



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

Report on the Comprehensive Market Conduct Examination of

Quincy Mutual Fire Insurance Company
New England Mutual Insurance Company

Quincy, Massachusetts

For the Period January 1, 2014 through December 31, 2014

NAIC COMPANY CODES: 15067, 12725

EMPLOYER ID NUMBERS: 04-1752900, 04-1028440

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COMMONWEALTH OF MASSACHUSETTS
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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

June 8, 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

QUINCY MUTUAL FIRE INSURANCE COMPANY
NEW ENGLAND MUTUAL INSURANCE COMPANY

at their home offices located at:

57 Washington Street
Quincy, Massachusetts 02169

The following report thereon is respectfully submitted.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
QUINCY MUTUAL FIRE INSURANCE COMPANY
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SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination (“examination”) of Quincy Mutual Fire Insurance Company (“QMFC”) and New England Mutual Insurance Company (“NEMIC”), (collectively, the “Company”) for the period January 1, 2014 to December 31, 2014, focusing 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. The findings and observations expressed in this Report are based upon material and information provided by the Company as of June 8, 2018.

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 company-initiated underwriting cancellations, seven private passenger automobile insured-requested cancellations, one homeowners insured-requested cancellation, two homeowners cancel and rewrites, three private passenger automobile processing errors, and one homeowners processing error were incorrectly included in the MCAS company-initiated underwriting cancellation data. Also, two private passenger automobile insured-requested cancellations were incorrectly included in MCAS non-renewal data.

Recommendations: The Company should ensure that its transaction coding policies and procedures ensure that 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: Company cancellation and non-renewal codes and their descriptions were reviewed and revised as appropriate by Company management. Internal procedures were reviewed and training was conducted to confirm that operations staff understand the correct codes to use. In the future,

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before the MCAS is submitted to the NAIC, an independent internal review of the draft MCAS and the underlying Company data will be conducted by multiple Company departments to ensure that the data is accurate, complete, and properly reconciled.

SECTION IV-PRODUCER LICENSING

STANDARD IV-1

Findings: None.

Observations: Based upon testing, except in one instance, the Company's independent agents were properly licensed and appointed at the date of sale, and the agents' appointments were included in the Division's On-Line Producer Appointment System ("OPRA"). One policy was sold by a licensed producer, who was previously appointed as agent. The agency appointment was terminated by the Division in 2014. When the Company completed its reconciliation of the Company's and Division's agent appointment data in August 2014, it did not identify the producer as no longer appointed as agent. The Company subsequently reappointed the producer as agent during June 2015.

Recommendations: The Company should complete a thorough annual review and reconciliation of its agent appointments and terminations to identify differences between the Company's and the Division's lists of agents, and make timely corrections, as appropriate. Also, the Company should provide training to staff to ensure that they understand how to complete the reconciliation procedures.

Subsequent Company Actions: A review and reconciliation of agency appointments and terminations was completed using the Division's agency renewal list for July 1, 2015 through June 30, 2016. A review of the internal licensing process and procedures was completed with the licensing staff by management, to ensure timely and complete reconciliation of the Company's and Division's agent licensing records. Management states that Company staff understands how to complete the reconciliation process in a timely and accurate manner.

STANDARD IV-3

Findings: Eleven 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.

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 any necessary changes to ensure that agent appointment terminations are reported to the Division using OPRA within 30 days of the effective dates of the terminations. Also, the Company shall provide training and guidance to staff about the processing of these terminations.

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Subsequent Company Actions: The termination process has been discussed with the staff to ensure the terminations are promptly reported to the Division the OPRA system within 30 days. Procedures and additional training has been provided to the licensing staff stressing the importance of processing terminations within 30 days of the cancellation date. Specifically, each terminated appointment is tracked with a checklist of actions to be completed and dated as to when and who completed the task. Finally, the Company has implemented an annual reconciliation procedure matching an internal listing of active and terminated agents against the Division's listing.

