



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

Report on the Comprehensive Market Conduct Examination of
Norfolk & Dedham Mutual Fire Insurance Company
Dorchester Mutual Insurance Company
Fitchburg Mutual Insurance Company

Dedham, Massachusetts

For the Period January 1, 2019 through December 31, 2019

NAIC COMPANY CODES: 23965, 13706, 13943

EMPLOYER ID NUMBERS: 04-1675920, 04-1255040, 04-1328790

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

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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

April 5, 2022

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

Dear Commissioner Anderson:

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

NORFOLK & DEDHAM MUTUAL FIRE INSURANCE COMPANY
DORCHESTER MUTUAL INSURANCE COMPANY
FITCHBURG MUTUAL INSURANCE COMPANY

at their home offices located at:

222 Ames Street
Dedham, Massachusetts 02027

The following report thereon is respectfully submitted.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
NORFOLK & DEDHAM MUTUAL FIRE INSURANCE COMPANY
DORCHESTER MUTUAL INSURANCE COMPANY
FITCHBURG MUTUAL INSURANCE COMPANY

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the "Division") conducted a comprehensive market conduct examination ("examination") of Norfolk & Dedham Mutual Fire Insurance Company ("NDMFIC"), Dorchester Mutual Insurance Company ("DMIC"), and Fitchburg Mutual Insurance Company ("FMIC"), (collectively, the "Company") for the period January 1, 2019 to December 31, 2019, with focus on personal lines operations. The examination was called pursuant to authority in Massachusetts General Laws Chapter ("M.G.L. c.") 175, § 4. The examination was conducted under the direction, management, and control of the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC ("RNA") were engaged to complete the examination.

EXAMINATION APPROACH

A tailored examination approach was developed using the guidance and standards of the *2019 NAIC Market Regulation Handbook*, ("the Handbook") the examination standards of the Division, the Commonwealth of Massachusetts insurance laws, regulations and bulletins, and applicable Federal laws and regulations. All procedures were performed under the supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed in the Division's financial examination of the Company. For those objectives, RNA and the market conduct examination staff relied on procedures performed by the Division's financial examination staff to the extent deemed appropriate, to ensure that the market conduct objective was adequately addressed. The operational areas that were reviewed under this examination include company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, and claims. This examination report describes the procedures performed in these operational areas, and the results of those procedures.

In addition to the processes and procedures guidance in the Handbook, the examination included an assessment of the Company's policies and procedures. While the Handbook approach is designed to detect incidents of deficiency through transaction testing, this 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 form of this examination report is "Report by Test", as described in Chapter 15, Section A of the Handbook. The Division considers a "finding" to be a violation of Massachusetts insurance laws, regulations, or bulletins. An "observation" along with a recommendation is considered a departure from an industry best practice. The Division recommends that Company management evaluate any "finding" or "observation" for applicability to other jurisdictions. When applicable, corrective actions should be taken in all 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. The Company shall report to the Division any such corrective actions taken.

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EXECUTIVE SUMMARY

This summary of the examination of the Company is intended to provide a high-level overview of the examination results highlighting where recommendations were made or required actions were noted. The body of the report provides additional details. Company managerial and supervisory personnel from each operational area should review the examination report for results relating to their specific area.

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

The examination resulted in no recommendations or required actions with regard to Complaint Handling, Marketing and Sales, Producer Licensing and Policyholder Service. The examination indicated that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in these areas. Further, the tested Company practices appear to meet industry best practices in these areas. Recommendations and required actions noted in this examination are as follows:

SECTION I-COMPANY OPERATIONS/MANAGEMENT

Annual Market Conduct Reporting:

Findings: None.

Observations: RNA's review of the Company's statutorily-required 2019 homeowners underwriting and claims data submitted to the Division did not identify unusual results and concerns. The data reported to the Division appears to be complete and accurate.

However, RNA found six transactions recorded incorrectly in the *NAIC Market Conduct Annual Statement* ("MCAS"). Specifically, the Company should have classified two private passenger automobile company-initiated cancellations for underwriting and two homeowners non-renewals reported in the MCAS as insured-requested cancellations. Conversely, one private passenger automobile insured-requested cancellation reported in the MCAS was instead a company-initiated cancellation for underwriting. Finally, a newly offered private passenger automobile policy ultimately declined by the insured was incorrectly classified in the MCAS as a company-initiated cancellation for underwriting.

Recommendations: The Company should evaluate its transaction coding policies and procedures to ensure that employees and agents properly code company-initiated underwriting cancellations, non-renewals, and insured-requested cancellations in its systems and in the MCAS. Also, the Company should conduct staff training to ensure that employees and agents correctly code all transactions for management and regulatory reporting. Finally, the Company should adopt new procedures for the independent review of MCAS filings before filing with the NAIC. The reviews should ensure that the data is accurate, complete, and reconciled adequately to underlying data in the Company's policy administration and underwriting systems. The Company should provide the first independent assessment report to the Division by March 31, 2023.

Subsequent Company Actions: The Company has updated available selections for cancellation reasons to identify more accurately insured-requested vs. company-requested cancellations. The Company has completed training of staff as recommended. The ' 'Company's internal audit function will complete an independent assessment of the validity of the data as an annual event.

SECTION VI-UNDERWRITING AND RATING

Vacated At-Fault Accident Determination Practices:

Finding 1: One vacated at-fault accident determination included in testing resulted in the insured receiving a partial premium return, which was timely processed, but testing determined that the insured was due an additional premium return due to the complexity of the return premium calculation, which spanned two policy terms. Accordingly, the premium refund was not processed in accordance with M.G.L. c. 175E, § 7A.

Observation 1: Vacated at-fault accident determinations were properly and timely processed for 39 of 40 transactions tested.

