



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

Report on the Comprehensive Market Conduct Examination of

Merrimack Mutual Fire Insurance Company
Cambridge Mutual Fire Insurance Company
Bay State Insurance Company

Andover, Massachusetts

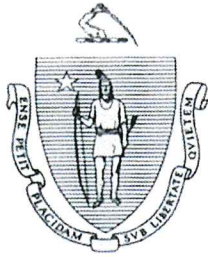
For the Period January 1, 2014 through December 31, 2014

NAIC COMPANY CODES: 19798, 19771, 19763

EMPLOYER ID NUMBERS: 04-1614490, 04-1144900, 04-2200004

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

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GARY D. ANDERSON
ACTING COMMISSIONER OF INSURANCE

May 31, 2017

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

Dear Acting 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

MERRIMACK MUTUAL FIRE INSURANCE COMPANY
CAMBRIDGE MUTUAL FIRE INSURANCE COMPANY
BAY STATE INSURANCE COMPANY

at their home offices located at:

95 Old River Road
Andover, Massachusetts 01810

The following report thereon is respectfully submitted.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
MERRIMACK MUTUAL FIRE INSURANCE COMPANY
CAMBRIDGE MUTUAL FIRE INSURANCE COMPANY
BAY STATE INSURANCE COMPANY

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the "Division") conducted a comprehensive market conduct examination ("examination") of Cambridge Mutual Fire Insurance ("CMFIC"), Merrimack Mutual Fire Insurance Company ("MMFIC") and Bay State Insurance Company ("BSIC"), (collectively, the "Company") for the period January 1, 2014 to December 31, 2014, with a focus on personal lines operations. The examination was called pursuant to authority in Massachusetts General Laws Chapter ("M.G.L. c.") 175, § 4. The examination was conducted under the direction, management and control of the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC ("RNA") were engaged to complete the examination. The findings and observations expressed in this Report are based upon material and information provided by the Company as of May 31, 2017.

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-3

Findings: The Company did not compare new business applications and the Company's policy in-force listing against the Specially Designated Nationals ("SDN") database in 2014 to ensure Office of Foreign Asset Control ("OFAC") compliance.

Observations: The Company has adopted procedures related to antifraud initiatives, compliance procedures, and code of conduct policies. The Company has consistently reviewed claim payments against the SDN database for OFAC compliance. Except as noted above, 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.

Required Actions: The Company shall implement procedures to compare new business applications and the Company's policy in-force listing against the SDN database, and provide training to staff, to ensure continued OFAC compliance.

Subsequent Company Actions: During 2015, the Company implemented procedures for comparing new business applications against the SDN database, and implemented procedures for comparing the Company's in-force listing against the SDN database.

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SECTION IV-PRODUCER LICENSING

STANDARD IV-3

Findings: One of the business entity appointment terminations was not processed within 30 days of the termination effective date in the Division's On-Line Producer Appointment System ("OPRA") as required by M.G.L. c. 175, § 162T.

Observations: For the remaining appointment terminations tested, the Company properly notified the agents about the terminations, as applicable, and the Division through OPRA, in compliance with statutory requirements.

Required Actions: The Company shall review its controls and procedures and make necessary changes to ensure that agent appointment terminations are reported to the Division 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 Company states that it has reviewed its procedures, provided training to staff and conducted monitoring to ensure compliance to confirm that procedures are working as designed in accordance with statute.

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-7

Findings: Testing completed in 2015 indicated that a required adverse action notice was not provided to a homeowners applicant declined coverage by the Company's underwriting department due to unacceptable credit-based insurance score, in violation of the Fair Credit Reporting Act ("FCRA") referred to as the "adverse action notice". Also, during 2015 the Company did not know if agents retained a record of adverse action notices provided to consumers declined or refused quoting for homeowners insurance due to unacceptable credit-based insurance score, or whether the agents issued such notices to these applicants. Thus, the Company could not be sure that those adverse action notices were provided to these applicants in accordance with the FCRA, § 615(a). As a result, in June 2016, the Company issued additional guidance to agents to ensure that the agents appropriately delivered the adverse actions notices, and the Company conducted agent audits to ensure compliance.

Observations: RNA testing determined that the homeowner applications declined by the Company's underwriting department were not unfairly discriminatory with properly delivered adverse action notices, as applicable. In some cases, the Company bound the risks for 20 days to allow time for the agents to replace the coverage with other insurers.

Required Actions: The Company shall continue to ensure that adverse action notices are timely provided to homeowners applicants refused quoting or declined coverage for credit-based insurance score. The Company has an obligation to ensure that such applicants receive adverse action notices, including in cases when the agents send the adverse action notices to such applicants. Also, the Company shall retain evidence of mailing for five years that the adverse action notices were sent to such applicants.