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-1

Findings: RNA's testing of private passenger automobile claims indicated that for one claim, the at-fault operator was not surcharged for the at-fault accident, and the claim was not reported to the Merit Rating Board ("MRB") in accordance with 211 CMR 134.00. Further, the at-fault operator was not provided a Surcharge Notice stating the right to appeal the surcharge in accordance with M.G.L. c. 175E, § 7A. At the request of the Division, the Company reviewed at-fault accident surcharges since 2006 and determined that 360 operators were not surcharged for at-fault accidents, and the claims were not reported to the MRB in accordance with 211 CMR 134.00. Also, these at-fault operators were not provided a Surcharge Notice stating their right to appeal those surcharges in accordance with M.G.L. c. 175E, § 7A. Those at-fault accident determinations with notice dates less than six years prior to the date of this examination report may impact the at-fault operators' driving records and premiums. More specifically, the Company failed to report 105 at-fault accident determinations to affected at-fault operators and failed to provide the affected at-fault operators with notices of their right to appeal those determinations in accordance with M.G.L. Chapter 175E, Section 7A. As a result, the Company and the Division entered into a Regulatory Settlement Agreement requiring corrective actions and restitution for these statutory violations. See Appendix B.

Further, 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 2,566 comprehensive claims have not been reported to the MRB since 2002.

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. RNA's testing of motorcycle premiums determined that original cost new and appropriate depreciation factors were applied to policy premiums. Except as noted above, at-fault accidents and other required claims were timely reported to the MRB, and Surcharge Notices were properly provided to at-fault operators. Vacated surcharge return premiums were properly processed in accordance with statutory and regulatory requirements.

Required Actions: In consultation with the Division, the Company shall surcharge appropriate at-fault operators, provide notice of the claims to the MRB, and provide Surcharge Notices to the operators, noting their at-fault accidents and their right to appeal those related surcharges. In addition, the Company shall report the missed comprehensive claims to the MRB. The Company shall adopt new controls and procedures to ensure that at-fault accident operators are properly surcharged, such at-fault claims are reported to the MRB, Surcharge Notices are provided to at-fault operators, and all comprehensive claims are reported to the MRB. The Company shall also provide training or guidance to staff about these new controls and procedures. Finally, the Company shall conduct a detailed compliance audit to ensure that these required actions have been implemented. The Company shall provide the internal or compliance audit

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report to the Division.

Subsequent Company Actions: Company management states that it has implemented additional control procedures to address the required actions. The Company designed queries to identify any at-fault accidents that should have been sent to the MRB and were not. The results were reviewed to determine why no record was sent to the MRB, and appropriate action was taken to ensure compliance.

STANDARD VI-7

Findings: The Company has no record of Fair Credit Reporting Act ("FCRA") adverse action notices being provided to consumers declined or refused quoting for homeowners insurance due to unacceptable credit-based insurance score. Thus, the Company cannot be sure that the FCRA adverse action notices were provided to these applicants in accordance with the FCRA, § 615(a).

Observations: None.

Required Actions: The Company shall timely provide such FCRA adverse action notices to homeowners applicants refused quoting or declined coverage for credit-based insurance score. Also, the Company shall ascertain through an audit process that timely FCRA adverse action notices were provided to these consumers, and that if such notices were provided by agents, that the agents retain the notices for five years. Finally, the Company shall conduct a detailed compliance audit to establish that these required actions related to FCRA adverse action notices have been properly implemented. The Company shall provide the compliance audit report to the Division.

Subsequent Company Actions: Management states that the Company has implemented new system changes and procedures for the issuance of FCRA adverse action notices for homeowners applicants refused quoting or declined coverage based on credit-based insurance score. The Company requires its agents to provide FCRA adverse action notices to these applicants and to retain the notices. Two audits for agency compliance have been subsequently completed.

STANDARD VI-8

Findings: One private passenger automobile non-renewal did not have the specific reason on the notice provided to the insured as required by 211 CMR 97.00.

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. The specific reasons were reasonable and in compliance with statutory requirements.

Required Actions: The Company shall review its controls and procedures and consider such changes to ensure that non-renewal notices include specific reasons on the notices. Also, the Company shall provide training and guidance to staff about the processing of these notices.

Subsequent Company Actions: Internal procedures and controls were reviewed by Company management. Non-renewals with incomplete information will be returned to the underwriters for review. Additional training of staff has been conducted by Company management.

SECTION VII-CLAIMS

STANDARD VII-6

Findings: Testing indicated that one liability claim did not have a Department of Revenue check completed prior to payment as required by M.G.L. c. 175 § 24D, 24E and 24F.