Finding 2: Also, the Company failed to report nine vacated at-fault accident determinations to the Comprehensive Loss Underwriting Exchange ("CLUE"). The Company failed to report another six determinations to the CLUE within 15 days of receipt of the vacated action as required in M.G.L. c. 175E, § 7A and Bulletin 2010-11.

Observation 2: The Company reported only 25 of the 40 tested transactions to the CLUE within acceptable timeframes.

Required Actions: The Division required the Company to provide the remaining partial premium return to the insured. Also, the Company should continue to closely monitor and supervise the processing of vacated surcharges for premium refunds, particularly in cases where multiple policy terms are impacted and where there are multiple endorsements, which typically result in manual and complex refund calculations.

The Division further instructed the Company to review all vacated at-fault accident determinations from 2018 through 2021 because of the extent of the CLUE reporting errors. The additional testing for the four-year period resulted in 79 vacated at-fault accident determinations that were reported to the CLUE in December 2021 and January 2022. Subsequent to this extended review, the Company has decided to stop reporting new at-fault accidents to the CLUE beginning in January 2022, thus eliminating the need to report vacated at-fault accident determinations after that date.

Subsequent Company Actions: The Company has completed all required actions prior to the issuance of this report.

Underwriting Declination Practices:

Findings: For one declined application due to an unacceptable insurance score based on credit, no Fair Credit Reporting Act ("FCRA") Adverse Action Notice was provided to the applicant as required by the Fair Credit Reporting Act, § 615(a) and M.G.L. c. 93, § 62.

Observations: The Company provided timely FCRA Adverse Action Notices to applicants for five of the six of the applications declined for unacceptable insurance scores. For the remaining four declinations not resulting from unacceptable insurance scores, the underwriting conclusions were reasonable and consistent with the Company's underwriting guidelines.

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Required Actions: The Company's internal audit function shall review controls and procedures and make appropriate changes to procedures to ensure all FCRA Adverse Action Notices are issued timely and appropriately. The Company shall provide the internal audit report to the Division by March 31, 2023. Also, the Company shall provide staff with training on the process for issuing FCRA Adverse Action Notices to applicants.

Subsequent Company Actions: The Company agrees that the internal audit function will complete an independent review of the controls and procedures to ensure FCRA Adverse Action Notices are issued timely and appropriately. The Company has provided training on the process for issuing FCRA Adverse Action Notices to applicants.

SECTION VII-CLAIMS

Claims Handling Practices:

Findings: The Company failed to issue letters to municipal authorities as required by M.G.L. c. 139, § 3B for eight homeowners claims. Also, the Company failed to perform a Department of Revenue compliance check for unpaid MassHealth assessments and taxes for one private passenger automobile claim in accordance with M.G.L. c. 175, §§ 24E and 24F.

Observations: Based on testing, except as noted above, the Company properly investigated, adjudicated, and paid or denied all claims following contract provisions and statutory requirements.

Required Actions: The Company's internal audit function shall review controls and procedures related to issuing municipal letters and make any necessary changes to ensure that the letters are issued timely. The ' Company's internal audit function shall review and revise procedures for conducting satisfactory Department of Revenue compliance checks for monies possibly due to the Commonwealth for owed taxes or the recovery of public assistance benefits. The Company shall provide the internal audit report to the Division by March 31, 2023. Further, the Company shall provide training and guidance to staff on how to complete and document Department of Revenue compliance checks.

Subsequent Actions: The Company agrees that the internal audit function will review controls and procedures related to issuing municipal letters and completing Department of Revenue compliance checks. The Company has provided training to staff on how to complete Department of Revenue compliance checks.

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COMPANY BACKGROUND

The Company comprises three related property/casualty companies, which are part of an inter-company pooling arrangement. Norfolk Mutual Fire Insurance Company and Dedham Mutual Fire Insurance Company were organized on February 2, 1825, and February 22, 1837, respectively, and consolidated effective July 1, 1937, forming NDMFIC. DMIC incorporated on March 1, 1855, and FMIC, incorporated on March 1, 1847, joined NDMFIC to establish an inter-company pooling agreement effective January 1, 2002. Since 2002, the parties have executed several amendments to the agreement concerning pooling allocations. Currently, all written business by DMIC and FMIC is 100% ceded to NDMFIC, with 14% of pooled business retroceded to DMIC, and 20% of pooled business retroceded to FMIC.

Through its independent agents, the Company sells private passenger automobile, homeowners, commercial automobile, commercial multi-peril, and workers' compensation policies in Massachusetts. While the Company writes business in New England and the Northeast, historically, Massachusetts has contributed the majority of the Company's direct business. FMIC, however, has not written business in Massachusetts for several years. The companies have identical Boards of Directors. The employees of the Company's wholly-owned subsidiary, Newbury Corporation, processes all personal lines transactions.

The Company maintains a financial strength rating of A (Excellent) with a stable outlook from A.M. Best. The following financial information is as of, or for the year ended December 31, 2019:

NDMFIC:

Admitted assets	\$496.7 million
Statutory surplus	\$236.8 million
Massachusetts business - direct written premium	\$172.3 million

DMIC:

Admitted assets	\$107.6 million
Statutory surplus	\$ 51.4 million
Massachusetts business - direct written premium	\$ 40.5 million

FMIC:

Admitted assets	\$151.8 million
Statutory surplus	\$ 73.3 million
Massachusetts business - direct written premium	\$ 0

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

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I. COMPANY OPERATIONS/MANAGEMENT

Corporate Governance:

Summary of Company Policies and Procedures:

- The nine-member Company Board of Directors includes the President and Chief Executive Officer and eight independent directors, five of whom also serve on the Company's Audit Committee. In addition, the Internal Auditor administratively reports to the President/CEO, and meets with him twice a month. The Internal Auditor also reports to the Audit Committee for internal audit matters.
- In December of each year, the President/CEO approves the internal audit plan, which is reviewed and approved by the Audit Committee in January. The Company categorizes the audits as regulatory compliance, operational, or market conduct and relies on external auditors to complete some financial and information technology audits. The President/CEO approves all internal audit reports, and the Audit Committee receives the results of current audits and updates on the progress on prior audit findings. In addition, internal audit staff complete follow-up procedures to monitor compliance with the recommendations.