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Subsequent Company Actions: The Company states that it is working diligently to ensure that adverse action notices are delivered to applicants refused quoting or declined coverage for credit-based insurance score and taking the actions described above.

SECTION VII-CLAIMS

STANDARD VII-5

Findings: None.

Observations: RNA noted that for most of the tested claims, the Company's claim files adequately documented claim handling; however, on four liability claims, documentation of authorized settlements, offers made, and estimates of claimants' damages needed improvement. Based upon discussions with Company management, these four claims appear to have been fairly settled.

Recommendations: The Company should ensure that liability claim files clearly document, through quantitative analysis and/or narrative discussion, the rationale for authorized settlement amounts, offers made in relation to authorized settlement amounts, and estimates of claimants' damages impacting estimated settlement values. Guidance to staff and independent adjusters on these documentation requirements should be provided.

Subsequent Company Actions: The Company has provided guidance to staff to ensure that liability claim files clearly document the rationale for authorized settlement amounts and offers made.

STANDARD VII-6

Finding: Testing indicated that one homeowners claim for other structures damage over \$1,000 was not properly and timely reported to local building and health authorities to disclose a potentially dangerous condition in accordance with M.G.L. c. 139, § 3B.

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

Required Actions: The Company shall adopt new policies and control procedures to address the requirements of M.G.L. c. 139, § 3B, and provide guidance to staff on the new policies and procedures.

Subsequent Company Actions: The Company has updated its procedures for reporting such claims to municipal authorities and provided related guidance to staff.

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COMPANY BACKGROUND

MMFIC was founded in 1828, and CMFIC was founded in 1833. MMFIC and CMFIC became part of the same holding company system in 1913. BSIC was founded in 1955 as a stock insurer and subsidiary of MMFIC, which owns 96.3% BSIC. The remaining 3.7% is owned by current and former directors and management.

The Company provides homeowners, dwelling fire, personal umbrella and commercial multiple peril insurance coverages in eight states, with policies sold through independent agents. The Company is the sixth largest writer of homeowners coverage in Massachusetts. Standard homeowner risks are written in MMFIC and CMFIC, with preferred homeowners risks written in BSIC. The Company has established an intercompany pooling agreement whereby all direct, assumed and ceded business written, associated losses and loss adjustment expenses, underwriting expenses, and all other general expenses are distributed among the Company on a percentage basis. The participation percentages are MMFIC 50%, CMFIC 35%, and BSIC 15%.

MMFIC, CMFIC and BSIC 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:

MMFIC

Admitted assets	\$1,363.6 million
Statutory surplus	\$857.3 million
Massachusetts business - direct written premium	\$138.0 million

CMFIC

Admitted assets	\$830.2 million
Statutory surplus	\$478.5 million
Massachusetts business - direct written premium	\$24.1 million

BSIC

Admitted assets	\$456.7 million
Statutory surplus	\$283.8 million
Massachusetts business - direct written premium	\$23.4 million

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

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I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

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

- The Company's statutory financial statements are audited annually by an independent auditor.
- MMFIC and CMFIC have identical Boards of Directors. Four of the nine members of the MMFIC and CMFIC Boards of Directors are members of management, and five are independent directors. The BSIC Board of Directors includes the nine members of the MMFIC and CMFIC Boards of Directors, plus two additional members of management. The management directors on all Boards of Directors include Malcolm Brawn, President and Chief Executive Officer; Donald Vose, Vice President and Secretary; C. Edward Wallis, Senior Vice President and Treasurer, and John Swift, Vice President. The Boards of Directors meet at least four times per year and are responsible for overseeing market conduct compliance, among other board duties.
- The Audit Committee consists of the five independent directors and is responsible for engaging the independent auditor and for appointing the opining actuary for each of the insurers.
- During 2015, the Companies established Corporate Governance Guidelines in addition to a Code of Business Conduct and Ethics. A Corporate Governance and Nominating Committee is also being established. The Companies also have a Compensation Committee consisting of three independent directors.
- The Company has implemented a program to document and test financial reporting processes and controls based upon the NAIC Model Audit Rule. This process is managed through the Model Audit Rule Management Committee. Also, the Company has completed an Enterprise Risk Management ("ERM") assessment, which evaluates key financial solvency risks. Included in the ERM assessment is an evaluation of operational risks. Market conduct compliance matters are coordinated by the Assistant Manager, Underwriting Product Development.
- The Assistant Secretary, Personal Lines Underwriting performs annual quality assurance testing of 20 new business applications covering all underwriters. The reviews evaluate underwriting procedures performed and conclusions reached for training and performance evaluation purposes.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for corporate governance, compliance risk assessment, and quality assurance processes. RNA reviewed minutes of Board of Directors meetings, documentation of the Model Audit Rule Program, and the ERM assessment.