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

Required Actions: The Company shall review its procedures to ensure that effective controls are in place to conduct Department of Revenue checks, make any procedural changes as needed, and provide training to staff to ensure that Department of Revenue checks are completed timely in accordance with statutory requirements. Additionally, the Company shall complete an intercept check for the missed claim against Department of Revenue records and make any necessary payments as required by law. Further, the Company shall complete an intercept check for additional identified missed claims against Department of Revenue records, if any new procedures are implemented. Finally, the Company shall report to the Division the results of the missed intercept check and the results of any other identified missed intercept checks.

Subsequent Company Actions: The Company reviewed its procedures to ensure that effective controls are in place to conduct Department of Revenue checks and has provided training to staff to ensure that Department of Revenue checks are completed timely in accordance with statutory requirements. In addition, Company management reviewed the single exception with the handling adjuster, who recognizes it was an oversight. An intercept check was subsequently completed with the Department of Revenue for this claim, and no liens were found. The Company states this was an isolated incident and that its audit procedures and policies are sufficient to ensure compliance with the reporting requirements.

STANDARD VII-13

Findings: None.

Observations: RNA noted that deductible reimbursement to insureds, upon subrogation recoveries, for 10 tested claims was timely, accurate and processed according to the Company's policies and procedures. However, RNA testing noted a subrogation recovery opportunity identified but not pursued. Recovery would result in reimbursement of the insured's deductible. The Company attempted collection from another insurer but was not able to come to agreement on this matter with the other insurer. 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: The Company should review its controls and procedures over subrogation recovery, update controls as necessary, and provide training to staff to ensure that subrogation opportunities are pursued with recoveries resulting in reimbursement of the insured's deductible as appropriate.

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Subsequent Company Actions: Management states that control procedures have been updated, which introduce new reports that will be run on a quarterly basis to identify any missed subrogation opportunities. Management has reinforced with staff the importance of subrogation referral and proper procedures.

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COMPANY BACKGROUND

QMFIC was formed in Massachusetts in 1851. QMFIC and NEMIC are affiliated through common ownership of Quincy Mutual Group, Inc., which employs all personnel. In accordance with M.G.L. c. 175, § 79, QMFIC holds \$45 million in guaranty capital shares of NEMIC. QMFIC may not share in the distributions of assets beyond the amount of the par value of its shares, and any dividends declared and payable. Also, four of the eight Directors on the NEMIC Board of Directors are also on the QMFIC Board of Directors.

Quincy Mutual Group provides a range of property and casualty products throughout most of New England and New York. In Massachusetts, QMFIC provides private passenger automobile, homeowners, and commercial lines coverage, and NEMIC provides homeowners coverage through their network of wholly-owned agencies and independent agencies. Preferred homeowner risks are placed in QMFIC, and standard homeowners risks are placed in NEMIC.

QMFIC and NEMIC maintain a financial strength rating of A+ (Superior) from A.M. Best. The following financial information is as of, or for the year ended December 31, 2014:

QMFIC

Admitted assets	\$1,510.5 million
Statutory surplus	\$994.7 million
Massachusetts business - direct written premium	\$164.0 million

NEMIC

Admitted assets	\$75.7 million
Statutory surplus	\$39.6 million
Massachusetts business - direct written premium	\$12.7 million

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

I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

- The Company's statutory financial statements are audited annually by an independent auditor.
- The QMFIC Board of Directors is comprised of seven Directors, including the President and Executive Vice President. The remaining five Directors are independent directors. The NEMIC Board of Directors is comprised of eight Directors including four members of management and four independent Directors. Four of the eight Directors are common to both Boards of Directors. The Boards of Directors regularly review and approve actions to address the Company's strategic, financial and operational risks.
- Three independent Directors serve on the Company's Audit Committee. The Audit Committee Charter requires monitoring of the Company's financial reporting processes, internal control systems, and the work of the Company's auditors. Also, the Audit Committee works with the General Counsel on the Company's regulatory and compliance matters, and approves and oversees the Company's Codes of Conduct and Ethics, and other corporate policies.
- The General Counsel and Chief Financial/Risk Officer share responsibility for regulatory compliance activities. The General Counsel has responsibility for overseeing periodic internal testing, and reporting to the Board of Directors when non-financial regulatory settlements or regulatory actions require such testing and monitoring.
- The Company's Senior Underwriting/Team Leaders and Underwriters perform informal quality assurance testing of policies, transactions, and rates.
- The Company has established a claims quality assurance program through reviews of closed claim files by claims managers. The program includes a random sample of private passenger automobile, property and liability claims for each claims examiner to assess adherence to Company policies and procedures. The results are documented and scored in spreadsheet checklists. Results are reported for each claim examiner for use by claims management as part of employee training and performance evaluation processes.
- The Company completes periodic audits of field claims examiners to ensure compliance with the Company's claim policies and procedures.
- 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.

