



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

Report on the Comprehensive Market Conduct Examination of
Barnstable County Mutual Insurance Company
Barnstable County Insurance Company
Yarmouth Port, Massachusetts

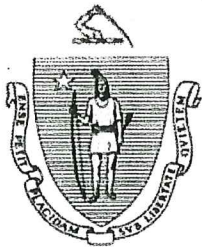
For the Period January 1, 2015 through December 31, 2015

NAIC COMPANY CODES: 13463 AND 41955
NAIC GROUP CODE: 0919

EMPLOYER ID NUMBERS: 04-1063730 AND 04-2747990

TABLE OF CONTENTS

	PAGE
SALUTATION	3
SCOPE OF EXAMINATION	4
EXAMINATION APPROACH	4
EXECUTIVE SUMMARY	5
COMPANY BACKGROUND	7
COMPANY OPERATIONS/MANAGEMENT	8
COMPLAINT HANDLING	19
MARKETING AND SALES	22
PRODUCER LICENSING	25
POLICYHOLDER SERVICE	29
UNDERWRITING AND RATING	34
CLAIMS	46
SUMMARY	56
ACKNOWLEDGMENT	57
APPENDIX A – PROPERTY CASUALTY EXAMINATION STANDARDS AND MASSACHUSETTS AUTHORITIES	



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

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GARY D. ANDERSON
ACTING COMMISSIONER OF INSURANCE

August 7, 2017

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

Dear Commissioner Anderson:

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

BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

at their home offices located at:

915 Route 6A
Yarmouth Port, Massachusetts 02675

The following report thereon is respectfully submitted.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the "Division") conducted a comprehensive market conduct examination ("examination") Barnstable County Mutual Insurance Company ("BCMIC") and Barnstable County Insurance Company ("BCIC"), collectively, (the "Company") for the period January 1, 2015 to December 31, 2015. The examination was called pursuant to authority in Massachusetts General Laws Chapter ("M.G.L. c.") 175, § 4. The examination was conducted at the direction of, and under the overall management and control of, the examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC ("RNA") were engaged to complete certain agreed upon procedures.

EXAMINATION APPROACH

A tailored examination approach was developed using the guidance and standards of the *2015 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 during the Division's financial examination, to the extent deemed appropriate, to ensure that the 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. 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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 regarding company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service or claims. The examination indicated that the Company meets all tested Company policies, procedures and statutory requirements addressed in the examination. Further, the tested Company practices generally appear to meet industry best practices in these areas.

Recommendations and required actions noted in this examination are as follows:

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-7

Finding: The Company requires its agents to prequalify potential applicants for an acceptable credit-based insurance score. Prior to January 2015, if an applicant was ineligible during the prequalification process due to an unacceptable credit-based insurance score, the Company would send a Fair Credit Reporting Act ("FCRA") adverse action notice to the applicant and the agent. Beginning in January 2015, the Company only issued the FCRA adverse action notice to the applicant, if the agent took the application from the applicant, without first prequalifying him or her, and an ineligible score was received after the application was taken. Thus, after January 2015, applicants not meeting the minimum credit-based insurance score during the prequalification process did not receive a FCRA adverse action notice as required by the FCRA and M.G.L. c. 93, § 62.

Observation: Based upon review and testing, declinations for insurance coverage were not unfairly discriminatory.

Required Action: The Company shall revert to its pre-January 2015 practice of providing a FCRA adverse action notice to the applicant during the prequalification process, if the applicant does not meet the minimum credit-based insurance score, since the reason for terminating the insurance application process is the unacceptable credit-based insurance score. This practice will disclose the determination to the applicant, and will allow the applicant to review his or her credit history for accuracy and completeness in compliance with the FCRA and M.G.L. c. 93, § 62.

Subsequent Company Action: The Company agrees with the required action and has taken steps to implement it.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

STANDARD VI-8

Findings: Testing indicated that for two homeowners company-initiated cancellation notices, the reasons listed on the notices were not adequately specific as required by M.G.L. c.175, § 99. Also, testing indicated that for 14 homeowners non-renewal notices, the reasons listed on the notices were not adequately specific as required by M.G.L. c.175, § 193P.