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Transaction Testing Results:

Findings: None.

Observations: The Company has documented its corporate decisions in its Boards of Director minutes and has made reasonable Model Audit Rule Program and ERM assessments.

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 claims examiners are responsible for claims fraud procedures. The claims examiners investigate suspected fraud and report such fraud to management and regulatory authorities as needed. The Company's Fraud Policy is distributed to all new employees at time of hire and receipt is acknowledged via signature.
- Claims are run through Insurance Services Office ("ISO") ClaimSearch. This system maintains the history on claimants regarding previously filed claims and is used to identify patterns of potential fraudulent activity. If a claims examiner suspects a fraudulent situation, a notation is made and added to the claims folder. The claim is also recorded in the Company's Fraudulent Claims Log and investigated. The Assistant Vice President Claims is responsible to refer fraudulent claims to the National Insurance Crime Bureau ("NICB") and the Insurance Fraud Bureau, in cases where fraud is believed to have occurred to assist with criminal investigation and prosecution.
- Upon hiring, each employee is provided with a copy of the Employee Handbook, which incorporates various policies and procedures that emphasize compliance and ethics responsibility. Officers, directors and key employees sign a yearly conflict of interest attesting that they do not have any material interest or affiliations that are likely to be in conflict with their duties as a director, officer or employee of the Company.
- The Company uses ISO ClaimSearch to comply with OFAC requirements. All check payees are checked against the SDN database within the ISO ClaimSearch for any match and follow up, as needed.

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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 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: The Company did not compare new business applications and the Company's policy in-force listing against the SDN database in 2014 to ensure OFAC compliance.

Observations: The Company has adopted procedures related to antifraud initiatives, compliance procedures, and code of conduct policies. The Company has consistently reviewed claim payments against the SDN database for OFAC compliance. Except as noted above, 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.

Required Actions: The Company shall implement procedures to compare new business applications and the Company's policy in-force listing against the SDN database, and provide training to staff, to ensure continued OFAC compliance.

Subsequent Company Actions: During 2015, the Company implemented procedures for comparing new business applications against the SDN database, and implemented procedures for comparing the Company's in-force listing against the SDN database.

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 these 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 agents also have binding authority.
- The Company's agents are solely responsible for maintaining their producer licensing and continuing education requirements.
- Independent appraiser and field adjusters are utilized as needed to provide on-site-inspections and claim investigations. The independent field adjusters are provided written documentation of the company's procedures along with detailed instructions covering tasks to be performed and timeframes for completion.
- 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

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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.

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.

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

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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Standard I-10. The regulated entity has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions 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 internet privacy policy on its website.
- Company policy allows for the sharing of personal financial and health information with affiliates and non-affiliates who provide services to the Company. The Company does not share information with other companies for marketing purposes, and thus, no opt out notice is required. Company policy is to disclose information as required or permitted by law to regulators, law enforcement agencies, antifraud organizations, and third parties who assist the Company in processing business transactions for its customers.

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.

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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.

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 homeowners and five umbrella policies issued and renewed during the examination period, to test whether a consumer privacy notice was provided.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

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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.

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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.
- 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 NAIC Market Conduct Annual Statement ("MCAS") personal lines data. See Appendix A for applicable statutes, regulations and bulletins.

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

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

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

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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, the examination data, and 2014 Massachusetts MCAS data submitted to the NAIC, no unusual results and concerns were noted, and the data reported to the Division and in MCAS appears to be complete and accurate.

Recommendations: None.

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II. COMPLAINT HANDLING

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

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

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

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

- The Company defines a complaint as any written correspondence expressing a grievance received from the Division, Attorney General, Better Business Bureau, or directly from an insured or third party claimant. Concerns expressed by phone in operational areas are handled in those operational units and are not recorded in the Company's complaint register.
- All departments have been instructed to forward complaints to the Assistant Vice President-Claims, who records them in the complaint register, and then forwards them to the operational Vice Presidents for their review. Department Managers respond to complaints in writing and retain a record of each complaint response. A copy of the complaint and response is also retained with the Company's complaint register.
- The complaint register includes 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 Assistant Vice President-Claims reviews all complaint activity for identification of any recurring, systemic or potential problems. Management reporting of complaint activity is made on an as needed basis.
- The Company provides a telephone number and address in its written responses to complaints, inquiries and on its website.

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

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.

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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 reviewed two of the five regulatory complaints and three of the six consumer complaints to evaluate the Company's compliance with statutory complaint requirements. 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 two of the five regulatory complaints and three of the six consumer complaints to evaluate the Company's efforts

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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 two of the five regulatory complaints and three of the six consumer complaints to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

Observations: The Company addressed the tested regulatory complaints within 14 days 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.