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 Company personnel with responsibility for corporate governance, 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 Director 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 legal and claims departments to detect, investigate, and deter fraudulent underwriting, agent or claim activity. Activities of the SIU are overseen by an Assistant Vice President and Executive Counsel within the claims department.
- 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 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 Codes of Conduct and Ethics to guide the business conduct and activities of all Company employees. Annually, senior officers with financial reporting responsibilities file an affidavit attesting to their compliance. In addition, annually all Company officers and directors execute and file with the General Counsel and Corporate Secretary their personal conflict of interest

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disclosure forms. Periodically all managerial employees are required to also file such forms. The General Counsel is responsible for monitoring compliance with conflict of interest requirements and the Company's gift policy.

- The Company's whistle-blowing policy requires employees to alert management about information indicating possible employee misconduct, either through notification to the Chairman of the Audit Committee or to the General Counsel. The General Counsel investigates any information reported, and reports to the Audit Committee 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 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 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, regulations and bulletins.

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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.
- All of the Company's claim first notice of loss calls are outsourced to Alliance Claims Solutions. Its systems interface with the Company's claim system, and claims examiners are automatically assigned. Alliance Claims Solutions' performance is monitored by management using time and service metrics.
- 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.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Controls Reliance: See Standard I-10.

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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.

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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.

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.

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.

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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 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 company-initiated underwriting cancellations, seven private passenger automobile insured-requested cancellations, one homeowners insured-requested cancellation, two homeowners cancel and rewrites, three private passenger automobile processing errors, and one homeowners processing error were incorrectly included in the MCAS company-initiated underwriting cancellation data. Also, two private passenger automobile insured-requested cancellations were incorrectly included in MCAS non-renewal data.

Recommendations: The Company should ensure that its transaction coding policies and procedures ensure that 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: Company cancellation and non-renewal codes and their descriptions were reviewed and revised as appropriate by Company management. Internal procedures were reviewed and training was conducted to confirm that operations staff understand the correct codes to use. In the future, before the MCAS is submitted to the NAIC, an independent internal review of the draft MCAS and the underlying Company data will be conducted by multiple Company departments to ensure that the data is accurate, complete, and properly reconciled.

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

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

- The Company defines a complaint as any written correspondence expressing a grievance received from the Division, Attorney General, Better Business Bureau ("BBB"), or directly from a consumer where the complainant expects a response or redress. Concerns expressed by phone in operational areas are handled in those operational units and are not recorded in the Company's complaint registers.
- All regulatory complaints are received by the Premium Accounting Specialist, who reads the complaint, identifies the issue and operational area involved, and assigns the complaint a number and due date. The Premium Accounting Specialist copies and forwards the originals to the appropriate operational area manager to draft a response. Also, the Premium Accounting Specialist logs the complaint in the regulatory complaint register. Operational area managers are to respond to the complaint in writing within the required timeframe by mailing the original response to the regulator, and copying the Premium Accounting Specialist. The Premium Accounting Specialist enters the complaint response date and the complaint type in the regulatory complaint register, and maintains a file of responses and any supporting documents.
- Consumer and BBB complaints that do not originate from a regulator are handled directly by the operational areas and are documented in non-regulatory complaint register.
- The Company's complaint registers 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 Company uses social media as a means to promote brand awareness and make public service announcements. A member of the marketing department monitors social media, responds to any negative comments requesting that the consumer contact the Company privately, and refers any follow up response to the appropriate business unit for investigation and a detailed response.
- The Company provides a telephone number and address in its written responses to complaints, inquiries and on its website.
- The Executive Vice President and General Counsel reviews all complaint activity quarterly for identification of any recurring, systemic or potential problems. Complaints are reported to management 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.

