



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, 2014 through December 31, 2014

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
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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

November 7, 2018

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.

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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, 2014 to December 31, 2014, 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 *2014 NAIC Market Regulation Handbook* (“the Handbook”), the examination standards of the Division, the Commonwealth of Massachusetts’ insurance laws, regulations and bulletins, and selected Federal laws and regulations. All procedures were performed under the supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed in the Division’s financial examination of the Company. For those objectives, RNA and the market conduct examination staff relied on procedures performed by the Division’s financial examination staff to the extent deemed appropriate to ensure that the market conduct objective was adequately addressed. The operational areas that were reviewed under this examination include company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating and claims. This examination report describes the procedures performed in these operational areas and the results of those procedures.

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

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

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

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EXECUTIVE SUMMARY

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

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

The examination resulted in no recommendations or required actions with regard to complaint handling, marketing and sales, or policyholder service. The examination indicated that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in 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

STANDARD I-18

Findings: None.

Observations: Based upon RNA's review of the Company's statutorily-required 2014 homeowners underwriting and claims data submitted to the Division, no unusual results and concerns were noted, and the data reported to the Division appears to be complete and accurate. Further, Company examination data that agrees to NAIC Market Conduct Annual Statement ("MCAS") totals was used to select testing of company-initiated underwriting cancellations and non-renewals. In testing private passenger automobile company-initiated underwriting cancellations and non-renewals, the Company reported no company cancellations, significant errors in insured-requested cancellations and non-payment cancellations, and minor errors in non-renewals in the MCAS data reported to the NAIC. Additionally, four tested homeowners insured-requested cancellations were improperly included in the company cancellation and the non-renewal data for the examination and for MCAS.

Recommendations: The Company should ensure that it has transaction coding policies and procedures to ensure that private passenger automobile and homeowner company-initiated underwriting cancellations and non-renewals are properly coded in its systems and in MCAS. Also, the Company should conduct staff training to ensure that all transactions are properly coded for management and regulatory reporting. Finally, the Company should adopt new procedures for the independent review of MCAS filings prior to filing with the NAIC, to ensure that the data is accurate, complete and properly reconciled to underlying data contained in the Company's policy administration and underwriting systems.

Subsequent Company Actions: The Company amended its 2014 MCAS and filed it with the NAIC. The Company completed the recommended actions and conducted an audit of the 2015 MCAS prior to its submission.

SECTION IV-PRODUCER LICENSING

STANDARD IV-3

Findings: Two of the appointment terminations were not processed within 30 days of the termination effective dates in the Division's Online Producer Appointment System ("OPRA") as required by M.G.L. c. 175, § 162T. Also, the Company was inconsistent as to the effective date of the appointment terminations in OPRA. In some instances, the termination effective date was the date that new and renewal business is no longer accepted. In other cases, the termination effective date was the date that existing in-force business is no longer serviced.

Observations: For the remaining appointment terminations tested, the Company properly terminated the appointments in OPRA in compliance with statutory requirements. Also, each of the appointment terminations at the Company's request were processed with proper notification to the agents in compliance with statutory requirements.

Required Actions: The Company shall review its controls and procedures and make necessary changes to ensure that agent appointment terminations are reported to the Division in OPRA within 30 days of the effective dates of the terminations and using consistent reporting date criteria. Also, the Company shall provide training and guidance to staff about the processing of these terminations. Finally, the Company shall conduct a detailed internal audit by December 31, 2017, or another date acceptable to the Division, to ensure that these required actions have been properly implemented. The Company shall provide the internal audit report to the Division.

Subsequent Company Actions: The Company's agency appointment terminations were previously processed in the Marketing Department. Termination processing was transferred to the Company's Solution Center Department in August 2013. The Company's transition plan included updating termination records. During this process, the Company discovered that some terminations had not been processed in OPRA, and as such, the Company proactively addressed this by processing the termination in OPRA in June 2014. The Company completed its internal audit assessments in 2017, and that documentation was provided to the Division in 2018.

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-1

Findings: RNA's testing of motorcycle rates indicated one policy where the agent mistakenly used average retail value instead of original cost new as required by its filed rates, M.G.L. c. 175, § 113B, and M.G.L. c. 175E, § 7. This resulted in undercharging the insured.

RNA's testing of private passenger automobile claims indicated that three comprehensive claims were not reported to the Merit Rating Board ("MRB") in accordance with 211 CMR 134.00. At the request of the Division, the Company reviewed reportable comprehensive claims and determined that 1,260 comprehensive claims have not been reported to the MRB since November 2013, due to an IT programming change at that time.

RNA's testing of private passenger automobile claims indicated that one operator charged with an at-fault accident was not sent a Surcharge Notice, as required by 211 CMR 134.00, notifying her of this decision,

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and that she has a right to appeal the at-fault determination with the Massachusetts Board of Appeal in accordance with M.G.L. c. 175E, § 7A.

Finally, RNA's testing indicated that 13 of 25 tested at-fault changes were not timely reported to Comprehensive Loss Underwriting Exchange ("CLUE") within 15 days of receipt of the vacated surcharge in compliance with Bulletin 2010-11. The time to report to CLUE was more than 15 days, and often times, much longer, sometimes due to systems transition issues during those periods.

Observations: Based upon testing, the Company appears to calculate policy premiums and discounts in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. Except as noted above, RNA's testing of motorcycle premiums determined that original cost new and appropriate depreciation factors were applied to policy premiums. At-fault accidents and, except as noted above, required claims were timely reported to the MRB. Surcharge Notices were properly provided to at-fault operators, except as noted above. Vacated surcharge return premiums and notices were properly processed in accordance with statutory and regulatory requirements, and 12 of the 25 tested at-fault changes were timely reported to CLUE.

Required Actions: The Company shall notify agents and staff about the proper procedures for valuing motorcycles for comprehensive and collision coverages to ensure that original cost new is used. The Company shall also implement new valuation procedures or quality assurance testing of the agents' motorcycle values to ensure that proper premium rates are calculated and charged.

The Company shall report the missed comprehensive claims to the MRB. In addition, the Company shall review its procedures and adopt new controls as necessary to ensure that such future claims are timely reported to the MRB. The Company shall provide training or guidance to staff about any new controls and procedures. Finally, the Company shall conduct a detailed internal audit by December 31, 2017, or another date acceptable to the Division, to ensure that the proper comprehensive claims reporting to the MRB has been implemented. The Company shall provide the internal audit report to the Division.

The Company shall review its procedures for sending Surcharge Notices, and adopt new controls as necessary to ensure that such notices are timely sent for at-fault claims over the minimum claim payment threshold. The Company shall also provide training or guidance to staff about any new controls and procedures for issuance of Surcharge Notices.

For the reporting of changes in at-fault accident determinations to CLUE, if the Company elects to continue the reporting of at-fault indicators to CLUE, the Company shall review its reporting procedures and controls and make enhancements as needed, and provide training to staff.