Observations: Except as noted above, for the company-initiated cancellations and non-renewals tested, the Company provided timely and adequate notice to the policyholders with the specific reasons for the cancellations or non-renewals properly disclosed. The specific reasons were reasonable and in compliance with statutory requirements.

Required Actions: The Company shall develop new controls and procedures to ensure that specific reasons are included on company-initiated cancellation and non-renewal notices, and provide training and guidance to staff about these controls and procedures. Finally, the Company shall provide to the Division a summary of the Company's actions to address these required actions.

Subsequent Company Actions: The Company agrees with the required actions and has made changes to its controls and procedures to ensure that all company-initiated cancellation and non-renewal notices include specific reasons on the notices.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

COMPANY BACKGROUND

The Company is comprised of BCMIC, a mutual insurer, which owns 100% of BCIC, a stock insurer. Barnstable County Mutual Fire Insurance Company was incorporated in 1833 to provide fire insurance to the Cape Cod Area. In 1994, "Fire" was removed from the name to reflect BCMIC's portfolio of homeowners and personal umbrella liability products. The Company sells insurance only in Massachusetts, and BCIC solely writes business on Martha's Vineyard.

BCMIC's statutory surplus as of December 31, 2015 is \$80.0 million with statutory admitted assets of approximately \$100.9 million. BCIC's statutory surplus as of December 31, 2015 is \$20.6 million with statutory admitted assets of \$22.9 million. The Group is rated A (Excellent) by A.M. Best.

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

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

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

- The Company's statutory financial statements are audited annually by an independent auditor.
- The BCMIC's Board of Directors ("Board") and Audit Committee are responsible for compliance matters.
- The Board is comprised of 13 directors, including the President and Chief Executive Officer, and the Vice President and Chief Financial Officer. Of the remaining 11 directors, eight are independent directors.
- The Board has established Audit, Executive, Investment, Employee Benefits, Agency Marketing and Nominating Committees. The Audit Committee includes four independent directors and is responsible for market conduct compliance matters and financial oversight duties. The Audit Committee meets five to six times per year, and several of those meetings include participation by the Company's independent auditor.

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 corporate governance and external audit processes. Also, RNA reviewed the Board minutes.

Transaction Testing Results:

Findings: None.

Observations: The Board of Director minutes reviewed by RNA provided detailed information on corporate governance, actions, and general oversight.

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 ongoing statutory financial examination of the Company.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE 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 efforts. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's systems interface with software provided by the Insurance Services Office ("ISO") which checks all payees, policy applicants, and vendors against the Federal Specially Designated Nationals ("SDN") database as required by the Office of Foreign Asset Control ("OFAC"). The Company has developed policies and procedures to address exceptions noted through the SDN database in accordance with guidelines promulgated by OFAC and the Division.
- While the Company does not have an anti-fraud plan or a Special Investigation Unit function, the Company has developed procedures which identify claim "red flags" for special investigation. Independent adjusters provide fraud investigation services when needed. When fraud is suspected, it is reported to the Massachusetts Insurance Fraud Bureau ("IFB").
- All managers of the Company are annually required to attest that they meet the Conflict of Interest Policy and Code of Ethics.

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 reviewed Company policies and procedures to address antifraud initiatives as part of claims and underwriting testing and reviewed supporting documentation.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE 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.

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

- The Company's sales distribution is through independent agencies. The Company verifies that agencies are properly licensed as producers in Massachusetts prior to contracting with them. The Company's standard agent contract addresses agent authorities, premium accounting and remittance, contract termination, commissions, expense reimbursement limitations, and expirations ownership.
- The Company outsources certain information technology services to maintain the Company's communication networks and application systems.
- The Company outsources its claims investigation duties to independent adjusters and outsources inspection duties to qualified firms.
- The Company's legal duties are outsourced to various law firms and attorneys, who provide general corporate law assistance and claims litigation defense.

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 the standard agency contract as part of testing in producer licensing.