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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 registers for 2014-2015 to evaluate the Company's compliance with statutory complaint requirements. RNA also reviewed the Company's complaint registers 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 registers included all statutorily-required database elements. Also, the Company's complaint registers 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 seven of the nine regulatory complaints, and one of the seven consumer 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 seven of the nine regulatory complaints, and one of the seven consumer 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 regulatory 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 seven of the nine regulatory complaints, and one of the seven consumer complaints from the 2014-2015 period to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

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Observations: The Company addressed the tested regulatory 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 conducts minimal brand awareness advertising to the general public. The Company uses social media as a means to promote brand awareness and make public service announcements including general insurance awareness and safety tips.
- The Company makes available to its agents personal lines product sales brochures, which are developed by the Company's underwriting and marketing staff and approved by management prior to distribution. The management review ensures that descriptions are appropriate and contain disclosures in accordance with policy terms and conditions.
- 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 four Massachusetts marketing representatives, who visit the agencies at least quarterly to provide guidance and training on products, processes, and sales techniques.
- The Company's underwriting staff visit the agencies to assist the agents with underwriting guidelines compliance. The Company's underwriting guidelines and general policy directives are contained on the Quincy 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 individuals who are members of employer or other groups.
- The Company's mass marketing plans offered to individuals who are members of employer or other groups, 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 individuals who are members of employer or other groups.

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 individuals who are members of employer or other groups to understand the nature and breadth of such communications. RNA reviewed such communications as part of new and renewal business testing for reasonableness.

Transaction Testing Results:

Findings: None.

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Observations: Based on review and testing, procedures for marketing communications to individuals who are members of employer or other groups appear appropriate and reasonable. As part of new and renewal business testing, RNA noted no evidence that marketing communications to individuals who are members of employer or other groups are 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 and producers 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. That information is to be periodically compared to OPRA data, with record corrections made as necessary.

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

Transaction Testing Procedure: RNA interviewed 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, except in one instance, the Company's independent agents were properly licensed and appointed at the date of sale, and the agents' appointments were included in the Division's OPRA. One policy was sold by a licensed producer, who was previously appointed as agent. The agency appointment was terminated by the Division in 2014. When the Company completed its reconciliation of the Company's and Division's agent appointment data in August 2014, it did not identify the producer as no longer appointed as agent. The Company subsequently

reappointed the producer as agent during June 2015.

Recommendations: The Company should complete a thorough annual review and reconciliation of its agent appointments and terminations to identify differences between the Company's and the Division's lists of agents, and make timely corrections, as appropriate. Also, the Company should provide training to staff to ensure that they understand how to complete the reconciliation procedures.

Subsequent Company Actions: A review and reconciliation of agency appointments and terminations was completed using the Division's agency renewal list for July 1, 2015 through June 30, 2016. A review of the internal licensing process and procedures was completed with the licensing staff by management, to ensure timely and complete reconciliation of the Company's and Division's agent licensing records. Management states that Company staff understands how to complete the reconciliation process in a timely and accurate manner.

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.

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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. After the termination effective date, new and renewal business is no longer accepted. An agent is allowed to service existing business for a limited period after the effective termination date.
- 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.

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 18 individual and business entity appointment terminations and compared that information to corresponding information in the Company's data and the Division's OPRA. Nine of those appointment terminations were at the Company's request. Finally, RNA reviewed evidence that notices to the Division and the agents complied with statutory requirements.

Findings: Eleven 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.

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 any necessary changes to ensure that agent appointment terminations are reported to the Division using OPRA within 30 days of the effective dates of the terminations. Also, the Company shall provide training and guidance to staff about the processing of these terminations.

Subsequent Company Actions: The termination process has been discussed with the staff to ensure the terminations are promptly reported to the Division the OPRA system within 30 days. Procedures and additional training has been provided to the licensing staff stressing the importance of processing terminations within 30 days of the cancellation date. Specifically, each terminated appointment is tracked with a checklist of actions to be completed and dated as to when and who completed the task. Finally, the Company has implemented an annual reconciliation procedure matching an internal listing of active and terminated agents against the Division's listing.

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 18 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 18 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.

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Recommendations: None.

<u>Standard IV-6.</u> 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 by phone.
- New private passenger automobile and homeowners policies generally require a 20% down payment to ensure adequate equity.
- Installment billing notices are sent to customers approximately 21 days in advance of the due date. After any six day delinquency, a 20 day notice of statutory cancellation is sent asking the policyholder make the installment payment. For renewal policyholders, Company policy allows policyholders to miss one installment payment plus six days before a 20 day notice of statutory cancellation is sent to the insured. If no payment is received within the 20 day period, the policy is cancelled at the end of that period.
- 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.
- If the policyholder makes the required payment on the same day as the cancellation effective date, the policy will be automatically reinstated. All other 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.