Subsequent Company Actions: The Company's procedures to determine original cost new for motorcycles were corrected prior to commencement of the examination. In July 2014, the Company implemented an automated lookup of RMV data to determine original cost new, and adopted procedures to address scenarios where the automated lookup shows no original cost new, or where the original cost new does not match the value entered by the agent.

The Company reported the 1,260 claims to the MRB and has corrected programming to ensure proper reporting. The Company conducted an internal audit in 2016 to validate that programming corrections have been made and comprehensive claims have been successfully reported to the MRB. The Company provided that documentation to the Division in 2018.

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The Company issued the Surcharge Notice and will review its procedures for sending Surcharge Notices, and adopt new controls as necessary to ensure that such notices are timely sent for at-fault claims over the minimum claim payment threshold. The Company will also provide training or guidance to staff about any new controls and procedures for issuance of Surcharge Notices.

The Company will revise its CLUE reporting procedures and will no longer report the at-fault indicator to CLUE.

STANDARD VI-7

Findings: Except as noted below, RNA found no evidence that either the Company or its agents, after retrieval of a credit-based insurance score, provided Fair Credit Reporting Act ("FCRA") adverse action notices to consumers whose quote requests were withdrawn pre-application since they did not qualify for coverage based on their unacceptable credit-based insurance score. Adverse action notices were provided to consumers where there was no withdrawal from the quote process and a homeowner application was completed but was subsequently declined coverage due to an unacceptable credit-based insurance score, as required by FCRA, §615(a) as noted in the Observations below.

Observations: For the three private passenger automobile and 10 homeowners applications declined by the underwriting department, the Company's actions appeared consistent with its underwriting guidelines. Seven of the homeowners applications declined by the underwriting department were declined due to unacceptable credit-based insurance score. The Company provided these applicants FCRA adverse action notices.

Required Actions: The Company shall ensure that FCRA adverse action notices are timely provided to homeowner applicants not meeting the Company's minimum threshold for credit-based insurance scores or formally declined coverage for credit-based insurance score. The Company has an obligation to ensure that such applicants receive adverse action notices, including in cases when the agents send the adverse action notices to such applicants. Also, the Company shall retain evidence of mailing for five years that the adverse action notices were sent to such applicants.

Subsequent Company Actions: The Company states that it is working diligently to ensure that adverse action notices are delivered to applicants not meeting the Company's minimum threshold for credit-based insurance scores or formally declined coverage for credit-based insurance scores and taking the actions described above.

STANDARD VI-8

Findings: Two notices on company-initiated homeowners cancellations had the reason on the notices as "unfavorable condition of property," which is not adequately specific as required by M.G.L. c. 175, § 99. In addition, four homeowners non-renewals had reasons on the notices that were not adequately specific as required by M.G.L. c. 175, § 193P. The reasons on the notices were "dwelling lacks maintenance" and "unfavorable condition of property." Finally, one homeowners non-renewal was issued with 43 days' notice when 45 days' notice is required by M.G.L. c. 175, § 193P.

Observations: Except as noted above, for the company-initiated underwriting cancellations and non-renewals tested, the Company provided timely and adequate notice to the insureds with the specific reasons on the notices properly disclosed.; and, the specific reasons were reasonable and in compliance with

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statutory requirements. However, on seven private passenger automobile and homeowners non-renewal notices where the reason for the non-renewals was excessive losses, the reason stated was “loss history” without more information about the nature and extent of the losses.

Required Actions: The Company shall review controls and procedures and make any necessary changes to ensure that non-renewal notices include specific reasons on the notices, and to ensure that notices are sent with at least the minimum days' notice. Also, the Company shall provide training and guidance to staff about the processing of these notices.

Recommendation: As a best practice, the Company should include more information about the nature and extent of the losses on the notices when the policies are non-renewed for loss history.

Subsequent Company Actions: The Company reviewed the reasons used for notices to ensure that they are adequately specific. Also, the Company implemented a system edit to ensure that adequate notice is provided to the insured. Also, the Company has provided guidance to staff on the issuance of these notices. Finally, when the notice reason is loss history, the Company will include the claim date and description on the notice.

SECTION VII-CLAIMS

STANDARD VII-5

Findings: None.

Observations: RNA noted that for each of the tested claims, the Company's claim files adequately documented claim handling. However, in a single instance, the claims examiner extended two settlement offers but did not adequately document the file to explain why the offers were not within the range initially calculated by the examiner in the file settlement memo. The claim ultimately settled within that settlement range and appeared to be fair and reasonable.

Recommendations: The Company should provide additional guidance and reinforce training to staff concerning the need to adequately document the file to support the examiner's claim settlement values.

Subsequent Company Actions: The Company agrees with the above recommendation.

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COMPANY BACKGROUND

The Company is comprised of three related property/casualty companies, which are part of an inter-company pooling arrangement. NDMFIC is a consolidation of the Norfolk Mutual Fire Insurance Company organized on February 12, 1825 and of Dedham Mutual Fire Insurance Company organized on February 22, 1837. The consolidation was effected on July 1, 1937. DMIC was incorporated in March 1855. FMIC was incorporated March 1, 1847. Effective January 1, 2002, each of the companies entered into the inter-company pooling agreement. Several amendments to the agreement have been executed since 2002 for changes in the pooling allocations. The most recent change effective January 1, 2011 required that all DMIC and FMIC business be ceded to NDMFIC with 14% of pooled business ceded to DMIC and 19% of pooled business ceded to FMIC.

The Company sells private passenger automobile, homeowners, commercial automobile, commercial multi-peril, and workers' compensation policies in Massachusetts through its independent agents. The Company writes business in New England and the Northeast. Massachusetts historically has contributed the vast majority of the Company's direct business, although FMIC no longer writes business in Massachusetts. The companies have identical Boards of Directors. All personal lines transactions are processed by employees of the Company's wholly-owned subsidiary, Newbury Corporation.

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, 2014:

NDMFIC:

Admitted assets	\$359.9 million
Statutory surplus	\$182.0 million
Massachusetts business - direct written premium	\$118.7 million

DMIC:

Admitted assets	\$72.9 million
Statutory surplus	\$39.3 million
Massachusetts business - direct written premium	\$32.0 million

FMIC:

Admitted assets	\$99.0 million
Statutory surplus	\$55.2 million
Massachusetts business - direct written premium	\$0