Examination Procedures Performed: RNA interviewed Company personnel responsible for corporate governance, internal and external audit, compliance risk assessment, and quality assurance processes. RNA also reviewed minutes of Board of Directors meetings.

Examination Conclusions: The Company has documented its corporate decisions in its Board of Directors minutes. Also, the Company appears to have adopted policies and procedures to ensure that appropriate audits or reviews are generally conducted timely with documented results.

Antifraud Efforts:

Summary of Company Policies and Procedures:

- The Company's Special Investigative Unit ("SIU") is within the claims division and conducts many antifraud measures, including investigations and surveillance; the SIU supervision is under the direction of the SIU Supervisor and the Chief Claims Officer.
- The Company's antifraud plan summarizes all related antifraud efforts and requires management and employees to take reasonable precautions to prevent and detect potential insurance fraud. Claim professionals who are trained to recognize SIU's red flags refer suspected fraud instances to SIU as needed. The SIU staff may serve in an advisory role until the issue is resolved, even if SIU declines the referral.
- The Company reports all incidents of suspected fraud to the Insurance Fraud Bureau after completing a thorough investigation. Also, the Company reports all auto theft claims to the National Insurance Crime Bureau ("NICB") through the Insurance Services Office ("ISO"). The SIU is responsible for referring fraudulent claims to the NICB, and the Insurance Fraud Bureau, when the Company believes fraud has occurred.
- The Company's Code of Ethical Conduct applies to all directors, officers, and employees, all of whom are required to attest to compliance through an electronic submission annually. Also, directors, officers, and managers are required to disclose any potential or actual conflicts of interest annually.
- The Company conducts criminal and education background checks on all employment applicants. The Company generally does not hire anyone convicted of a Federal felony involving dishonesty or breach

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of trust. If the Company elected to hire such a person, the Company would seek approval from the Division before hiring.

- The Company implemented a "whistleblower" procedure to encourage employees to report fraud.
- The Company has implemented Office of Foreign Asset Control compliance initiatives, including searches of the Specially Designated Nationals ("SDN") database for any policyholders, claimants, or vendors included in the SDN database.

Examination Procedures Performed: RNA interviewed Company personnel responsible for antifraud initiatives, compliance procedures, and code of ethical conduct policies. In addition, RNA reviewed Company policies and procedures to address antifraud initiatives as part of claims and underwriting testing.

Examination Conclusions: The Company has adopted reasonable procedures related to antifraud initiatives, compliance procedures, and code of ethical conduct policies. Based upon underwriting and claims testing, it appears that the Company has reasonably designed antifraud initiatives in place to detect, prevent, and investigate fraudulent insurance acts.

Third-Party Outsourcing:

Summary of Company Policies and Procedures:

- The Company's sales distribution in Massachusetts is through independent agents. (See discussion in producer licensing regarding producer controls and procedures.)
- Independent claim adjusters are utilized as needed and provide on-site inspections, investigations, or both, for automobile physical damage and property damage claims. In addition, the Company gives the independent claim adjusters written documentation of the Company's procedures covering required tasks and timeframes for completion.
- The Company contracts for vendors to provide services related to auto glass claims, car rental coverage, and medical claims review. The Company manages and monitors vendors' service performance.
- Although management may outsource various legal matters, the Company monitors the performance of the law firms and attorneys conducting litigation defense duties.

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

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

Record Retention:

Summary of Company Policies and Procedures:

- The Company has adopted record retention requirements for various documents and records.
- The requirements include record management maintenance and disposal guidelines, including document-specific retention timelines.

Examination Procedures Performed: RNA obtained a summary of the Company's record retention policies and procedures and evaluated them for reasonableness.

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Examination Conclusions: The Company's record retention policies appear reasonable. The examination report notes testing results about documentary evidence throughout the text.

Privacy Compliance:

Summary of Company Policies and Procedures:

- The consumer privacy notice is provided to applicants when a new personal lines policy is issued, and is annually supplied to customers with personal lines renewal notices. Also, the Company includes its privacy policies on its website.
- The Company does not share information with other companies for marketing purposes, and thus, no opt-out notice is required. Company policy is to disclose information as required or permitted by law to regulators, law enforcement agencies, antifraud organizations, and third parties who assist the Company in processing business transactions for its customers.
- The Company has developed and implemented information technology security policies and practices to safeguard non-public personal and health information. In addition, the Company periodically conducts compliance audits of its information technology systems access and security.
- The Company restricts access to electronic and operational areas containing non-public personal financial and health information to authorized individuals and strictly monitors access procedures.

Examination Procedures Performed: RNA interviewed Company personnel responsible for privacy compliance and reviewed supporting documentation. Further, RNA

- a) selected 25 private passenger automobile/motorcycle and 25 homeowners policies issued and renewed during the examination period to test whether the Company provided a consumer privacy notice.
- b) reviewed underwriting and claims documentation for any evidence that the Company improperly collected, used, or disclosed non-public personal financial information, and
- c) sought evidence that the Company improperly disclosed non-public personal health information in conjunction with testing of underwriting and claims.