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III. MARKETING AND SALES

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

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

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

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

- The Company does not conduct any advertising, use social media, or provide any brand awareness activities to the general public. Also, the Company does not have a coop advertising program to assist agents in their marketing.
- The Company provides brief descriptions of products offered and discloses its name and contact information 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 managing agent relationships and reviewed the Company's website for disclosure of its name and contact information. 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: RNA noted that the Company's website disclosure complies with Division requirements. RNA noted no evidence of the use of unapproved sales materials as part of new and renewal business testing.

Recommendations: None.

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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 guidelines and general policy directives are contained on the Company's On Line Rater 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 addresses 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 agent communications to understand the nature and breadth of such communications. RNA reviewed agent communications as part of new and renewal business testing for reasonableness.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

No work performed. This Standard is not covered in the scope of examination as the Company does not mass market its insurance products.

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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 proper 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.
- The Company's agents are solely responsible for maintaining their producer licensing and continuing education requirements.
- The Company's policy is to use the Division's OPRA to process agent appointments.
- The Company maintains a database of agents' license expiration dates and uses that information along with Division appointment renewal fee lists to complete daily checks to ensure that the Company's appointment listing and OPRA data are consistent, accurate and complete. Errors identified are processed and corrected.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and processing of agent appointments. RNA selected 25 homeowners and five umbrella 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, or any non-appointed producers involved in the sales were properly licensed.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, 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.

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Recommendations: None.

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

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

Controls Assessment: See Standard IV-1.

Controls Reliance: See Standard IV-1.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company's appointment terminations are generally due to lack of production or profitability, or at the request of the agent. Agent terminations are to be processed in accordance with the agency contract, which requires 180 days to terminate the appointment in most instances. The Company's policy is to give required written notice to all agents whose appointments are terminated at the Company's request.
- Agency appointment terminations are to be reported on the termination effective date to the Division through OPRA. After the termination effective date, new business is no longer accepted. An agent is allowed to service existing business for one year 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.

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- The Company maintains a database of agents' license expiration dates and uses that information along with Division appointment renewal fee lists to complete daily checks to ensure that the Company's appointment listing and OPRA data are consistent, accurate and complete. Errors identified are processed and corrected.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for agent supervision, producer contracting and appointment termination processing. RNA selected 11 individual and 13 business entity appointment terminations and compared that information to corresponding information in the Company's data and the Division's OPRA. Finally, RNA reviewed evidence that notices to the Division and the agents complied with statutory requirements.

Findings: One of the business entity appointment terminations was not processed within 30 days of the termination effective date in the Division's OPRA as required by M.G.L. c. 175, § 162T.

Observations: For the remaining appointment terminations tested, the Company properly notified the agents about the terminations, as applicable, and the Division through OPRA, in compliance with statutory requirements.

Required Actions: The Company shall review its controls and procedures and make necessary changes to ensure that agent appointment terminations are reported to the Division 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 Company states that it has reviewed its procedures, provided training to staff and conducted monitoring to ensure compliance to confirm that procedures are working as designed in accordance with statute.

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 homeowners and five umbrella policies issued or renewed during the examination period, and testing of 11 individual and 13 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.

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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 11 individual and 13 business entity appointment terminations during the examination period, and reviewed the reasons for each appointment termination. RNA also inquired about any agent that was terminated "for cause" during the examination period.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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V. POLICYHOLDER SERVICE

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

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

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

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

- The Company's homeowners and personal umbrella policy premiums are generally direct billed to insureds or mortgagees, who can either pay the premium in full at inception and upon renewal, or make payments in three, five, nine, or 12 installments. Payments are accepted using a check, website direct debit or credit card, and monthly electronic funds transfer. Installment billing notices are sent to customers approximately 21-27 days in advance of the due date. Cancellation notices for non-payment of premium are generated 3-7 business days after the due date, depending on the premium payment plan selected.
- Premium financing can be obtained from an unaffiliated premium finance company but must be billed using agency bill.
- Policies will be reinstated if the insured makes the required payment within 10 days of the cancellation effective date. Requests for reinstatement between 10 and 30 days are submitted to the underwriting department to make the determination of whether to reinstate the policy. For all reinstatements between 10 and 30 days of the cancellation effective date, the insured must provide a written no loss statement.
- The Company has developed standards for billing and collections, and monitors compliance with those standards.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and reviewed billing notice dates in conjunction with new and renewal business testing. RNA tested two cancellations for non-payment of premium for compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, billing notices and cancellations for non-payment of premium appeared to be mailed with an adequate amount of advance notice.

Recommendations: None.