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

I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

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

- The Company's statutory financial statements are audited annually by an independent auditor.
- The Company's Board of Directors is comprised of nine Directors, including the President and Chief Executive Officer. The remaining eight Directors are independent directors. The Board of Directors regularly reviews and approves actions to address the Company's strategic, financial and operational risks.
- Five independent Directors serve on the Company's Audit Committee. The Audit Committee monitors the Company's financial reporting processes, internal control systems, and the work of the Company's auditors.
- The Company's Audit and Compliance function consists of the Research, Compliance & Projects Manager, an Internal Auditor, and two Compliance Analysts. The two Compliance Analysts are responsible for completing tests of implementation and use of premium rate changes filed with the Division, other underwriting tests and other compliance duties.
- Annually an internal audit plan is developed by the internal audit staff and approved by the President and Chief Executive Officer. The internal audit plan is provided to the Audit Committee, which reviews and approves the plan. The Audit Committee also reviews the results and progress of the audits. The internal audit plan is generally non-financial in nature, and audits are categorized as regulatory compliance, operational or market conduct.
- The Board of Directors works with the General Counsel on the Company's regulatory and compliance matters, and approves and oversees the Company's Code of Ethical Conduct, and other corporate policies.
- The Company's underwriting supervisors complete random quality assurance audits of the underwriters' work to evaluate underwriting decisions, documentation and timeliness.
- The Company has also established a quality assurance program through reviews of closed claim files by claim supervisors. The program includes a random sample of 5% – 10% of closed features for all examiners or, approximately three features per examiner per month. The review assesses adherence to Company policies and procedures with results documented and scored. Results are reported for each claim examiner for use by claims management as part of employee training and performance evaluation processes.
- The Company is subject to periodic premium and loss data audits by Commonwealth Automobile Reinsurers ("CAR"). CAR is the industry-operated residual market and statistical agent for automobile insurance in Massachusetts. Participation in CAR is mandatory for all insurers writing automobile insurance in Massachusetts.

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

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

Transaction Testing Results:

Findings: None.

Observations: 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 conducted timely with documented results.

Recommendations: None.

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

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

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

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

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

- The Company's antifraud efforts are summarized in their antifraud plan, which requires management and employees to take reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud, and to report potential fraud to the Insurance Fraud Bureau ("IFB"). Many of these activities are conducted through the Company's Special Investigative Unit ("SIU").
- The SIU is contained within the Claims Division under the direction of the SIU Supervisor and the Claim Division Manager to detect, investigate, and deter fraudulent underwriting, agent or claim activity.
- The SIU supports the claims operations with field investigations and surveillance as needed. Claim professionals receive training regarding SIU red flags and also use judgment to make referrals to SIU. If the claim is accepted by SIU, the claims system reflect ownership of the claim by SIU. If SIU does not accept the referral, the SIU may act in an advisory role to the referring claims examiner. All auto theft claims are reported through Insurance Services Office ("ISO") to the National Insurance Crime Bureau ("NICB"). The SIU is responsible to refer fraudulent claims to

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the NICB and the IFB, in cases where fraud is believed to have occurred to assist with criminal investigation and prosecution.

- The Company has adopted a Code of Ethical Conduct to guide the business conduct and activities of all Company employees. Annually, directors, officers and managers are required to execute a *Conflict of Interest Disclosure Form* to disclose any potential or actual conflicts of interest. The General Counsel is responsible for monitoring compliance with conflict of interest requirements.
- The Company's whistle-blowing policy requires employees to alert management about information indicating possible employee misconduct. The General Counsel investigates any information reported, and reports to the Board of Directors the results of any such investigation.
- The Company has implemented Office of Foreign Asset Control (“OFAC”) compliance initiatives including searches of the Specially Designated Nationals (“SDN”) database for any policyholders, claimants, or vendors that might be included in the SDN database.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for antifraud initiatives, compliance procedures, and code of ethical conduct policies. RNA reviewed Company policies and procedures to address antifraud initiatives as part of claims and underwriting testing and supporting documentation.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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regulations and bulletins.

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

- The Company's sales distribution in Massachusetts is through independent agents. Company policy is to verify that producers are licensed in Massachusetts prior to contracting with them.
- Standard independent agent contracts contain terms and conditions that address proper licensure, maintenance of records, binding authority, claim reporting, commission rates, premium accounting, advertising, termination and suspension provisions. The contract gives the agent exclusive control over expirations and the agent's records. The agents also have binding authority. Additionally, the contract requires independent agents to maintain an E&O insurance policy.
- The Company's agents are solely responsible for maintaining their producer licensing and continuing education requirements.
- Independent appraiser and field adjusters are utilized as needed to provide on-site-inspections and claim investigations. The independent field adjusters are provided written documentation of the company's procedures along with detailed instructions covering tasks to be performed and timeframes for completion.
- The Company contracts with vendors for services related to auto glass claims, car rental coverage, and medical claims review. The Company manages these vendors and monitors their services.
- Certain claims litigation defense duties may be outsourced to various law firms and attorneys. The Company monitors the performance of the law firms and attorneys conducting litigation defense duties.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-5.

Controls Reliance: See Standard I-5.

Transaction Testing Procedure: RNA interviewed management about its monitoring of third parties that perform Company functions. RNA also reviewed producer documentation that supports the new or renewal business sold. Finally, RNA reviewed claims that involved the use of independent contractors to complete claims duties.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

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Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard is concerned with the Company's cooperation during the course of the examination. See Appendix A for applicable statutes, regulations and bulletins.

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

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Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses policies and procedures with regard to opt out rights. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company has developed and implemented information technology security policies and practices to safeguard nonpublic personal and health information. The Company periodically conducts compliance audits of its information technology systems access and security.
- Only individuals approved by Company management are granted access to the Company's electronic and operational areas where non-public personal financial and health information is located. Access is frequently and strictly monitored.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's statutorily-required 2014 homeowners underwriting and claims data submitted to the Division, no unusual results and concerns were noted, and the data reported to the Division appears to be complete and accurate. Further, Company examination data that agrees to MCAS totals was used to select testing of company-initiated underwriting cancellations and non-renewals. In testing private passenger automobile company-initiated underwriting cancellations and non-renewals, the Company reported no company cancellations, significant errors in insured-requested cancellations and non-payment cancellations, and minor errors in non-renewals in the MCAS data reported to the NAIC. Additionally, four tested homeowners insured-requested cancellations were improperly included in the company cancellation and the non-renewal data for the examination and for MCAS.

Recommendations: The Company should ensure that it has transaction coding policies and procedures to ensure that private passenger automobile and homeowner company-initiated underwriting cancellations and non-renewals are properly coded in its systems and in MCAS. Also, the Company should conduct staff training to ensure that all transactions are properly coded for management and regulatory reporting. Finally, the Company should adopt new procedures for the independent review of MCAS filings prior to filing with the NAIC, to ensure that the data is accurate, complete and properly reconciled to underlying data contained in the Company's policy administration and underwriting systems.

Subsequent Company Actions: The Company amended its 2014 MCAS and filed it with the NAIC. The Company completed the recommended actions and conducted an audit of the 2015 MCAS prior to its submission.

