

Recommendations: None.

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

Objective: This Standard is concerned with the timeliness of the Company's claim settlements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for claims handling. AMB also assessed compliance with this Standard as part of its transaction testing of claims.

Testing Results:

Findings: None.

Observations: It appears that the Company resolves claims in a timely manner in accordance with applicable statutes, regulations and bulletins.

Recommendations: None.

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

Objective: This Standard is concerned with the timeliness of the Company's response to all claim correspondence. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for claims handling. AMB also assessed compliance with this Standard as part of its transaction testing of claims.

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Testing Results:

Findings: None.

Observations: It appears that the Company responds to claims correspondence in a timely manner in accordance with applicable statutes, regulations and bulletins.

Recommendations: None.

**Standard VII-5. Claim files are adequately documented.**

Objective: This Standard is concerned with the adequacy of information maintained in the Company's claim records related to claim decisions. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for claims handling. AMB also assessed compliance with this Standard as part of its transaction testing of claims.

Testing Results:

Findings: None.

Observations: It appears that the Company's claim documentation is adequately maintained in accordance with applicable statutes, regulations and bulletins.

Recommendations: None.

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

Objective: This Standard is concerned with whether proper claim settlement amounts are paid to appropriate claimants/payees. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

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Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for claims handling. AMB also assessed compliance with this Standard as part of its transaction testing of claims.

Testing Results:

Findings: None.

Observations: It appears that the Company properly handles claims in accordance with policy provisions and applicable statutes (including HIPAA), rules and regulations.

Recommendations: None.

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

Objective: This Standard is concerned with the Company's usage of claim forms that are proper for the type of product. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for claims handling. AMB also assessed compliance with this Standard as part of its transaction testing of claims.

Testing Results:

Findings: None.

Observations: It appears that the Company's claims forms utilized are appropriate for the type of product.

Recommendations: None.

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

Objective: This Standard is concerned with the adequacy of information maintained in the Company's claim records related to its reserving practices. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

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Controls Reliance: See Standard VII-1.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for claims handling. AMB also assessed compliance with this Standard as part of its transaction testing of claims.

Testing Results:

Findings: None.

Observations: It appears that the Company's processes for evaluating, establishing and adjusting claim reserves are functioning in accordance with their policies and procedures and are reasonable and timely.

Recommendations: None.

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

Objective: This Standard is concerned with 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: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for claims handling. AMB also assessed compliance with this Standard as part of its transaction testing of claims.

Testing Results:

Findings: None.

Observations: It appears that the Company's procedures regarding denied/closed without payment claims are reasonable and adequate, and those claims examined were handled in accordance with policy provisions and state law.

Recommendations: None.

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

Objective: This Standard is concerned with 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: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for claims handling. AMB also assessed compliance with this Standard as part of its transaction testing of claims.

Testing Results:

Findings: None.

Observations: It appears that the Company's processes for issuing claim payment checks are appropriate, and functioning in accordance with their 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: This Standard is concerned with 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 what the policy contract provides for. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for claims handling. AMB also assessed compliance with this Standard as part of its transaction testing of claims.

Testing Results:

Findings: None.

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Observations: It appears that the Company's processes do not unreasonably deny claims or compel claimants to instigate litigation. There were no claims involving litigation in the sample examined.

Recommendations: None.

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

Objective: This Standard is concerned with the Company's use of reservation of rights letters, and its procedures for notifying an insured when the amount of loss will exceed policy limit. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for claims handling. AMB also assessed compliance with this Standard as part of its transaction testing of claims.

Testing Results:

Findings: None.

Observations: It appears that the Company uses the reservation of rights and excess of loss letters when appropriate.

Recommendations: None.

**Standard VII-13. Deductible reimbursement to insured's upon subrogation recovery is made in a timely and accurate manner.**

Objective: This Standard is concerned with the Company's timely refund of deductibles from subrogation proceeds. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for claims handling. AMB also assessed compliance with this Standard as part of its transaction testing of claims.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF  
HOLYOKE MUTUAL INSURANCE COMPANY IN SALEM

Testing Results:

Findings: None.

Observations: The Company's processes to make subrogation recoveries to insureds appear reasonable and adequate. There were no claims involving subrogation in the sample of claims examined.

Recommendations: None.

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

Objective: This Standard is concerned with 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: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Testing Procedure: AMB interviewed Company personnel and reviewed supporting information, such as Company policies and procedures, provided by personnel with responsibility for claims handling and loss statistical coding. AMB also assessed compliance with this Standard as part of its transaction testing of claims.

Testing Results:

Findings: None.

Observations: The Company's procedures for loss statistical coding and reporting appear reasonable and adequate.

Recommendations: None.

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HOLYOKE MUTUAL INSURANCE COMPANY IN SALEM

**SUMMARY**

Based upon the procedures performed in this examination, AMB has reviewed and tested company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, and claims in accordance with the standards as set forth in the *2011 NAIC Market Regulation Handbook*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF  
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**ACKNOWLEDGEMENT**

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

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

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

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