Examination Conclusions: Based upon RNA's review and testing, the Company's privacy practices appear to meet Massachusetts and Federal statutory and regulatory requirements.

Annual Market Conduct Reporting:

Summary of Company Policies and Procedures:

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

Examination Procedures Performed: RNA interviewed Company personnel responsible for underwriting and claims processing. In addition, RNA reviewed the statutorily-required 2019 homeowners underwriting and claims data submitted to the Division, the examination data, and the 2019 Massachusetts MCAS data submitted to the NAIC for any unusual results and concerns.

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Examination Conclusions:

Findings: None.

Observations: RNA's review of the Company's statutorily-required 2019 homeowners underwriting and claims data submitted to the Division did not identify unusual results and concerns. The data reported to the Division appears to be complete and accurate.

However, RNA found six transactions recorded incorrectly in the MCAS. Specifically, the Company should have classified two private passenger automobile company-initiated cancellations for underwriting, and two homeowners non-renewals reported in the MCAS as insured-requested cancellations. Conversely, one private passenger automobile insured-requested cancellation reported in the MCAS was instead a company-initiated cancellation for underwriting. Finally, a newly offered private passenger automobile policy ultimately declined by the insured was incorrectly classified in the MCAS as a company-initiated cancellation for underwriting.

Recommendations: The Company should evaluate its transaction coding policies and procedures to ensure that employees and agents properly code company-initiated underwriting cancellations, non-renewals, and insured-requested cancellations in its systems and in the MCAS. Also, the Company should conduct staff training to ensure that employees and agents correctly code all transactions for management and regulatory reporting. Finally, the Company should adopt new procedures for the independent review of MCAS filings before filing with the NAIC. The reviews should ensure that the data is accurate, complete, and reconciled adequately to underlying data in the Company's policy administration and underwriting systems. The Company should provide the first independent assessment report to the Division by March 31, 2023.

Subsequent Company Actions: The Company has updated available selections for cancellation reasons to identify more accurately insured-requested vs. company-requested cancellations. The Company has completed training of staff as recommended. The ' 'Company's internal audit function will complete an independent assessment of the validity of the data as an annual event.

II. COMPLAINT HANDLING

Summary of Company Policies and Procedures:

- Any written complaint or grievance received from the Division or the Attorney General's office is considered a governmental complaint and handled according to written procedures. According to written procedures, all other written grievances are considered non-governmental complaints and are managed directly by the individual business units.
- The claims department maintains a register of all letters received by the Company constituting a written demand for relief under M.G.L. c. 93A, § 9 suggesting unfair business practices.
- The General Counsel distributes governmental complaints to the appropriate business unit for investigation and timely response. Non-governmental complaints are received directly in the business units and handled within those units for timely responses.
- The Company's complaint registers include the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint, and the days to process each complaint.
- The governmental complaint register is provided to executive management when the Company notes trends or unusual activity. The non-governmental complaint registers are provided to executive management semi-annually.

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- The Company separately tracks negative responses to written claim surveys and responds via phone call to the responder.
- The Company provides a telephone number and address in its written responses to complaints and consumer inquiries, and on its website.
- The Company monitors social media websites. If a negative post or comment involves a claims matter, the statement goes to claims management for review and a response to the consumer.

Examination Procedures Performed: RNA interviewed management and staff responsible for complaint handling and examined evidence of the Company's related processes and controls. Further, RNA

- a) reviewed the Company's complaint registers for 2018-2020 to evaluate compliance with complaint requirements and ensure that they contained all Division complaints,
- b) selected 12 governmental complaints to assess the Company's compliance with statutory complaint requirements. RNA reviewed the complaint handling for these complaints, including the adequacy of documentation supporting the facts and resolution of the complaints, the complete and proper disposal of complaints, and the timeliness of the complaint responses, and
- c) reviewed the Company's website and communications to consumers, to determine whether the Company provides contact information for consumer inquiries.

Examination Conclusions: Based on testing, the Company's complaint registers and procedures meet Massachusetts statutory and regulatory requirements.

III. MARKETING AND SALES

Summary of Company Policies and Procedures:

- The Company's sales distribution in Massachusetts is through independent agents.
- The Company creates minimal advertising for general public use. Automobile, homeowners, umbrella, inland marine, and accident forgiveness product brochures are available on the Company's website for consumer and agent use. The Company also uses limited advertising in industry periodicals.
- The Company provides general insurance awareness and safety tips in its social media postings.
- The Company has four field representatives who manage the independent agency force. The field representatives conduct periodic agency visits to provide training and answer questions about the Company's products, processing requirements, and underwriting guidelines.
- The Company offers mass marketing plans to its employees and retirees. The related affinity group discounts are filed with the Division for approval, per statutory and regulatory requirements for mass marketing plans.

Examination Procedures Performed: RNA interviewed Company personnel responsible for reviewing, approving, and maintaining sales and advertising materials and obtained supporting documentation. Further, RNA

- a) reviewed any sales and marketing materials noted as part of new and renewal business testing for any evidence of use of unapproved sales and marketing materials,
- b) assessed agent communications as part of new and renewal business testing for reasonableness, and
- c) evaluated the use of affinity group discounts as part of new and renewal business testing.

Examination Conclusions: Based on the testing conducted by RNA, the Company's marketing practices meet Massachusetts statutory and regulatory requirements.