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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 policy cancellations and applicable premium refunds in a timely manner. Policy cancellation requests from customers must be made through agents, who are generally able to process the requests electronically, or who will forward the request to the Company for processing.
- 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 17 private passenger automobile and 10 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 Quincy On-Line, 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 customer service department 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. If a better address is found for returned checks, the check is resent using the new address. The Company has established procedures for due diligence investigations, reporting and remittance of abandoned property. The Company utilizes purchased software to import outstanding check data, prepare and print due diligence letters. Once these efforts are exhausted and after three years, the funds are deemed abandoned property and escheated.
- The Company annually reports escheatable funds to the Massachusetts State Treasurer by November 1st as required by statute

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

Transaction Testing Procedure: RNA discussed the Company's procedures for locating missing policyholders and claimants and escheating funds. RNA also reviewed supporting documentation. RNA compared the Company's policies and procedures to the Division's best practices in these areas. Finally, RNA reviewed the 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, agents, and producers have access to policyholders' claims history and paid loss information.
- The Company's policy is to have the agent or producer 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, Quincy On-Line, 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 has Division-approved affinity groups and related discounts. Individual risks within these groups cannot be cancelled or non-renewed.
- 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

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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.

- 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. The Company rates by zip code and by peril using property, liability, theft and hurricane categories. Rates are tested by the Company's Business Analyst Team prior to use, and loading into Quincy On-Line.
- The Company uses credit-based insurance scores for homeowners underwriting. A matrix which includes loss history and minimum insurance scores is used for placement in either QMFIC or NEMIC, if the minimum insurance score is met. If the applicant does not meet the required minimum insurance score, the agent will not be able to provide a quote to the applicant, and the agent will be instructed to provide the applicant with a FCRA adverse action notice.
- Time and service standards for all key personal lines processing activity have been established. The Company's Senior Underwriting/Team Leaders and Underwriters perform informal quality assurance testing of policies, transactions, and rates.

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 private passenger automobile claims indicated that for one claim, the at-fault operator was not surcharged for the at-fault accident, and the claim was not reported to the MRB in accordance with 211 CMR 134.00. Further, the at-fault operator was not provided a Surcharge Notice stating the right to appeal the surcharge in accordance with M.G.L. c. 175E, § 7A. At the request of the Division, the Company reviewed at-fault accident surcharges since 2006 and determined that 360 operators were not surcharged for at-fault accidents, and the claims were not reported to the MRB in accordance with 211 CMR 134.00. Also, these at-fault operators were not provided a Surcharge Notice stating their right to appeal those surcharges in accordance with M.G.L. c. 175E, § 7A. Those at-fault accident determinations with notice dates less than six years

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prior to the date of this examination report may impact the at-fault operators' driving records and premiums. More specifically, the Company failed to report 105 at-fault accident determinations to affected at-fault operators and failed to provide the affected at-fault operators with notices of their right to appeal those determinations in accordance with M.G.L. Chapter 175E, Section 7A. As a result, the Company and the Division entered into a Regulatory Settlement Agreement requiring corrective actions and restitution for these statutory violations. See Appendix B.

Further, 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 2,566 comprehensive claims have not been reported to the MRB since 2002.

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. RNA's testing of motorcycle premiums determined that original cost new and appropriate depreciation factors were applied to policy premiums. Except as noted above, at-fault accidents and other required claims were timely reported to the MRB, and Surcharge Notices were properly provided to at-fault operators. Vacated surcharge return premiums were properly processed in accordance with statutory and regulatory requirements

Required Actions: In consultation with the Division, the Company shall surcharge appropriate at-fault operators, provide notice of the claims to the MRB, and provide Surcharge Notices to the operators, noting their at-fault accidents and their right to appeal those related surcharges. In addition, the Company shall report the missed comprehensive claims to the MRB. The Company shall adopt new controls and procedures to ensure that at-fault accident operators are properly surcharged, such at-fault claims are reported to the MRB, Surcharge Notices are provided to at-fault operators, and all comprehensive claims are reported to the MRB. The Company shall also provide training or guidance to staff about these new controls and procedures. Finally, the Company shall conduct a detailed compliance audit to ensure that these required actions have been implemented. The Company shall provide the internal or compliance audit report to the Division.

Subsequent Company Actions: Company management states that it has implemented additional control procedures to address the required actions. The Company designed queries to identify any at-fault accidents that should have been sent to the MRB and were not. The results were reviewed to determine why no record was sent to the MRB, and appropriate action was taken to ensure compliance.