II. COMPLAINT HANDLING

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

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

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

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

- The Company considers any written complaint or grievance received from the Division or the Attorney General's office a governmental complaint, which is handled according to written complaint handling procedures.
- All other written grievances are considered non-governmental complaints, which are handled directly by the individual business units according to written complaint handling procedures.
- The claims department also maintains a log of all letters received by the Company which constitute a written demand for relief under M.G.L. c. 175 93A, § 9 ("unfair business practices") regardless of whether the claim is timely or legally sufficient.
- Governmental complaints are distributed by the General Counsel to the appropriate business unit for investigation and preparation of the response within 14 days. The response is reviewed by management before sending it to the regulator. Non-governmental complaints are received directly in the business units and are entered into individual complaint logs by the business unit. The complaints are to be handled within 14 days when possible.
- The Company's complaint logs include total number of complaints, 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 log is provided to the Executive Division quarterly with any trends or unusual activity noted. Company management review the non-governmental complaint logs from the business units semi-annually and provide them to the Executive Division.
- The Company separately tracks negative response to written claim surveys and responds via phone call to any such responses.
- The Company provides a telephone number and address in its written responses to complaints and consumer inquiries and on its web site.
- The Company does not use social media for brand awareness or otherwise, so the Company would generally not be aware of any grievances expressed in social media.
- The Company provides a telephone number and address in its written responses to complaints, inquiries and on its website.

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

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Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed the Company's complaint logs for 2014-2015 to evaluate the Company's compliance with statutory complaint requirements. RNA also reviewed the Company's complaint logs for 2014-2015 to determine whether they properly contained all Division complaints.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA selected 12 governmental complaints, and three non-governmental complaints from the 2014-2015 period to evaluate the Company's compliance with statutory complaint requirements. RNA reviewed the complaint handling for these complaints, including the adequacy of documentation supporting the facts and resolution of the complaints. In addition, RNA reviewed the Company's website and communications to consumers, to determine whether the Company provides contact information for consumer inquiries.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 12 governmental complaints, and three non-governmental complaints from the 2014-2015 period to evaluate the Company's efforts to properly dispose of complaints.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 12 governmental complaints, and three non-governmental complaints from the 2014-2015 period to evaluate the Company's complaint response times.

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Transaction Testing Results:

Findings: None.

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

Recommendations: None.

III. MARKETING AND SALES

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

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

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

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

- The Company creates limited advertising for general use to the public. The Company produces personal lines product sales brochures which are contained on the Company's website for consumer and agent use. The brochures are developed by the Company's underwriting and marketing staff and approved by management prior to use.
- The Company does limited advertising in industry periodicals focusing on agents and also sponsors selected charity events.
- The Company does not use social media and does not have a coop advertising program to assist agents in their marketing.
- The Company discloses its name and address on its website.

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

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

Transaction Testing Results:

Findings: None.

Observations: The Company's website disclosure of marketing materials tested was documented. RNA noted no evidence of the use of unapproved sales materials as part of new and renewal business testing.

Recommendations: None.

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

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

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

- The Company's sales distribution in Massachusetts is through independent agents.
- Independent agency relationships are managed through three Massachusetts marketing field representatives, who periodically visit the agencies to provide guidance and training on products, processes, and sales techniques.
- The Company's underwriting staff assists the agencies with underwriting guidelines compliance. The Company's underwriting guidelines and general policy directives are contained on the Company's on line agent web portal.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing producer training materials to understand the nature and breadth of the Company's producer training. RNA reviewed agent communications as part of new and renewal business testing for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company's producer training process and producer communications appear adequate and reasonable. RNA noted no evidence of unreasonable producer communications as part of new and renewal business testing.

Recommendations: None.

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

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

Controls Assessment: See Standard III-2.

Controls Reliance: See Standard III-2.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the Company's marketing to individuals as members of employer or other groups by the Company's producers in accordance with regulatory requirements and Company policies and procedures. See Appendix A for applicable statutes, regulations and bulletins.

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

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

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing marketing communications to its employees to understand the nature and breadth of such communications.

Transaction Testing Results:

Findings: None.

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Observations: Based on review, procedures for marketing communications to the Company's employees appear appropriate and reasonable. As part of new and renewal business testing, RNA noted no evidence that marketing communications to employees were unreasonable or inaccurate.

Recommendations: None.

IV. PRODUCER LICENSING

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

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

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

Controls Assessment: The following controls were noted in review of this Standard and Standards IV-2 and IV-4:

- The Company's sales distribution in Massachusetts is through independent agents.
- Company policy is to verify that producers are licensed in Massachusetts prior to contracting with them.
- Standard 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 contract requires independent agents to maintain an E&O insurance policy.
- The Company's agents are solely responsible for maintaining their producer licensing and continuing education requirements.
- The Company's policy is to use the Division's OPRA to process agent appointments. The Company maintains a database of agents' license expiration dates and uses that information along with Division appointment renewal fee lists to complete periodic checks to ensure that the Company's appointment listing and OPRA data are consistent, accurate and complete. Errors identified are processed and corrected.

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

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

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's agents were properly licensed and appointed at the date of sale.

Recommendations: None.

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

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

Controls Assessment: See Standard IV-1.

Controls Reliance: See Standard IV-1.

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

Transaction Testing Results:

Findings: None.

Observations: Based upon review, independent agents are solely responsible for monitoring and maintaining compliance with the Division's producer continuing education requirements.

Recommendations: None.

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

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

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

- The Company's appointment terminations are generally due to lack of production or profitability, or at the request of the agent. Agent terminations are to be processed in accordance with the agency contract, which requires 180 days to terminate the appointment in most instances. The Company's policy is to give required written notice to all agents whose appointments are terminated by the Company.
- Agency appointment terminations are to be reported on the termination effective date to the Division through OPRA.
- The Company's policy is to give additional information to the Division about agents whose appointments are terminated "for cause" including the reason for the terminations.
- The Company periodically obtains OPRA data and compares it with the Company's agent information. Differences in data are to be researched and addressed as appropriate.

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

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

Findings: Two of the appointment terminations were not processed within 30 days of the termination effective dates in the Division's OPRA as required by M.G.L. c. 175, § 162T. Also, the Company was inconsistent as to the effective date of the appointment terminations in OPRA. In some instances, the termination effective date was the date that new and renewal business is no longer accepted. In other cases, the termination effective date was the date that existing in-force business is no longer serviced.

Observations: For the remaining appointment terminations tested, the Company properly terminated the appointments in OPRA in compliance with statutory requirements. Also, each of the appointment terminations at the Company's request were processed with proper notification to the agents in compliance with statutory requirements.

Required Actions: The Company shall review its controls and procedures and make necessary changes to ensure that agent appointment terminations are reported to the Division in OPRA within 30 days of the effective dates of the terminations and using consistent reporting date criteria. Also, the Company shall provide training and guidance to staff about the processing of these terminations. Finally, the Company shall conduct a detailed internal audit by December 31, 2017, or another date acceptable to the Division, to ensure that these required actions have been properly implemented. The Company shall provide the internal audit report to the Division.

Subsequent Company Actions: The Company's agency appointment terminations were previously processed in the Marketing Department. Termination processing was transferred to the Company's Solution Center Department in August 2013. The Company's transition plan included updating termination records. During this process, the Company discovered that some terminations had not been processed in OPRA, and as such, the Company proactively addressed this by processing the termination in OPRA in June 2014. The Company completed its internal audit assessments in 2017, and that documentation was provided to the Division in 2018.