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Standard V-2. Policy issuance and insured-requested cancellations are timely.

Objective: This Standard is concerned with whether the Company has procedures to ensure that policyholder cancellation requests are processed 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:

- All policy cancellation requests from insureds must be written. Agents are able to process the requests electronically, or they may direct the Company to process the cancellations. The Company processes these requests within one week. Also, the Company honors any written request to cancel coverage from the insured and process that request along with notice to the agent.
- Any unearned premium resulting from an insured-requested cancellation is refunded directly from the Company to the customer on a pro-rata basis.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and tested 11 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. Service requests and correspondence, except for name or billing address corrections and mortgagee or lienholder changes, are referred to the agent for handling. The Company responds directly to an insured if the correspondence is a complaint or if the circumstances are such that the insured is better served

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by a direct response from the Company. Also, the Company honors any written request to cancel coverage from the insured and process that request along with notice to the agent.

- The Company has developed performance and work flow standards for underwriting and policyholder service and monitors compliance with those standards.

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

Transaction Testing Procedure: RNA 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 insureds 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.

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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 insured to obtain a correct address for future mailings and to make any needed address changes.
- Un-cashed premium refund and claim drafts remain on the Company's drafts payable listing. Monthly, the Company mails a "180 day letter" to all consumers for drafts appearing on the outstanding list longer than 180 days, which notifies the consumer to cash the draft or return the letter for reissue. Annually in March, the Company reviews the drafts payable listing and moves drafts older than 15 months to an escheatment list. A second letter is mailed at the time the escheatment list is created requesting the consumer to cash the item or return the letter for reissue. The Company's honors issued drafts for three years or longer until escheated.
- The Company has established procedures for the due diligence, reporting and remittance of abandoned property. The Accounting Department researches returned mail to locate updated U.S. postal addresses. Ninety days before the amounts are to be escheated, a final notice is sent to the last known address. 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 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.

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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:

- Requests for claims history are usually handled through the insured's agent.
- When the Company responds 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 insured inquiries regarding claims history and paid loss information. Further, RNA reviewed claim documentation for any evidence of the Company being non-responsive to such 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 insured inquiries. Policies and procedures relating to how the Company responds to insured inquiries on claims history and paid loss information appear adequate and reasonable.

Recommendations: None.

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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. Personal lines premium rates are filed with the Division for approval prior to use.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements.
- To obtain homeowners or dwelling fire insurance quotes, the agents may use either the Company's On-Line Rater, or a comparative rater, which automatically feeds quotes to the Company's On-Line Rater. Agents may use the On-Line Rater to process an electronic policy application, or agents may submit paper applications to the Company. The standard forms for the applications are approved by the Division.
- The Company uses credit-based insurance scores for Massachusetts homeowners and dwelling fire underwriting. The agent enters the name, address, and date of birth of the applicant to retrieve a LexisNexus credit-based insurance score prior to completing the application. If the applicant does not meet the required minimum insurance score, the agent will not be able to provide a quote to the applicant. In such cases, a adverse action notice is produced in the On-Line Rater with instructions to the agent to provide the notice to the applicant and to maintain a copy of the notice. The Company recently obtained information from LexisNexus to monitor the agents' efforts to provide these adverse action notices to applicants.
- The On-Line Rater integrates loss and risk information. Once the homeowners or dwelling fire application information is complete, and the applicant wishes to purchase the policy, the risk is bound by the agent. The applications are signed by the applicant, with the original signed applications retained by the agents. Also, the agents check a box in the On-Line Rater noting that they have obtained the signed application from the applicant.
- The homeowners and dwelling fire policy is printed by the Company the following day, and generally delivered to the agent for delivery to the insured.
- For personal umbrella applications, a Massachusetts Motor Vehicle Registry inquiry is made to obtain the applicant's Safe Driver Insurance Plan score. Personal umbrella applications will only be accepted if the Company writes the homeowners policy, and the agent produced the private passenger automobile policy with maximum available policy limits. The agents have limited binding authority for personal umbrella risks.
- All applications are submitted to the Personal Lines Underwriting Services Department, where examiners review the applications for completeness, reasonableness and unusual concerns.

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Homeowners, dwelling fire, and personal umbrella applications are forwarded to the Personal Lines Underwriting Department for further review by the underwriters. Unacceptable risks will result in the Company issuing cancellations for underwriting reasons, unless the agents can replace the risks with another insurer.

- Approximately 45% of new homeowners risks are inspected within the first 60 days of the risks being bound to identify any property deficiencies or unknown risks, which are evaluated for possible underwriting action, if the deficiencies are not corrected.
- Renewals are processed approximately 40 days prior to policy expiration with the new policy, summary of policy changes, and billing information sent to the insured, unless the agent directs that the information should be provided to the agent for delivery to the insured.
- Time and service standards for all key processing activities have been established.
- The Assistant Secretary, Personal Lines Underwriting performs quality assurance annually testing of 20 new business applications covering all underwriters. The reviews evaluate underwriting procedures performed and conclusions reached for training and performance evaluation purposes.