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.

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- 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 producer compensation. In connection with the review of agent contracts, RNA inspected new business materials, advertising materials, producer 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:

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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, contracts, riders, amendments and endorsements are issued or renewed accurately, timely and completely.

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

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- The Company's underwriting and policy administration systems are used for quoting, rating and underwriting policy applications.
- 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.
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Objective: This Standard addresses the fairness of application rejections and declinations including issuance of proper declination notices. See Appendix A for applicable statutes, regulations and bulletins.

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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 homeowners underwriting. A matrix which includes loss history and minimum insurance scores is used for placement in either QMFIC or NEMIC, if the minimum insurance score is met. If the applicant does not meet the required minimum insurance score, the agent will not be able to provide a quote to the applicant, and the agent will be instructed to provide the applicant with a FCRA adverse action notice.

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. The Company has no declination or refusals to quote data available for declination testing.

Transaction Testing Results:

Findings: The Company has no record of FCRA adverse action notices being provided to consumers declined or refused quoting for homeowners insurance due to unacceptable credit-based insurance score. Thus, the Company cannot be sure that the FCRA adverse action notices were provided to these applicants by agents in accordance with the FCRA, § 615(a).

Observations: None.

Required Actions: The Company shall timely provide such FCRA adverse action notices to homeowners applicants refused quoting or declined coverage for credit-based insurance score. Also, the Company shall ascertain through an audit process that timely FCRA adverse action notices were provided to these consumers, and that if such notices were provided by agents, that the agents retain the notices for five years. Finally, the Company shall conduct a detailed compliance audit to establish that these required actions related to FCRA adverse action notices have been properly implemented. The Company shall provide the compliance audit report to the Division.

Subsequent Company Actions: Management states that the Company has implemented new system changes and procedures for the issuance of FCRA adverse action notices for homeowners applicants refused quoting or declined coverage based on credit-based insurance score. The Company requires its agents to provide FCRA adverse action notices to these applicants and to retain the notices. Two audits for agency compliance have been subsequently completed.

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, with a copy of the notices sent to the agents. The specific reason is 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 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 15 private passenger automobile and 21 homeowners company-initiated underwriting cancellations for testing. In addition, RNA selected 23 private passenger automobile and 25 homeowners non-renewals for testing. All transactions were evaluated for compliance with statutory and Company policy requirements.

Transaction Testing Results:

Findings: One private passenger automobile non-renewal did not have the specific reason on the notice provided to the insured as required by 211 CMR 97.00.

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. The specific reasons were reasonable and in compliance with statutory requirements.

Required Actions: The Company shall review its controls and procedures and consider such changes to ensure that non-renewal notices include specific reasons on the notices. Also, the Company shall provide training and guidance to staff about the processing of these notices.

Subsequent Company Actions: Internal procedures and controls were reviewed by Company management. Non-renewals with incomplete information will be returned to the underwriters for review. Additional

training of staff has been conducted by Company management.

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.

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- 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 Senior Underwriting/Team Leaders and Underwriters perform informal quality assurance testing of policies, transactions, and rates.

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.
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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.

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- Time and service standards for all key personal lines processing activity have been established. The Company's Senior Underwriting/Team Leaders and Underwriters perform informal quality assurance testing of policies, transactions, and rates.

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 Standard VI-7 for testing of declinations. 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 individuals who are members of employer or other groups. 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 individuals who are members of employer or other groups 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. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period, to ensure that underwriting practices for mass marketing plans

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offered to individuals who are members of employer or other groups were not unfairly discriminatory. During this testing, RNA sought evidence of any unfair discrimination in underwriting these policies and examined evidence of the Division's approval of the affinity premium discounts.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no evidence that the Company's underwriting practices for mass marketing plans offered to individuals who are members of employer or other groups are unfairly discriminatory. All affinity premium discounts were 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.

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- Time and service standards for all key personal lines processing activity have been established. The Company's Senior Underwriting/Team Leaders and Underwriters perform informal quality assurance testing of policies, transactions, and rates.

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

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

- Company policy requires that the underwriting files support underwriting and rating decisions.
- The Company's producers 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 Senior Underwriting/Team Leaders and Underwriters perform informal quality assurance testing of policies, transactions, and rates.

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.