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

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

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

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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Standard IV-6. Producer account balances are in accordance with the producer's contract with the insurer.

No work performed. This Standard is not covered in the scope of examination because the Company direct bills most premium, and agent advances are not provided. Thus, excessive debit account balances are not a significant issue.

V. POLICYHOLDER SERVICE

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

Standard V-1. Premium notices and billing notices are sent out with an adequate amount of advance notice.
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Objective: This Standard is concerned with whether the Company provides policyholders with sufficient advance notice of premiums due. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's premiums are generally direct billed to customers who can either pay the premium in full at inception and upon renewal, or make payments in installments. Payments are accepted using a check, Automated Clearing House ("ACH"), credit card, debit card and electronic funds transfer. ACH, credit card and debit card payments are accepted through the Company's website and, beginning in 2015, by phone.
- New private passenger automobile and homeowners policies generally require a 20% - 25% down payment to ensure adequate equity.
- Installment billing notices are sent to customers approximately 20 days in advance of the due date. After a three day delinquency, a statutory notice of cancellation that occurs on the 23rd day from the date of the delinquency is sent to the policyholder asking the policyholder to pay their installment payment. If no payment is received within a 23 day period, there is no additional grace period, unless the insured has at least 30 days of equity. If so, the Company adds the amount due to the next installment. If no equity is available, the Company requests the full balance on the third notice of cancellation in a policy term, and then the policy is cancelled. The Company will place a cancellation "on hold" if an agent has received payment before the grace period ends. Once the policy is cancelled, notice is sent to the policyholder and with a copy to the agent.
- The Company reports uncollected earned private passenger automobile premium to the Massachusetts Registry of Motor Vehicles ("RMV") and does not report such delinquencies to consumer reporting agencies.
- The Company has developed standards for billing and collections, and monitors compliance with those standards.
- All 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.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and reviewed billing notice dates in conjunction with new and renewal business testing.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard V-2. Policy issuance and insured-requested cancellations are timely.
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Objective: This Standard is concerned with whether the Company has procedures to ensure that policyholder cancellation requests are processed accurately and timely. Policy issuance testing is included in Standard VI-6. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy is to process insured-requested cancellations and applicable premium refunds in a timely manner. Policy cancellation requests from customers are made through agents, who will forward the request to the Company for processing. The Company will also honor any written request received directly from the insured, and provide the notice of the request to the agent.
- All unearned premium is refunded to the policyholder on a short rate or a pro-rata basis.
- Automobile policyholders may cancel their policies only after filing a Form 2A-Notice of Transfer of Coverage, proof that the vehicle has been taken out of service, or evidence that they have moved out of Massachusetts.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and tested 10 private passenger automobile and 14 homeowner insured-requested cancellations from the examination period, to ensure that the cancellation requests were processed accurately and timely.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company views its agents as the primary owner of the relationship with the insureds. All policyholder service requests and correspondence, except for billing address corrections and mortgagee or lien-holder changes, are referred to the agent for handling. Agents utilize the Company's agent portal, for private passenger automobile and homeowners endorsement processing. The Company will respond directly to an insured if the correspondence is a complaint, or if the insured is better served by a direct response from the Company.
- Telephone inquiries are handled primarily by the Company's Solution Center and usually take the form of a billing or claims inquiry. Metrics such as speed to answer, abandoned calls, average wait time and others are measured against key performance indicators.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel and obtained documentation of underwriting service standards. Also, RNA reviewed customer correspondence in conjunction with new and renewal business and claims testing.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

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

- Agents are notified of returned mail instances and asked to contact the customer to obtain a correct address for future mailings and to make any needed address changes.
- Premium refund and claim checks not cashed remain on the Company's outstanding check list until they are aged 90 days. After 90 days, the aged checks are moved to an abandoned property list, and a letter is sent to the payee indicating the check is void. The Company has established procedures for the due diligence, reporting and remittance of abandoned property in accordance with state laws. 90 days prior to escheatment, a final notice is mailed to the last known address in an attempt to locate the payee. Once these efforts are exhausted and after three years, the funds are deemed abandoned property.
- The Company annually reports escheatable funds to the Massachusetts State Treasurer by November 1st as required by statute.

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

Transaction Testing Procedure: RNA discussed the Company's procedures for locating missing policyholders and claimants and escheating funds. RNA also reviewed supporting documentation. Finally, RNA reviewed the 2014 escheatment filing with the Massachusetts State Treasurer.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

- The Company's claims personnel and agents have access to policyholders' claims history and paid loss information.
- The Company's policy is to have the agent provide the policyholder with his or her claims history and paid loss information when requested.
- If the Company needs to respond directly to a request for claims history, written correspondence from the insured is required in order to protect the insured's privacy.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

VI. UNDERWRITING AND RATING

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

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

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

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements.
- The Company has provided agents with personal lines underwriting requirements for use in evaluating risks.
- 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 standard forms for the applications are approved by the Division.
- Private passenger automobile underwriting is automated with most applications accepted, electronically rated and processed using standard underwriting algorithms. The Company's underwriting staff review private passenger automobile 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 RMV systems to obtain real-time information on Massachusetts and out-of-state drivers.
- The Company uses the standard Massachusetts merit rating system with the MRB Safe Driver Insurance Plan ("SDIP") applied to its policies.
- Private passenger automobile rates are based on the Automobile Insurer's Bureau of Massachusetts ("AIB") Manual with modifications, with all rates filed with the Division prior to use. Motorcycle rating for comprehensive and collision coverages is based on original cost new, with annual depreciation factors applied.
- Private passenger automobile underwriting criteria include license status, driving history, and driver experience, among other factors. The Company does not use credit or insurance scores in private passenger automobile underwriting or rating.
- The Company adheres to Massachusetts regulatory standards of fault in determining at-fault accidents. The Company is to ensure that an at-fault driver is provided a Surcharge Notice notifying him or her 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. Any at-fault claim over \$500 is reported to the MRB for inclusion in the driver's SDIP. Further, the Company's identifies vacated surcharges from the Board of Appeal and completes processing for those transactions. Further, the Company has

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elected to report its at-fault accident determinations to the industry database, CLUE. The Company reports changes in the at-fault indicator to CLUE within 15 days of receipt of the vacated surcharge.