IV. PRODUCER LICENSING

Summary of Company Policies and Procedures:

- The Company's sales are through independent agents who are licensed producers.
- The independent agent contracts contain terms and conditions that address licensure, maintenance of records, binding authority, claim reporting, commission rates, premium accounting, advertising, termination, and suspension provisions. The contract also gives the agent exclusive control over expirations and the agent's records. Additionally, the agreement requires independent agents to maintain an errors & omissions insurance policy and comply with continuing education requirements.
- The Company processes agent appointments and terminations through the Division's Online Producer Appointment ("OPRA") System.
- The Company monitors agents license expiration dates and the accuracy and completeness of the OPRA System data. In addition, internal audits assess the quarterly reconciliation of OPRA System records to the Company's appointment records and related corrective actions.
- The Company's agency terminations are provided through written notice to the agency at least 180 days prior to the termination effective date. The Company also provides notice of agent appointment terminations to the Division through the OPRA System, with the termination effective date in the OPRA System as the date that renewal business submissions will no longer be accepted.
- Terminations that are "for cause" are rare and handled according to the agency contract with the termination reason provided to the Division.

Examination Procedures Performed: RNA interviewed individuals responsible for producer contracting and processing of agent appointments and terminations. Further, RNA

- a) tested 25 private passenger automobile/motorcycle and 25 homeowners policies issued or renewed during the examination period to determine whether the sale agents were included in the Division's record of Company-appointed agents,
- b) tested 16 agency terminations, compared those to corresponding information in the OPRA System, and examined evidence that termination notices to agents and the Division met statutory requirements,
- c) assessed the completeness of the Company's register of agency terminations.

Examination Conclusions: Based on testing, the Company's producer licensing, agent appointment, and agent termination practices meet Massachusetts statutory and regulatory requirements.

V. POLICYHOLDER SERVICE

Insured-Requested Cancellations and Service Requests:

Summary of Company Policies and Procedures:

- Automobile/motorcycle policyholders may cancel their policies only after filing a Form 2A-Notice of Transfer of Coverage, providing proof that the vehicle has been taken out of service, or submitting evidence that they have moved out of Massachusetts.
- All policy cancellation requests from policyholders are to be made through agents, who forward the request to the Company for processing. However, the Company will honor any written cancellation request received directly from the insured and provide the request to the agent for processing.

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- Any unearned premium resulting from an insured-requested cancellation is refunded directly to the customer using both short rate and pro-rata calculations for private passenger automobile/motorcycle cancellations and pro-rata calculations for homeowners cancellations.
- All policyholder service requests received by the Company, except for complaints and address changes, are referred to the agent for handling.

Examination Procedures Performed: RNA interviewed individuals responsible for policyholder service transaction processing. Further, RNA tested 10 private passenger automobile and 10 homeowner insured-requested cancellations from the examination period to determine whether the Company and agents processed the cancellations accurately and timely.

Examination Conclusions: Based on testing, the Company's handling of insured-requested cancellations meets Massachusetts statutory and regulatory requirements.

Premium Billing and Reinstatement Practices:

Summary of Company Policies and Procedures:

- The Company's premiums are direct billed to customers, who can either pay the premium in full at inception, and upon renewal, or make payments in four, 10, or 12 installments. Acceptable payments include checks, Automated Clearing House ("ACH"), credit cards, debit cards, and electronic fund transfers. In addition, policyholders can make payments, including ACH, credit card, and debit card payments using the website or phone.
- New private passenger automobile/motorcycle and homeowners policies do not require down payments.
- The Company sends installment billing notices to customers approximately 20 days before the due date. The customer has a five-day delinquency period to submit payment. On the twenty-fifth day after the due date, the Company cancels the policy, issues a statutory notice of cancellation, and sends the notice to the customer and agent.
- The Company reports uncollected earned private passenger automobile/motorcycle premium to the Registry of Motor Vehicles and does not report such delinquencies to consumer reporting agencies.
- All coverage reinstatement requests are submitted to the underwriting department to determine whether to reinstate the policy. For all reinstatements, the customer must provide a written no-loss statement for the period of non-coverage.

Examination Procedures Performed: RNA interviewed individuals responsible for premium billing and reinstatements and reviewed billing notice dates in conjunction with new and renewal business testing.

Examination Conclusions: Based on the review, the Company's premium billing and reinstatement handling meet Massachusetts statutory and regulatory requirements.

Returned Mail, Unclaimed Checks and Escheatment Practices:

Summary of Company Policies and Procedures:

- Agents are notified of returned mail instances and asked to contact the customer to obtain a correct address for future mailings and make any needed address changes.
- Premium refund and claim checks not cashed remain on the Company's outstanding check records until they are aged 90 days. After 90 days, the aged checks are transferred to an abandoned property record,

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and a letter is sent to the payee indicating the previously issued check is void. The Company provides the payee with a form that the payee must submit before the Company will issue a replacement check.

- Three years after these efforts to reach the payee are exhausted, the funds are deemed abandoned property. Finally, approximately 90 days before escheatment, a final notice is mailed to the last known address in an attempt to locate the payee.
- The Company annually reports escheatable funds to the Massachusetts State Treasurer by November 1 as required by statute.

Examination Procedures Performed: RNA interviewed individuals responsible for returned mail, unclaimed checks, and escheatment and reviewed supporting information, including the 2019 escheatment filing with the Massachusetts State Treasurer.

Examination Conclusions: Based on review, the Company's handling of returned mail, unclaimed checks, and escheatment meets Massachusetts statutory and regulatory requirements.