Transaction Testing Results:

Findings: None.

Observations: Based upon 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

Controls Reliance: See Standard I-5.

Transaction Testing Procedure: RNA interviewed management about its monitoring of third parties that perform Company functions. As part of producer licensing, new and renewal business, and claims testing, RNA reviewed documentation that supports monitoring procedures performed.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard I-7. Records are adequate, accessible, consistent and orderly and comply with record retention requirements.
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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 include 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 reviewed the Company's record retention policies 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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 addresses the Company's cooperation during 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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 addresses 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-17:

- The Company provides a short-form privacy notice with each new policy and annually at renewal. When questions about privacy arise, the Company has a long-form privacy notice, which is provided to the customer further explaining privacy policies and procedures. The Company also provides its internet privacy policy on its website.
- The Company does not share information with outside parties for marketing purposes, and thus no opt out notices to customers are necessary.
- The Company has developed an information security plan, which discusses privacy duties, safeguards, and procedures for privacy breaches.
- Company management states that it does not obtain investigative consumer reports on customers as part of underwriting, and that the Company does not conduct pretext interviews.
- Company policy requires that its information technology security practices safeguard nonpublic personal financial and health information.
- Only individuals approved by Company management are granted access to the Company's key electronic and operational areas where nonpublic personal, financial and health information is located.

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 insurance underwriting and claims testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, underwriting testing, 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review and testing, 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the Company provides a sufficient privacy notice to customers regarding 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 regarding 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.

Transaction Testing Results:

Findings: None.

Observations: The Company is not required to offer opt out rights, since the Company does not share information with non-affiliates.

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 addresses 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the maintenance of 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA reviewed documentation supporting the Company's information technology security policies and procedures. Review of information technology access and authorization controls is also included in the ongoing statutory financial examination of the Company.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's information technology security policies and procedures, it appears that the Company has implemented an information technology security program, which appears to provide reasonable assurance that its information technology 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 addresses the annual reporting of statutorily-required homeowners underwriting and claims data, and the Company's annual reporting of statutorily-required 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 underwriting and claims data for inclusion in the MCAS. The Company reviews the draft MCAS filings for unusual items, and makes changes to the draft filings as appropriate prior to submission of the MCAS to the NAIC.
- 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.

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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for underwriting and claims processing. RNA also reviewed the 2015 Massachusetts MCAS data for unusual results and data consistency. Finally, RNA reviewed the 2015 homeowners underwriting and claims data statutorily-required to be submitted to the Division.

Transaction Testing Results:

Findings: None.

Observations: RNA's review of the Company's 2015 Massachusetts MCAS data and the statutorily-required homeowners underwriting and claims data indicated that underwriting and claims data appeared reasonable and consistent with examination data.

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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 a written grievance. The Company attempts to resolve any customer questions or concerns to minimize the number of complaints. Complaints are directed to, and handled by, the Company's President.
- The Company maintains a complaint register with the necessary information to record, track, investigate, and resolve the complaint. The Company's policy is to address all complaints immediately and to meet the Division's response time directives. Agents may also provide complaints when their customers have concerns.
- While there is no formal tracking of complaint statistics, any significant complaints or indications of systemic concerns are to be reported to the Audit Committee.
- The Company does not use social media and does not use surveys to solicit comments from insureds and third party claimants.
- The Company provides a telephone number and address in its written responses to complaints and consumer 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 2015-2016 to evaluate the Company's compliance with statutory complaint requirements. RNA also reviewed the Company's complaint registers for 2015-2016 to determine whether they properly contained all Division complaints.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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 a summary of the sole complaint from 2015-2016 period, 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 review and testing, RNA noted that the Company has adequate procedures in place to address complaints, and adequately communicates such procedures to policyholders and 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 a summary of the sole complaint from 2015-2016 period, to evaluate the Company's efforts to properly dispose of complaints.

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

Observations: RNA noted that the Company fully addressed the issues raised in the complaint reviewed.

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 a summary of the sole complaint from 2015-2016 period, to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

Observations: The Company addressed the complaint timely. The Company appears to respond to complaints in a timely manner in accordance with its policies, procedures, and regulatory requirements.