- The Company is subject to periodic premium data audits by CAR for compliance with statutes and CAR Rules of Operation.
- The Company's underwriting staff is responsible for Massachusetts homeowners business. Appropriate authority limits are assigned to each underwriter. For new business, underwriting company placement is reviewed by the underwriters, and loss history is verified. Property inspections are completed for approximately one-third of new business applications and for renewal business as necessary.
- Homeowners underwriting and rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for security and safety features, and higher deductibles. Rates are tested by the Company's Compliance Analysts prior to use, and loading into the Company's on-line quoting system.
- The Company uses credit-based insurance scores for Massachusetts homeowners underwriting. A minimum score is required for placement in DMIC and a lower minimum score is required for acceptance in NDMFIC. The agent enters the name and address of the applicant to retrieve a LexisNexis credit-based insurance score prior to completing the application. If the applicant does not meet the required minimum insurance score, the agent will not be able to bind homeowners coverage for the applicant without underwriting approval, and the agent or the Company will provide the applicant with a FCRA adverse action notice. The Company's underwriting staff may approve exceptions. The exceptions may be granted for, but not limited to, extraordinary life events such as a medical bankruptcy or a divorce. If the agent requests the underwriting review, and the Company declines the application based on the insurance score, a FCRA adverse action notice is sent to the applicant by the Company.
- Time and service standards for all key personal lines processing activity have been established. The Company's underwriting supervisors complete random quality assurance audits of the underwriters' work to evaluate underwriting decisions, documentation and timeliness.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting and rating processes. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period, to verify that each policy's premium and discounts complied with statutory and regulatory requirements, and that premium charges were accurate. RNA also selected 25 motorcycle policies issued or renewed during the examination period to test rates charged and valuations used for comprehensive and collision coverages. Further, RNA tested 25 vacated at-fault accident determinations by the Board of Appeal from the examination period for accurate and timely reversal of the vacated at-fault accident determinations. During private passenger automobile claims testing, RNA assessed whether at-fault accidents and other required claims were properly reported to the MRB, with Surcharge Notices timely provided to at-fault operators in accordance with statutory and regulatory requirements.

Transaction Testing Results:

Findings: RNA's testing of motorcycle rates indicated one policy where the agent mistakenly used average retail value instead of original cost new as required by its filed rates, M.G.L. c. 175, § 113B, and M.G.L. c. 175E, § 7. This resulted in undercharging the insured.

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RNA's testing of private passenger automobile claims indicated that three comprehensive claims were not reported to the MRB in accordance with 211 CMR 134.00. At the request of the Division, the Company reviewed reportable comprehensive claims and determined that 1,260 comprehensive claims have not been reported to the MRB since November 2013, due to an IT programming change at that time.

RNA's testing of private passenger automobile claims indicated that one operator charged with an at-fault accident was not sent a Surcharge Notice, as required by 211 CMR 134.00, notifying her of this decision, and that she has a right to appeal the at-fault determination with the Massachusetts Board of Appeal in accordance with M.G.L. c. 175E, § 7A.

Finally, RNA's testing indicated that 13 of 25 tested at-fault changes were not timely reported to CLUE within 15 days of receipt of the vacated surcharge in compliance with Bulletin 2010-11. The time to report to CLUE was more than 15 days, and often times, much longer, sometimes due to systems transition issues during those periods.

Observations: Based upon testing, the Company appears to calculate policy premiums and discounts in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. Except as noted above, RNA's testing of motorcycle premiums determined that original cost new and appropriate depreciation factors were applied to policy premiums. At-fault accidents and, except as noted above, required claims were timely reported to the MRB. Surcharge Notices were properly provided to at-fault operators, except as noted above. Vacated surcharge return premiums and notices were properly processed in accordance with statutory and regulatory requirements, and 12 of the 25 tested at-fault changes were timely reported to CLUE.

Required Actions: The Company shall notify agents and staff about the proper procedures for valuing motorcycles for comprehensive and collision coverages to ensure that original cost new is used. The Company shall also implement new valuation procedures or quality assurance testing of the agents' motorcycle values to ensure that proper premium rates are calculated and charged.

The Company shall report the missed comprehensive claims to the MRB. In addition, the Company shall review its procedures and adopt new controls as necessary to ensure that such future claims are timely reported to the MRB. The Company shall provide training or guidance to staff about any new controls and procedures. Finally, the Company shall conduct a detailed internal audit by December 31, 2017, or another date acceptable to the Division, to ensure that the proper comprehensive claims reporting to the MRB has been implemented. The Company shall provide the internal audit report to the Division.

The Company shall review its procedures for sending Surcharge Notices, and adopt new controls as necessary to ensure that such notices are timely sent for at-fault claims over the minimum claim payment threshold. The Company shall also provide training or guidance to staff about any new controls and procedures for issuance of Surcharge Notices.

For the reporting of changes in at-fault accident determinations to CLUE, if the Company elects to continue the reporting of at-fault indicators to CLUE, the Company shall review its reporting procedures and controls and make enhancements as needed, and provide training to staff.

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Subsequent Company Actions: The Company's procedures to determine original cost new for motorcycles were corrected prior to commencement of the examination. In July 2014, the Company implemented an automated lookup of RMV data to determine original cost new, and adopted procedures to address scenarios where the automated lookup shows no original cost new, or where the original cost new does not match the value entered by the agent.

The Company reported the 1,260 claims to the MRB and has corrected programming to ensure proper reporting. The Company conducted an internal audit in 2016 to validate that programming corrections have been made and comprehensive claims have been successfully reported to the MRB. The Company provided that documentation to the Division in 2018.

The Company issued the Surcharge Notice and will review its procedures for sending Surcharge Notices, and adopt new controls as necessary to ensure that such notices are timely sent for at-fault claims over the minimum claim payment threshold. The Company will also provide training or guidance to staff about any new controls and procedures for issuance of Surcharge Notices.

The Company will revise its CLUE reporting procedures and will no longer report the at-fault indicator to CLUE.

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

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

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

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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 controls were noted in review of this Standard:

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

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses whether unfair discrimination is occurring in insurance underwriting, primarily related to rating. See Standard VI-1 for testing of premium rating, Standard VI-7 for testing of

declinations and Standard VI-8 for testing of company-initiated cancellations and non-renewals. See Appendix A for applicable statutes, regulations and bulletins.

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

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

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

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

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.

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- The Company's underwriting and policy administration systems are used for quoting, rating and underwriting policy applications.
- The Company waives pre-damage inspections for nearly all private passenger automobile applications in accordance with the Company's Division approved underwriting and rating plan.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements. Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.
- Applications for private passenger 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.
- Agents provide an oral declination notice to private passenger automobile applicants declined coverage, noting the reasons that the applications are declined.
- The Company uses credit-based insurance scores for Massachusetts homeowners underwriting. A minimum score is required for placement in DMIC and a lower minimum score is required for acceptance in NDMFIC. The agent enters the name and address of the applicant to retrieve a LexisNexis credit-based insurance score prior to completing the application. If the applicant does not meet the required minimum insurance score, the agent will not be able to bind homeowners coverage for the applicant without underwriting approval, and the agent or the Company will provide the applicant with a FCRA adverse action notice. The Company's underwriting staff may

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approve exceptions. The exceptions may be granted for, but not limited to, extraordinary life events such as a medical bankruptcy or a divorce. If the agent requests the underwriting review, and the Company declines the application based on the insurance score, a FCRA adverse action notice is sent to the applicant 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 transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected three private passenger automobile and 10 homeowners applications declined by the underwriting department for testing. Also, RNA inquired about whether agents or the Company are providing FCRA adverse action notices to applicants for whom coverage is not bound by the agents due to unacceptable credit-based insurance score.