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 homeowners and five umbrella 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.

Transaction Testing Results:

Findings: None.

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.

Recommendations: None.

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

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.

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 homeowners and five umbrella 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 agent contracts, policies and procedures are designed to comply with statutory underwriting and rating requirements, which prohibit special inducements and rebates.

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

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

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Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

- Company policy requires the use of standard homeowners policy forms, many based on 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 homeowners and five umbrella 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.

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Recommendations: None.

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

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

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- The Company's underwriting and policy administration systems are used for quoting, rating and underwriting policy applications.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 homeowners and five umbrella policies issued or renewed during the examination period, to test whether new and renewal policies and endorsements were issued timely, accurately and completely.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company issues new and renewal policies and endorsements timely, accurately and completely.

Recommendations: None.

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

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

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

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements. Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.

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- Applications for homeowners, dwelling fire or umbrella coverage may be declined by the agent on the Company's behalf or by the underwriting department if the risks do not meet the Company's underwriting guidelines.
- The Company uses credit-based insurance scores for Massachusetts homeowners and dwelling fire underwriting. The agent enters the name, address, and date of birth of the applicant to retrieve a LexisNexus credit-based insurance score prior to completing the application. If the applicant does not meet the required minimum insurance score, the agent will not be able to provide a quote to the applicant. In such cases, an adverse action notice is produced in the On-Line Rater with instructions to the agent to provide the notice to the applicant and to maintain a copy of the notice. The Company obtained information from LexisNexus to monitor the agents' efforts to provide these adverse action notices to applicants.
- Other than the adverse action notice, producers may provide either a written or oral declination notice to the homeowners applicant for other declination reasons.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 14 homeowners applications declined by the Company's underwriting department during the examination period to ensure that declinations were not unfairly discriminatory and to ensure that proper declination notices were given to applicants.

Transaction Testing Results:

Findings: Testing completed in 2015 indicated that a required adverse action notice was not provided to a homeowners applicant declined coverage by the Company's underwriting department due to unacceptable credit-based insurance score, in violation of the FCRA referred to as the "adverse action notice." Also, during 2015 the Company did not know if agents retained a record of adverse action notices provided to consumers declined or refused quoting for homeowners insurance due to unacceptable credit-based insurance score, or whether the agents issued such notices to these applicants. Thus, the Company could not be sure that those adverse action notices were provided to these applicants in accordance with the FCRA, § 615(a). As a result, in June 2016, the Company issued additional guidance to agents to ensure that the agents appropriately delivered the adverse actions notices, and the Company conducted agent audits to ensure compliance.

Observations: RNA testing determined that the homeowner applications declined by the Company's underwriting department were not unfairly discriminatory with properly delivered adverse action notices, as applicable. In some cases, the Company bound the risks for 20 days to allow time for the agents to replace the coverage with other insurers.

Required Actions: The Company shall continue to ensure that adverse action notices are timely provided to homeowners applicants refused quoting or declined coverage for credit-based insurance score. The Company has an obligation to ensure that such applicants receive adverse action notices, including in cases when the agents send the adverse action notices to such applicants. Also, the Company shall retain evidence of mailing for five years that the adverse action notices were sent to such applicants.

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Subsequent Company Actions: The Company states that it is working diligently to ensure that adverse action notices are delivered to applicants refused quoting or declined coverage for credit-based insurance score and taking the actions described above.

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

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

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

- Company-initiated underwriting cancellations of homeowners policies are generally a result of changes in the risk, failure to address inspection deficiencies, or material misrepresentation, with most occurring within the first 60 days of coverage. Written notice of cancellation with the specific reason for the cancellation is sent to the policyholder, agent and mortgagee at least 20 days prior to the cancellation effective date.
- Written non-renewal notices for unacceptable renewals of homeowners and dwelling fire 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 25 homeowners company-initiated underwriting cancellations and 22 homeowners non-renewals for testing. All transactions were evaluated for compliance with statutory and Company policy requirements.

Transaction Testing Results:

Findings: None.

Observations: For the company-initiated underwriting cancellations and non-renewals tested, the Company provided timely and adequate notice to the policyholders with the specific reasons on the notices properly disclosed. The specific reasons were reasonable and in compliance with statutory requirements.

Recommendations: None.

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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.
- The Company generally does not rescind 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 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 primarily focused on personal lines business.