VI. UNDERWRITING AND RATING

Personal Insurance Sales, Underwriting, and Rating Practices:

Summary of Company Policies and Procedures:

- To obtain personal lines insurance quotes, agents may use either the Company's agent portal or third-party comparative rating services. Agents electronically submit application information with the signed applications retained in the agents' files. Agents may also submit paper applications directly to the Company. The Division approves the standard forms for the applications.
- Private passenger automobile/motorcycle underwriting is automated, with most applications accepted, electronically-rated, and processed using standard underwriting algorithms. The Company's underwriting staff review private passenger automobile/motorcycle applications as needed and answer questions from agents. Appropriate authority limits are assigned to each underwriter.
- The Company's underwriting system interfaces with the Massachusetts Registry of Motor Vehicles system to obtain real-time information on Massachusetts and out-of-state drivers.
- The Company uses the Automobile Insurers Bureau of Massachusetts ("AIB") 2016 Edition of the Massachusetts Automobile Insurance Policy and the standard merit rating system known as the Safe Driver Insurance Plan ("SDIP") with some modifications.
- The Company and its agents provide the automobile insurance buyer's guide to consumers.
- The Company's insurance policies provide disclosures as required by statutory and regulatory guidelines.
- Private passenger automobile rates are based on the AIB Manual with modifications, with all rates filed with the Division prior to use. Motorcycle rates for comprehensive and collision coverages are based on original cost new, with annual depreciation factors applied.
- Private passenger automobile/motorcycle underwriting criteria include license status, driving history, and driver experience, among other acceptable factors.
- For homeowners coverage, the Company uses Massachusetts ISO (HO-2000) forms with endorsements for Massachusetts-specific issues and for offering additional policy benefits. The Company's underwriters have appropriate authority limits assigned to them. The underwriters review insurer placement based on the risk for new business and verified loss history.
- Homeowners underwriting and rating criteria include territory, coverage amount and type, property age, protection class, structure type and discounts for security and safety features, and higher

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deductibles. In addition, the Company compliance analysts test rates before use and loading into the Company's online quoting system.

- The Company uses credit-based insurance scores for Massachusetts homeowners underwriting. If the credit score is below the minimum required, the agent must obtain underwriting approval to bind the policy. The Company's underwriting personnel will send a FCRA Adverse Action Notice to the applicant. In addition, the Company's underwriting staff may approve insurance score exceptions for extraordinary life events, such as medical issues or a divorce leading to lower scores with or without bankruptcy.
- Approximately half of new homeowners risks are externally inspected within the first 60 days of coverage. The inspections validate replacement cost values and identify any property deficiencies or unknown risks, which are evaluated for possible underwriting action by the underwriting staff, if the deficiencies are not corrected. The Company strives to inspect all risks at least every seven years. In addition, when new coverage is requested for homes valued over \$1 million, multi-family homes, and dwelling fire rental properties, such properties are inspected.
- Management has established time and service standards for all key personal lines processing activity. The Company uses random quality assurance audits to evaluate the documentation and timeliness of underwriting decisions.
- For statistical reporting, the Company has developed testing procedures to ensure the accuracy and completeness of key statistical data. The Company reports automobile premium statistical data to the Commonwealth Automobile Reinsurers ("CAR") monthly and homeowners premium data to ISO quarterly. Any errors exceeding acceptable tolerance levels must be corrected and resubmitted. CAR and ISO have cross-checking reporting requirements for statistical and financial reporting. Finally, the Company is subject to periodic CAR premium-related statistical audits.

Examination Procedures Performed: RNA interviewed Company personnel with responsibility for the underwriting and rating processes. RNA selected 25 private passenger automobile/motorcycle and 25 homeowners policies issued or renewed during the examination period, to verify that each application was timely and properly processed, and that the policy's premium and discounts complied with statutory and regulatory requirements and filed rates.

In March 2020, the Company self-identified to the Division and reported errors in applying its loss-free premium credits for certain homeowners premiums and its paid-in-full premium discounts for certain private passenger automobile premiums. The error resulted in the Company paying \$3,038,539 in refunds and 6% annual interest to impacted Massachusetts consumers. RNA monitored the Company's remediation efforts, tested the completeness and accuracy of the refund calculations, and concluded that the premium refunds and applied interest were properly calculated and paid.

Examination Conclusions: Based on testing, the Company issues personal lines policies in accordance with statutory and regulatory requirements. The premium rates charged, and the discounts applied for the tested policies are in compliance with its policies, procedures, statutory requirements, and rates filed with the Division.

Vacated At-Fault Accident Determination Practices:

Summary of Company Policies and Procedures:

- The Company has procedures to ensure that an at-fault driver, using Massachusetts standards of fault, and when the claim value exceeds \$1,000, is provided a "Notice of At-Fault Accident Determination."

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The notice indicates that the at-fault accident will impact the driver's SDIP, and that the driver may appeal the at-fault determination to the Board of Appeal.

- Vacated at-fault accident determinations are processed by the Company daily through review of Merit Rating Board ("MRB") "Notices to Re-Inquire", which are issued after the Division's Board of Appeal reverses at-fault determinations. In addition, the Company has used the Board of Appeal hearing dockets, or notice of the vacated action from the agent or driver, to process vacated at-fault determinations. The Company will apply any required premium credits or refunds to the insurance policy within 30 days' notice of the vacated action.
- The Company has elected to report its at-fault accident determinations to the industry database, the CLUE. As such, when the determinations are vacated, the Company is to report changes in the at-fault indicator to the CLUE within 15 days of receipt of the vacated action.

Examination Procedures Performed: RNA interviewed Company personnel responsible for processing vacated at-fault accident determinations. RNA selected and tested 40 vacated at-fault accident determinations by the Board of Appeal. RNA's testing was also designed to verify that vacated at-fault determinations were timely reported to the CLUE.

Examination Conclusions:

Finding 1: One vacated at-fault accident determination included in testing resulted in the insured receiving a partial premium return, which was timely processed, but testing determined that the insured was due an additional premium return due to the complexity of the return premium calculation, which spanned two policy terms. Accordingly, the premium refund was not processed in accordance with M.G.L. c. 175E, § 7A.

Observation 1: Vacated at-fault accident determinations were properly and timely processed for 39 of 40 transactions tested.