Transaction Testing Results:

Findings: Except as noted below, RNA found no evidence that either the Company or its agents after retrieval of a credit-based insurance score, provided FCRA adverse action notices to consumers whose quote requests were withdrawn pre-application since they did not qualify for coverage based on their unacceptable credit-based insurance score. Adverse action notices were provided to consumers where there was no withdrawal from the quote process and a homeowners application was completed but was subsequently declined coverage due to an unacceptable credit-based insurance score, as required by FCRA, §615(a) as noted in the Observations below.

Observations: For the three private passenger automobile and 10 homeowners applications declined by the underwriting department, the Company's actions appeared consistent with its underwriting guidelines. Seven of the homeowners applications declined by the underwriting department were declined due to unacceptable credit-based insurance score. The Company provided these applicants FCRA adverse action notices.

Required Actions: The Company shall ensure that FCRA adverse action notices are timely provided to homeowners applicants not meeting the Company's minimum threshold for credit-based insurance scores or formally declined coverage for credit-based insurance score. The Company has an obligation to ensure that such applicants receive adverse action notices, including in cases when the agents send the adverse action notices to such applicants. Also, the Company shall retain evidence of mailing for five years that the adverse action notices were sent to such applicants.

Subsequent Company Actions: The Company states that it is working diligently to ensure that adverse action notices are delivered to applicants not meeting the Company's minimum threshold for credit-based insurance scores or formally declined coverage for credit-based insurance scores and taking the actions described above.

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

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

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

- Company-initiated underwriting cancellations of private passenger automobile policies are usually a result of the driver's license suspension or revocation, or material misrepresentation in the application of insurance, usually noted after the filing of a claim. 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. If the homeowners cancellation is based on a credit-based insurance score, a FCRA adverse action notice is also provided. All cancellation notices are reviewed and approved by the Vice President, Personal Lines and sent to insureds at least 20 days prior to cancellation, or for homeowners cancellations, at least 5 days prior to cancellation if no mortgagee is present, with a copy of the notices sent to the agents. The specific reason is to be stated on the notices.
- Written non-renewal notices of private passenger automobile and homeowners policies are provided to agents at least 45 days prior to policy expiration, with the specific reasons to be stated on the notices. The agents must provide the notices to the insureds and loss payees within 15 days, if the policies are not replaced by the agents.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA tested 25 private passenger automobile and 22 homeowners company-initiated underwriting cancellations for testing. In addition, RNA selected 25 private passenger automobile and 31 homeowners non-renewals for testing. All transactions were evaluated for compliance with statutory and Company policy requirements.

Transaction Testing Results:

Findings: Two notices on company-initiated homeowners cancellations had the reason on the notices as "unfavorable condition of property," which is not adequately specific as required by M.G.L. c. 175, § 99. In addition, four homeowners non-renewals had reasons on the notices that were not adequately specific as required by M.G.L. c. 175, § 193P. The reasons on the notices were "dwelling lacks maintenance" and "unfavorable condition of property." Finally, one homeowners non-renewal was issued with 43 days' notice when 45 days' notice is required by M.G.L. c. 175, § 193P.

Observations: Except as noted above, for the company-initiated underwriting cancellations and non-renewals tested, the Company provided timely and adequate notice to the insureds with the specific reasons on the notices properly disclosed.; and, the specific reasons were reasonable and in compliance with statutory requirements. However, on seven private passenger automobile and

homeowners non-renewal notices where the reason for the non-renewals was excessive losses, the reason stated was “loss history” without more information about the nature and extent of the losses.

Required Actions: The Company shall review controls and procedures and make any necessary changes to ensure that non-renewal notices include specific reasons on the notices, and to ensure that notices are sent with at least the minimum days' notice. Also, the Company shall provide training and guidance to staff about the processing of these notices.

Recommendation: As a best practice, the Company should include more information about the nature and extent of the losses on the notices when the policies are non-renewed for loss history.

Subsequent Company Actions: The Company reviewed the reasons used for notices to ensure that they are adequately specific. Also, the Company implemented a system edit to ensure that adequate notice is provided to the insured. Also, the Company has provided guidance to staff on the issuance of these notices. Finally, when the notice reason is loss history, the Company will include the claim date and description on the notice.

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

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

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

- Company policy requires compliance with underwriting guidelines in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- Rescissions are rare, and are usually related to claims filed where material misrepresentations were made by the insureds. In these instances, all policy premium for the current term is returned, and coverage is rescinded effective at the beginning of the current policy term.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

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

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

Standard VI-14. Verification of experience modification factors.

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

Standard VI-15. Verification of loss reporting.

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

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

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

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

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

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

- Company policy and practice prohibits unfair discrimination in underwriting and rating in accordance with statutory requirements.
- Written Company policies and procedures are designed to reasonably assure consistency in the application of underwriting guidelines, rating classifications, premium discounts and surcharges determined at or near the inception of coverage.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- Time and service standards for all key personal lines processing activity have been established. The Company's underwriting supervisors complete random quality assurance audits of the underwriters' work to evaluate underwriting decisions, documentation and timeliness.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendation: None.

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

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

for applicable statutes, regulations and bulletins.

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

Objective: This Standard addresses whether policy forms and endorsements are filed with the Division for approval. See Standard VI-5 for testing. See Appendix A for applicable statutes, regulations and bulletins.

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

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

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

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

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- Company policy requires that the underwriting department apply consistent underwriting practices, and that no underwriter or agent shall engage in collusive or anti-competitive practices.
- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- Time and service standards for all key personal lines processing activity have been established. The Company's underwriting supervisors complete random quality assurance audits of the underwriters' work to evaluate underwriting decisions, documentation and timeliness.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating for mass marketing plans offered to its employees. Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements.
- The Company's mass marketing plans offered to its employees and related affinity group discounts, are filed with the Division for approval.
- The Company's Division-approved affinity groups receive premium discounts. Individual risks within these groups cannot be cancelled or non-renewed.

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

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

Transaction Testing Results:

Findings: None.

Observations: Based upon review, RNA noted no evidence that the Company's underwriting practices for mass marketing plans offered to employees are unfairly discriminatory. The affinity premium discount was approved by the Division.

Recommendations: None.

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

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

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

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

Standard VI-25. All policies are correctly coded.

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

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

- The Company has written underwriting policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The Company's policies and procedures require that Company personnel confirm that certain coding elements reported by the producers are correct and current.
- The Company has a process to correct data coding errors and to make subsequent changes, as needed.
- The Company has policies and procedures to report complete and accurate premium data timely in the required formats to rating bureaus such as the AIB, CAR and ISO.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules, including statistical coding requirements related to premiums.
- Time and service standards for all key personal lines processing activity have been established. The Company's underwriting supervisors complete random quality assurance audits of the underwriters' work to evaluate underwriting decisions, documentation and timeliness.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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- Company policy requires that the underwriting files support underwriting and rating decisions.
- The Company's agents are responsible for completing and retaining applications for new business and obtaining information needed to properly underwrite and rate the policies.
- Time and service standards for all key personal lines processing activity have been established. The Company's underwriting supervisors complete random quality assurance audits of the underwriters' work to evaluate underwriting decisions, documentation and timeliness.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period to test for properly completed new business applications and adequate underwriting documentation. RNA also sought evidence of complaints related to unusual underwriting decisions.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, application information was properly submitted, and policy files adequately supported the Company's decisions. No evidence of complaints related to unusual underwriting decisions was noted.