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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 primarily 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 primarily 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 primarily 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 primarily 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 primarily 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 processing activities have been established.
- The Assistant Secretary, Personal Lines Underwriting performs quality assurance annually testing of 20 new business applications covering all underwriters. The reviews evaluate underwriting procedures performed and conclusions reached for training and performance evaluation purposes.

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 homeowners and five umbrella 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. Finally, RNA sought evidence of complaints to ensure that underwriting is completed at or near inception of the coverage.

Transaction Testing Results:

Findings: None.

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

Recommendation: None.

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

Objective: This Standard addresses whether audits are conducted accurately and timely. See Standard I-1 for external audits, internal 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.

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

No work performed. This Standard is not covered in the scope of examination as the Company does not write private passenger automobile business.

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

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

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

- Company policy requires that the underwriting department apply consistent underwriting practices, and that no underwriter or producer shall engage in collusive or anti-competitive practices.
- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- Time and service standards for all key processing activities have been established.
- The Assistant Secretary, Personal Lines Underwriting performs quality assurance annually testing of 20 new business applications covering all underwriters. The reviews evaluate underwriting procedures performed and conclusions reached for training and performance evaluation purposes.

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 homeowners and five umbrella 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.

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

No work performed. This Standard is not covered in the scope of examination as the Company does not mass market its insurance products.

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

No work performed. This Standard is not covered in the scope of examination 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 ISO.
- Time and service standards for all key processing activities have been established.
- The Assistant Secretary, Personal Lines Underwriting performs quality assurance annually testing of 20 new business applications covering all underwriters. The reviews evaluate underwriting procedures performed and conclusions reached for training and performance evaluation purposes.

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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 the underwriting process and the statistical reporting process. RNA selected 25 homeowners and five umbrella policies issued or renewed during the examination period to test data coding for selected policy determinants.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- 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 processing activities have been established.
- The Assistant Secretary, Personal Lines Underwriting performs quality assurance annually testing of 20 new business applications covering all underwriters. The reviews evaluate underwriting procedures performed and conclusions reached for training and performance evaluation purposes

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 homeowners and five umbrella 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 is organized in property, liability, and claims operations units. Each unit is led by an Assistant Vice President or Secretary with a supervisory structure that includes claims examiners, independent adjusters, and support staff. The property unit handles all homeowner and dwelling fire claims. The liability unit handles liability claims and litigation. The operations unit supports claims examiners with initial claims processing and set-up, payment processing, data analysis, and subrogation.
- New claims and correspondence for current claims are received via fax, email, or the Company's website. Policyholders typically contact their agent to report claims, and the agent completes and submits the first notice of loss through the Company's website, detailing policy and loss information. All incoming documents are sorted by territory and date stamped by a clerk in the operations unit.
- The Company has ten claims examiners, with five assigned to Massachusetts, and two field supervising general adjusters. Approximately 35 independent adjusting firms are used in Massachusetts to perform field adjusting services. The independent adjusting firms employ experienced personnel with long tenures working with the Company. New claims are assigned to claims examiners based on territory.
- Claims are investigated to determine existence of coverage, and an initial liability determination is made with an estimate for the reserve. An independent adjuster is assigned to each claim, either by a claims examiner or an agent. The Company provides its agents with a list of available and approved independent adjusters that may be utilized for property claims. By permitting agents to assign the independent adjusters, the Company's states its service to its policyholders and claimants is enhanced. Contact is made, and an inspection is scheduled within 48 hours of the receipt of a claim. Company policy requires an inspection be completed within 15 days. In addition, an expert may be assigned based on the claims examiner's judgment and type of claim.
- All claims are processed and documented in manual paper files. The manual claim files include documents related to claim evaluations and activities, examiners' notes, and a claims diary. Independent adjusters typically submit reports electronically with the reports printed and maintained in the claim files. Financial and reserving transactions are maintained in the Company's PMS system. For each new claim entered into the PMS system, a diary is established, which tracks all activity on the claim throughout its processing. For property claims, the PMS system automatically sets the diary at 30 days. A diary report is produced from the PMS system on a weekly basis, and the claim files are pulled for the claims examiners' review. Evidence of diary follow up is provided through a diary stamp on each file with the claims examiners' initials. A similar process is performed with liability claims; however, the claims examiners use discretion in setting the

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number of day's threshold for diary. Annually, in December, a "no activity" list is generated from the PMS system, listing all claims that have no activity within the past year. This report is reviewed by a supervisor, and "no activity" claims identified are communicated to the appropriate claims examiner. The Company does not use any purchased claim evaluation software in connection with assessing damages on bodily injury claims. The Company states that claims examiners are trained to judgmentally make bodily injury evaluations, and to document their damages analyses in summary narratives that support their conclusions.