Finding 2: Also, the Company failed to report nine vacated at-fault accident determinations to the CLUE. The Company failed to report another six determinations to the CLUE within 15 days of receipt of the vacated action as required in M.G.L. c. 175E, § 7A and Bulletin 2010-11.

Observation 2: The Company reported only 25 of the 40 tested transactions to the CLUE within acceptable timeframes.

Required Actions: The Division required the Company to provide the remaining partial premium return to the insured. Also, the Company should continue to closely monitor and supervise the processing of vacated surcharges for premium refunds, particularly in cases where multiple policy terms are impacted and where there are multiple endorsements, which typically result in manual and complex refund calculations.

The Division further instructed the Company to review all vacated at-fault accident determinations from 2018 through 2021 because of the extent of the CLUE reporting errors. The additional testing for the four-year period resulted in 79 vacated at-fault accident determinations that were reported to the CLUE in December 2021 and January 2022. Subsequent to this extended review, the Company has decided to stop reporting new at-fault accidents to the CLUE beginning in January 2022, thus eliminating the need to report vacated at-fault accident determinations after that date.

Subsequent Company Actions: The Company has completed all required actions prior to the issuance of this report.

Underwriting Declination Practices:

Summary of Company Policies and Procedures:

- Private passenger automobile/motorcycle underwriting criteria include license status, driving history, and driver experience, among other acceptable factors. Homeowners underwriting criteria include territory, coverage amount and type, property age, protection class, structure type, discounts for security and safety features, and higher deductibles.
- Applications for private passenger automobile/motorcycle and homeowners coverage may be declined by the agent on the Company's behalf, or by the underwriting department if the risks do not meet the Company's underwriting guidelines.
- The Company uses credit-based insurance scores for Massachusetts homeowners underwriting. If applicants lack the minimum required credit-based insurance score, agents cannot bind homeowners coverage for applicants without receiving underwriting approval. The Company's underwriting personnel will send a FCRA Adverse Action Notice to the applicant when the applicant's insurance application is denied based on the credit-based insurance score. In addition, underwriting staff may approve insurance score exceptions for extraordinary life events such as medical issues or a divorce leading to lower scores and/or bankruptcy.

Examination Procedures Performed: RNA interviewed Company personnel responsible for the underwriting and rating processes. RNA selected 10 homeowners applications to verify that the Company's underwriting guidelines supported each declination. RNA's testing also confirmed that the Company provided FCRA Adverse Action Notice to all applicants declined due to unacceptable insurance scores.

Examination Conclusions:

Findings: For one declined application due to an unacceptable insurance score based on credit, no FCRA Adverse Action Notice was provided to the applicant as required by the Fair Credit Reporting Act, § 615(a) and M.G.L. c. 93, § 62.

Observations: The Company provided timely FCRA Adverse Action Notices to applicants for five of the six of the applications declined for unacceptable insurance scores. For the remaining four declinations not resulting from unacceptable insurance scores, the underwriting conclusions were reasonable and consistent with the Company's underwriting guidelines.

Required Actions: The Company's internal audit function shall review controls and procedures and make appropriate changes to procedures to ensure all FCRA Adverse Action Notices are issued timely and appropriately. The Company shall provide the internal audit report to the Division by March 31, 2023. Also, the Company shall provide staff with training on the process for issuing FCRA Adverse Action Notices to applicants.

Subsequent Company Actions: The Company agrees that the internal audit function will complete an independent review of the controls and procedures to ensure FCRA Adverse Action Notices are issued timely and appropriately. The Company has provided training on the process for issuing FCRA Adverse Action Notices to applicants.

Underwriting Cancellation and Non-Renewal Practices:

Summary of Company Policies and Procedures:

- Company-initiated underwriting cancellations of private passenger automobile/motorcycle policies are usually a result of the driver's license suspension or revocation or material misrepresentation in the insurance application. Company-initiated underwriting cancellations of homeowners policies are generally a result of property deficiencies or changes in the risk noted through inspection or material misrepresentation in the application of insurance.
- All notices of cancellation for underwriting reasons are reviewed and approved by underwriting management and sent to insureds at least 20 days prior to cancellation, or for homeowners cancellations where no mortgagee is present, at least five days prior to cancellation, with a copy of the notices sent to the agents. The notices state the specific reasons for cancellations.
- Written non-renewal notices of private passenger automobile/motorcycle and homeowners policies are provided to agents at least 45 days prior to policy expiration, with the specific reasons stated on the notices. In addition, the agents must provide the notices to the insureds and loss payees within 15 days unless the agent has obtained coverage for the insured through a different insurer.

Examination Procedures Performed: RNA interviewed Company personnel responsible for the underwriting process. Additionally, RNA tested six private passenger automobile/motorcycle, 10 homeowners company-initiated underwriting cancellations and 15 private passenger automobile/motorcycle, and 28 homeowners non-renewals to comply with the Company's underwriting guidelines and statutory requirements.

Examination Conclusions: Based on testing, the Company provided timely and adequate underwriting cancellation and non-renewal notices with the specific reasons on the notices properly disclosed in accordance with statutory requirements. The specific reasons were reasonable and in compliance with the Company's underwriting guidelines.

VII. CLAIMS

Claims Handling Practices:

Summary of Company Policies and Procedures:

- Three departments share the Company's claims handling function. The property claims department processes automobile physical damage and property damage claims; the casualty claims department handles liability claims and SIU investigations; while the complex claims department processes litigation claims with exposures greater than \$100,000. In addition, the Company utilizes several independent adjusting firms to handle claims, which are not practical for employee field adjusters to handle. The claims departments are organized in teams with a supervisory structure to ensure that employees follow claims settlement authorities and Company procedures.
- The Company uses an internally-developed electronic claim handling and workflow system for claim file documentation, history notes, diary reminders, and document management. The first notice of loss is reported through the agents, claims department staff, or after-hours call center staff. The Company utilizes a standard industry form for claim reporting. It enters key information such as the policyholder's name, policy number, accident date, and location into the claim system to create a claim file. Claims are assigned to adjusters automatically or manually based upon the nature of the claim. Adjusters are

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required to contact claimants on the assignment date or the next business day. Claimants can also use the Company's phone texting platform to provide photo evidence of automobile damage.