Recommendations: None.

VII. CLAIMS

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

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

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

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

- The Company's claims handling process is principally organized in two home office departments. Each department is led by a manager with a supervisory structure in place to ensure that claims settlement authorities and Company procedures are followed. The property department handles automobile physical damage and all personal and commercial property damage claims. The casualty claims department handles all personal and commercial lines liability claims. In addition, a complex claims unit handles personal umbrella and other complex litigation claims with exposures greater than \$100,000. Finally, there is an SIU that supports the claims operations with field investigations and surveillance as needed. The Company also utilizes approximately 12 independent adjusting firms to handle claims, which are not practical for employee field adjusters to handle.
- Written policies and procedures govern claims handling processes. First notice of loss is typically reported through the Company's web portal by independent agents, Company employees, or by the afterhours call center staff. The Company utilizes a standard industry form for claim reporting. Key information such as the policyholder's name, policy number, accident date, and location is entered into the claim system to create a claim file. Claims are assigned to adjustors automatically or manually based upon the nature of the claim. Claimants are to be contacted the same day or the next business day.
- Claims are investigated to determine 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. Information from police reports, witness statements, photographic evidence, and consumer reporting agencies are used to evaluate the claim.
- The Company does not use purchased claim evaluation software in connection with assessing damages on bodily injury claims. An internally developed bodily injury evaluation methodology is used to document the damages analyses. The Company makes settlement offers between the low and high settlement estimates. Any exceptions are to be reviewed with management. Individual claim settlement authority limits are assigned to claims examiners commensurate with their experience. Unit managers review each active bodily injury claim after the initial 90 days and periodically thereafter. Additionally, the Company reports all closed automobile bodily injury claims to the AIB Detail Claims Database as required in Massachusetts. For OFAC compliance purposes, the Company's General Counsel screens all claimants against the OFAC SDN list.
- The Company is to ensure that an at-fault driver is provided a Surcharge Notice notifying him or her 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. Any at-fault claim over \$500 is reported to the MRB

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for inclusion in the driver's SDIP. At-fault accident determinations are also reported to CLUE. Further, the Company's identifies vacated surcharges from the Board of Appeal and completes processing for those transactions.

- Company policy is to comply with claim settlement performance standards established by CAR and those set forth in statute. The Company is subject to audits from CAR for compliance with the standards, which specify time frames for assigning an appraiser, inspecting a vehicle, and paying a claim. Re-inspections are performed on 25% of private passenger automobile claims less than \$4,000, and 75% of claims greater than \$4,000, with results reported to CAR quarterly.
- Company policy is to comply with CAR's SIU performance standards. Claim adjusters are provided training regarding SIU red flags and make referrals to SIU as needed. The SIU supports other claims examiners as needed, and directly handles referred claims that are accepted by SIU. The SIU is responsible for coordinating with the IFB, in cases where fraud is believed to have occurred, to assist with criminal investigation and prosecution. Automobile theft claims are to be reported through ISO to the NICB.
- Reservation of rights and excess of loss letters are issued when potential coverage issues arise. Department of Revenue checks are performed as required by statute and are documented in the claim files. Also, underwriting risk referrals are made to the underwriting department as necessary.
- Generally, no liability release is obtained from insureds, unless the claim involves other parties who were underinsured or not insured. Third party property damage claimants are generally not required to sign a liability release unless there is a settlement dispute or real property claims exceeding a dollar threshold. Releases are routinely required from third party bodily injury claimants.
- Criteria for unit managers' periodic reviews of the claims examiners' work have been established, and such reviews are documented in the claims systems. From the claims system data, the Company produces metric reports for the daily, weekly, and monthly claims reporting of key service and quality metrics.
- The Company has also established a quality assurance program through reviews of closed claim files by claim supervisors. The program includes a random sample of 5% – 10% of closed features for all examiners or, approximately three features per examiner per month. The review assesses adherence to Company policies and procedures with results documented and scored. Results are reported for each claim examiner for use by claims management as part of employee training and performance evaluation processes.
- 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.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA verified the date each selected claim was recorded by the Company, and noted whether the initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VII-2. Timely investigations are conducted.

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA tested each selected claim noting whether the investigations were conducted in a timely manner and whether the investigations were complete.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA tested each selected claim noting whether the claims were resolved in a timely manner.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company's processes for timely resolving claims are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VII-4. The regulated entity responds to claim correspondence in a timely manner.
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Objective: The Standard addresses the timeliness of the Company's response to general claim correspondence. See Standard VII-6 for testing of statutorily-required claim correspondence. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA tested each selected claim noting whether the Company timely responded to general claim correspondence.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that for each of the tested claims, the Company's claim files adequately documented claim handling. However, in a single instance, the claims examiner extended two settlement offers but did not adequately document the file to explain why the offers were not within the range initially calculated by the examiner in the file settlement memo. The claim ultimately settled within that settlement range and appeared to be fair and reasonable.

Recommendations: The Company should provide additional guidance and reinforce training to staff concerning the need to adequately document the file to support the examiner's claim settlement values.

Subsequent Company Actions: The Company agrees with the above recommendation.

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

Objective: The Standard addresses whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee, and whether the Company is in compliance with specific Massachusetts regulatory requirements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA reviewed the file for each selected claim,

and noted whether the claim was properly handled in accordance with policy provisions and statutory requirements. Finally, RNA reviewed the Company's 2014 and 2015 complaint logs for complaints that were claim-related and tested nine claim-related complaints.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VII-7. Regulated entity claim forms are appropriate for the type of product.
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Objective: The Standard addresses the Company's use of claim forms that are proper for the type of product. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA reviewed the file for each selected claim, and verified that required claim forms were appropriately used.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected denied or closed-without-payment claims including 10 private passenger automobile claims and five homeowners claims for testing. RNA evaluated whether the Company handled these claims timely and properly before closing or denying them.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim practices appeared to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and whether the Company attempted to settle claims for less than reasonable amounts due under the policies.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA reviewed the file for each selected claim, and noted whether reservation of rights or excess of loss letters were warranted and issued as appropriate.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA reviewed each selected claim file, and noted whether deductible reimbursement to insureds upon subrogation recoveries were timely and accurate.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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- The Company reports homeowners loss data to ISO in the required format.
- The Company has processes to correct loss data coding errors and to make subsequent changes, as needed.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA reviewed each selected claim file and noted whether selected loss data was accurate and complete.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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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 *2014 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, Producer Licensing, Underwriting and Rating, and Claims.

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ACKNOWLEDGEMENT

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

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

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



Mark G. Noller, CIE
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