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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 addresses 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 launched a marketing campaign in 2015 to increase the community's awareness of the Company, and to promote the benefits of doing business with a local mutual company. Print advertisements are placed in selected local lifestyle magazines.
- Outreach to independent agencies is through newsletters, quarterly postcards, and e-mails.
- The Company's independent agencies are prohibited from using the Company's name or logo in their sales and marketing efforts without prior approval from the Company's President.
- The Company discloses its name and address on its website.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for sales and marketing. RNA also reviewed the Company's website for disclosure of its name and address. Finally, RNA sought any sales and marketing materials noted as part of new and renewal business testing for any evidence of use of unapproved sales and marketing materials.

Transaction Testing Results:

Findings: None.

Observations: The Company's website disclosure complies with Division requirements. Finally, RNA noted no evidence of the use of unapproved sales materials as part of new and renewal business testing.

Recommendations: None.

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

Objective: This Standard addresses whether the Company's producer training materials meet 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:

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

- Producer sales and marketing training is tailored to meet the needs of the Company's independent agencies under contract with the Company.
- The relationship with each agency is managed by the Company's four underwriters, who act as the single point of contact, for all facets of the business including underwriting, claims examination, billing, and customer service. The underwriting manager supports the underwriters by addressing problems unresolved by the underwriters. In addition, the underwriting manager and underwriters will periodically visit each agency to address training needs.
- The Company provides five full-day trainings each year for agency producers at its home office.
- The Company employs a multi-pronged approach for agency communication including daily phone conversations between the agency producers and underwriter, postings to the Company's agency portal, emails, and newsletters.

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 sales and marketing, and for providing training to independent agents.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company's agency producer training process appears reasonable and appropriate.

Recommendations: None.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for sales and marketing, and for providing communications to independent agencies. RNA also reviewed any agency communications noted for reasonableness as part of new and renewal business testing.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

No work performed. This Standard is not covered in the scope of examination because the Company does not mass market property and casualty insurance in Massachusetts.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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 Standard IV-4:

- The Company's sales distribution is through independent agencies. The Company verifies that agencies are properly licensed as producers in Massachusetts, prior to contracting with them.
- Any prospective new agency appointments undergo thorough investigations including background checks. New agents are appointed using the Division's On-Line Producer Appointment ("OPRA") system.
- The Company's standard agency contract addresses agent authorities, premium accounting and remittance, contract termination, commissions, expense reimbursement limitations and expirations ownership.
- Although agency errors and omissions coverage is not contractually required, coverage is verified at the time of initial appointment and then annually thereafter by obtaining a copy of the policy declarations page.
- The Company completes an annual reconciliation of agency appointments with Division appointment data contained in OPRA. Any differences are investigated and addressed.

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 agency appointments. RNA selected 25 homeowners policies issued or renewed during the examination period, to determine whether the agency for each policy was included on the Division's list of the Company's appointed agencies.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's independent agencies were properly licensed and appointed at the date of sale, and the agency appointments were included in the Division's OPRA.

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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

- Producer sales and marketing training is tailored to meet the needs of the Company's independent agencies under contract with the Company.
- The relationship with each agency is managed by the Company's four underwriters, who act as the single point of contact for each agency for all facets of the business including underwriting, claims examination, billing, and customer service. The underwriting manager supports the underwriters by addressing problems unresolved by the underwriters. In addition, the underwriting manager and underwriters periodically visit each agency to address training needs.
- The Company provides five full-day trainings each year for agency producers at its home office.
- Independent agencies are solely responsible for maintaining their producer licensing and continuing education requirements.

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, agent appointments, and continuing education. RNA also reviewed the standard independent agency contract for responsibility related to agency continuing licensure requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review, independent agencies 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 producers in accordance with applicable statutes requiring notification to the state and the producer. See Appendix A for applicable statutes, regulations and bulletins.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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

- All Massachusetts agency terminations are processed through the Division's OPRA.
- The Company's policy is to give adequate written notice to all agencies whose appointments are terminated.
- The Company's policy is to give additional information to the Division about agencies whose appointments are terminated "for cause" including the reason for the termination.
- The Company completes an annual reconciliation of agency appointments with Division appointment data contained in OPRA. Any differences are investigated and addressed.