- The Company investigates claims to determine the existence of coverage, and then an initial liability determination is made. The Company follows standard industry and CAR claim handling guidelines in its claim investigations, including Massachusetts standards of fault. In addition, staff use information from police reports, witness statements, photographic evidence, and consumer reporting agencies to evaluate the claim.
- An internally-developed bodily injury evaluation methodology serves to document the damages analyses. The Company makes settlement offers between the low and high settlement estimates, and management reviews any exceptions. Management approves specific individual claim settlement authority limits commensurate with the examiner's experience. Unit examiners and supervisors review active bodily injury claims at the initial 30 and 60-day marks, after 90 days, and periodically thereafter. Additionally, the Company reports all closed automobile bodily injury claims to the AIB Detail Claims Database as required.
- For total loss automobile/motorcycle claims, the Company uses the *CCC One Valuation* estimates, including National Automobile Dealers Association values, to determine the fair value of the automobile/motorcycle. Claimants may also submit other evidence of the fair value, including *Kelly Blue Book* or *Autotrader* valuations, for the Company to consider.
- Procedures ensure that an at-fault driver, using Massachusetts standards of fault, and when the claim value exceeds \$1,000, is provided a "Notice of At-Fault Accident Determination" indicating that the at-fault accident will impact the driver's SDIP, and that the driver may appeal the at-fault determination to the Board of Appeal. In addition, managers monitor at-fault reporting using a weekly report listing automobile paid claims. The report also serves as a tool to identify subrogation opportunities. As well as reporting at-fault accident determinations for claims paid over \$1,000 and all comprehensive claims to the MRB, the Company also reports at-fault accident determinations to the CLUE.
- "Reservation of rights" and "excess of loss letters" are issued with supervisory approval when potential coverage issues arise. In addition, a Department of Revenue compliance check is performed as required by statute and documented in the claim files. Also, employees make underwriting risk referrals to the underwriting department as necessary. For property claims, the Company's process for reporting claims above \$1,000 to municipal authorities is to send the required letter to the appropriate municipality shortly after the claimant files a claim.
- The Company has established criteria for supervisors' periodic reviews of the claims examiners' work, and a documentation measure requiring the reviews to be contained in the claims system. In addition, the system provides metric reports detailing the daily, weekly, and monthly claims reporting of key service and quality metrics. The Company also instituted a quality assurance program through closed and open claims reviews.
- The Company is subject to periodic loss data audits by CAR for compliance with statutes and CAR Rules of Operation.
- The Company conducts random post-claim payment customer satisfaction surveys of first-party claimants. Any negative comments are addressed through follow-up with the claimant with the results provided to the Chief Claims Officer.
- The Company is subject to audits from CAR, the Company's statistical agent, for compliance with claim standards, which specify timeframes for assigning an appraiser, inspecting a vehicle, and paying a claim. Summary claim data is provided monthly by the Company to CAR, and the Company must correct any claim statistical errors exceeding standard CAR tolerance levels. In addition, the Company uses ISO as its statistical reporting agent for homeowners claims and submits that data to ISO monthly.

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Examination Procedures Performed: RNA interviewed Company personnel responsible for the claims handling. RNA selected private passenger automobile/motorcycle claims, including 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims, including 32 paid claims, eight denied or closed-without-payment claims, and 10 open claims for testing. RNA verified the Company properly investigated, adjudicated, and paid or denied all claims following contract provisions and statutory requirements.

Examination Conclusions:

Findings: The Company failed to issue letters to municipal authorities as required by M.G.L. c. 139, § 3B for eight homeowners claims. Also, the Company failed to perform a Department of Revenue compliance check for unpaid MassHealth assessments and taxes for one private passenger automobile claim in accordance with M.G.L. c. 175, §§ 24E and 24F.

Observations: Based on testing, except as noted above, the Company properly investigated, adjudicated, and paid or denied all claims following contract provisions and statutory requirements.

Required Actions: The Company's internal audit function shall review controls and procedures related to issuing municipal letters and make any necessary changes to ensure that the letters are issued timely. The ' Company's internal audit function shall review and revise procedures for conducting satisfactory Department of Revenue compliance checks for monies possibly due to the Commonwealth for owed taxes or the recovery of public assistance benefits. The Company shall provide the internal audit report to the Division by March 31, 2023. Further, the Company shall provide training and guidance to staff on how to complete and document Department of Revenue compliance checks.

Subsequent Actions: The Company agrees that the internal audit function will review controls and procedures related to issuing municipal letters and completing Department of Revenue compliance checks. The Company has provided training to staff on how to complete Department of Revenue compliance checks.

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SUMMARY

Based upon the procedures performed in this examination, RNA has reviewed and tested Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims as set forth in the *2019 NAIC Market Regulation Handbook*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations, and bulletins. RNA has provided recommendations and required actions to address standards in Company Operations/Management, Underwriting and Rating, and Claims.

ACKNOWLEDGEMENT

This acknowledgment is to certify that the undersigned is duly qualified and, in conjunction with RNA, applied certain agreed-upon procedures to the Company's corporate records 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. In addition, 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 Division acknowledges the cooperation and assistance extended to all examiners by the officers and employees of the Company during the comprehensive market conduct examination.



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