- The Company uses various methods to discover and investigate potentially fraudulent claims. Special investigators are hired at the discretion of the claims examiner, Assistant Vice President-Claims, or the Vice President-Claims, as necessary. Property and bodily injury claims are run through ISO ClaimSearch. If a claims examiner has fraud concerns, a notation is made in the claims folder and recorded in the Fraudulent Claims Log. The claim is discussed with the Assistant Vice President-Claims or the Secretary/Property Claim Manager, and an investigation is conducted. The Assistant Vice President-Claims 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 implemented OFAC compliance initiatives including searches of the SDN database for any claimants that might be included in the SDN database.
- 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.
- The Company's process for reporting property claims in excess of \$1,000 to municipal authorities requires the independent adjusters to send the required letter to the appropriate municipality shortly after the claim is filed.
- Criteria for unit manager periodic reviews of the claim adjusters' work have been established, and such reviews are documented in the claim files.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 24 paid claims, six denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected one of the three paid umbrella 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.

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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 homeowners claims including 24 paid claims, six denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected one of the three paid umbrella 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 homeowners claims including 24 paid claims, six denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected one of the three paid umbrella claims for testing. RNA tested each selected claim noting whether the claims were resolved in a timely manner.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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 homeowners claims including 24 paid claims, six denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected one of the three paid umbrella 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.

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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 homeowners claims including 24 paid claims, six denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected one of the three paid umbrella 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 most of the tested claims, the Company's claim files adequately documented claim handling; however, on four liability claims, documentation of authorized settlements, offers made, and estimates of claimants' damages needed improvement. Based upon discussions with Company management, these four claims appear to have been fairly settled.

Recommendations: The Company should ensure that liability claim files clearly document, through quantitative analysis and/or narrative discussion, the rationale for authorized settlement amounts, offers made in relation to authorized settlement amounts, and estimates of claimants' damages impacting estimated settlement values. Guidance to staff and independent adjusters on these documentation requirements should be provided.

Subsequent Company Actions: The Company has provided guidance to staff to ensure that liability claim files clearly document the rationale for authorized settlement amounts and offers made.

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.

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Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 24 paid claims, six denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected one of the three paid umbrella 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 two claim-related complaints.

Transaction Testing Results:

Finding: Testing indicated that one homeowners claim for other structures damage over \$1,000 was not properly and timely reported to local building and health authorities to disclose a potentially dangerous condition in accordance with M.G.L. c. 139, § 3B.

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

Required Actions: The Company shall adopt new policies and control procedures to address the requirements of M.G.L. c. 139, § 3B, and provide guidance to staff on the new policies and procedures.

Subsequent Company Actions: The Company has updated its procedures for reporting such claims to municipal authorities and provided related guidance to staff.

<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 homeowners claims including 24 paid claims, six denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected one of the three paid umbrella claims for testing. RNA reviewed the file for each selected claim, and verified that required claim forms were appropriately used.

Transaction Testing Results:

Findings: None.

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

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Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 24 paid claims, six denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected one of the three paid umbrella claims for testing. RNA reviewed the file for each selected claim, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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

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Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

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Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 24 paid claims, six denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected one of the three paid umbrella claims for testing. RNA reviewed the file for each selected claim, and noted whether claim practices appeared to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and whether the Company attempted to settle claims for less than reasonable amounts due under the policies.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 24 paid claims, six denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected one of the three paid umbrella 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 five 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

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Company's appears to have reasonable policies and procedures for the use of reservation of rights and excess of loss letters.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes RNA selected homeowners claims including 24 paid claims, six denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected one of the three paid umbrella 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's testing indicated that none of the claims resulted in the insureds' deductibles being reimbursed as a result of subrogation recoveries. RNA noted no instances where deductibles should have been reimbursed upon subrogation, but were not. Based upon review, it appears that the Company has reasonable processes for making deductible reimbursement to insureds upon subrogation recovery in accordance with its policies and procedures.

Recommendations: None.

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

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

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

- 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.

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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 to understand its loss statistical reporting processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 24 paid claims, six denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected one of the three paid umbrella claims for testing. RNA reviewed each selected claim file and noted whether selected loss data was accurate and complete.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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SUMMARY

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

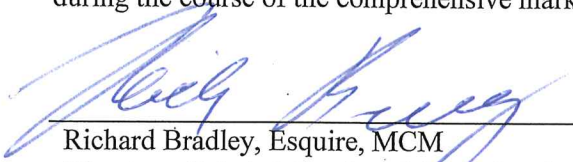
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ACKNOWLEDGEMENT

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

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

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



Richard Bradley, Esquire, MCM
Director of Market Conduct & Examiner in Charge
Commonwealth of Massachusetts
Division of Insurance
Boston, Massachusetts