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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 organized in three home office units. Each unit is led by an Assistant Vice President with a supervisory structure that includes managers, supervisors, claims examiners and support staff. The three units are organized functionally to handle private passenger automobile, property, and SIU/general liability claims.
- The Company utilizes 17 independent automobile appraisal firms that are supervised by two employee field staff. The Company also contracts with independent claims examiners to handle property claims, which are supervised by the home office property unit. The claims handling employees are organized in teams with a supervisory structure in place to ensure that claims settlement authorities and Company procedures are followed.
- Written policies and procedures govern claims handling processes. Claims are generally reported through calls to the Company's 800 phone number, set up directly by agents, or internally from fax/email/postal mail receipts. All of the Company's claim first notice of loss phone calls are outsourced to Alliance Claims Solutions. Its systems interface with the Company's claim system, and claims examiners are automatically assigned. Alliance Claims Solutions' performance is monitored by management using time and service metrics. 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 Accounting Department 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 for inclusion in the driver's SDIP. Further, the Company identifies vacated surcharges from the Board of Appeal and completes processing for those transactions.

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- 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 established a claims quality assurance program through reviews of closed claim files by claims managers. The program includes a random sample of private passenger automobile, property and liability claims for each claims examiner to assess adherence to Company policies and procedures. The results are documented and scored in spreadsheet checklists. Results are reported for each claim examiner for use by claims management as part of employee training and performance evaluation processes.
- The Company completes periodic audits of field claims examiners to ensure compliance with the Company's claim policies and procedures.
- The Company is subject to periodic loss data audits by CAR for compliance with statutes and CAR Rules of Operation.

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.

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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 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.

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

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.

Recommendations: None.

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

Objective: The Standard addresses whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee, and whether the Company 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 six claim-related complaints.

Transaction Testing Results:

Findings: Testing indicated that one liability claim did not have a Department of Revenue check completed prior to payment as required by M.G.L. c. 175 § 24D, 24E and 24F.

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

Required Actions: The Company shall review its procedures to ensure that effective controls are in place to conduct Department of Revenue checks, make any procedural changes as needed, and provide training to staff to ensure that Department of Revenue checks are completed timely in accordance with statutory requirements. Additionally, the Company shall complete an intercept check for the missed claim against Department of Revenue records and make any necessary payments as required by law. Further, the Company shall complete an intercept check for additional identified missed claims against Department of Revenue records, if any new procedures are implemented. Finally, the Company shall report to the Division the results of the missed intercept check and the results of any other identified missed intercept checks.

Subsequent Company Actions: The Company reviewed its procedures to ensure that effective controls are in place to conduct Department of Revenue checks and has provided training to staff to ensure that Department of Revenue checks are completed timely in accordance with statutory requirements. In addition, Company management reviewed the single exception with the handling adjuster who recognizes it was an oversight. An intercept check was subsequently completed with the Department of Revenue for this claim, and no liens were found. The Company states this was an isolated incident and that its audit procedures and policies are sufficient to ensure compliance with the reporting requirements.

<u>Standard VII-7. Regulated entity claim forms are appropriate for the type of product.</u>

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.

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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.

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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 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.

<u>Standard VII-10. Cancelled benefit checks and drafts reflect appropriate claim handling practices.</u>
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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.

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 eight 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 10 tested claims was timely, accurate and processed according to the Company's policies and procedures. However, RNA testing noted a subrogation recovery opportunity identified but not pursued. Recovery would result in reimbursement of the insured's deductible. The Company attempted collection from another insurer but was not able to come to agreement on this matter with the other insurer. 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: The Company should review its controls and procedures over subrogation recovery, update controls as necessary, and provide training to staff to ensure that subrogation opportunities are pursued with recoveries resulting in reimbursement of the insured's deductible as appropriate.

Subsequent Company Actions: Management states that control procedures have been updated, which introduce new reports that will be run on a quarterly basis to identify any missed subrogation opportunities. Management has reinforced with staff the importance of subrogation referral and proper procedures.

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.
- 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
QUINCY MUTUAL FIRE INSURANCE COMPANY
NEW ENGLAND INSURANCE COMPANY

SUMMARY

Based upon the procedures performed in this examination, RNA has reviewed and tested Company Operations/Management, Complaint Handling, Marketing and Sales, 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 in Claims.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
QUINCY MUTUAL FIRE INSURANCE COMPANY
NEW ENGLAND INSURANCE COMPANY

ACKNOWLEDGEMENT

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

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

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



Mark G. Noller, CIE
Principal, Rudmose & Noller Advisors, LLC