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 appointment termination processing. The Company did not terminate any agency appointments in 2015.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company's procedures for agency appointment terminations appear proper and reasonable.

Recommendations: None.

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 policies issued or renewed during the examination period, and review of agency appointment termination procedures, RNA reviewed documentation for any evidence of unfair discrimination against policyholders resulting from the Company's agency appointment and termination policies.

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

Observations: Based upon review testing, no evidence of unfair discrimination against policyholders was noted as a result of the Company's agency 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 producer 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 producer contracting and appointment termination processing. RNA reviewed the procedures for termination of agency appointments. No agency appointments were terminated in 2015.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company's procedures for processing agency appointment terminations appears proper and reasonable.

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's direct bills substantially all premium. Thus, excessive debit account balances are not a significant issue. If material debit account balances existed, they would be evaluated in the Division's ongoing statutory financial examination of the Company.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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 addresses 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 policy premiums are generally direct billed to customers, who may pay the premium in full, or make payments in installments. Payments are accepted using a check, money order, a credit card processed through the Company's website, or electronic funds transfer ("EFT"). A down payment of 20% is generally required.
- 2015 direct billed options include four-pay (over the first 120 days of coverage) and 10-pay via EFT. 2016 direct billed options include five-pay (over the first 120 days of coverage) and for EFT, a 20% down payment for new business with 10 remaining installments, with 12 monthly installments for renewal policies.
- Policy premiums directly billed are sent to customers approximately 20 days prior to the due date. The Company does not charge an installment fee. If payment is not timely received, a Notice of Intent to Cancel is sent to the customer, the agent, and any other required parties within five days of the missed installment due date, noting that coverage will be cancelled in 25 days if payment is not made. If payment is not made during that period, a Notice of Cancellation is sent to the agent.
- Reinstatement of policies requires review and approval by underwriting and would be granted with adequate payment history and receipt of a signed no-loss letter.
- The Company does not use premium finance for its customers.
- The Company's employees are available to answer questions from policyholders about billing.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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

Objective: This Standard addresses 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:

- Company policy is to cancel a policy upon notification from the agency producer of the policyholder's request, and to process premium refunds in a timely manner.
- All unearned premium is refunded to the policyholder 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 10 homeowners 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 appeared to be processed accurately and timely. Also, premium refunds appear to be returned 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:

- Any policy coverage changes must be requested through the agency producer, who will also bind the endorsement. Calls received from policyholders that require the agency producer's involvement are transferred to the agency to provide the policyholder with prompt service.
- Requests for loss history are provided to the customer by the Company or the agency, when requested.
- The Company will respond to mortgagee requests, and will correct errors in the policyholder's record, with notice to the agency.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

- Phone calls and emails received from policyholders during business hours are expected to be responded to immediately. Inquiries received from policyholders after hours are to be responded to the next business day.

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 reviewed correspondence in conjunction with underwriting, rating, and policyholder service standards. Additionally, RNA obtained documentation showing customer service correspondence in conjunction with new and renewal business, and claims testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon the review of the above information and review of general correspondence between policyholders and the Company regarding underwriting, rating, and policyholder service 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 has not entered into assumption reinsurance agreements.

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

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

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

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

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

bulletins.

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

- The Company has implemented procedures to locate lost owners via Company records, inquiries of agencies, and searches of public databases.
- For returned mail, the Company contacts the agencies for updated information and researches the address using Company records or public information to ensure that the address is correct.
- The Company's accounting department periodically reviews its outstanding check list when completing the monthly bank reconciliation. When a check has been outstanding for 90 days, a letter is sent to the payee at the last known address encouraging the payee to cash the check before it becomes stale-dated. After contacting the agency for updated mailing information, another letter is sent at 180 days informing the payee the check cannot be cashed, and to contact the Company for a replacement check. A final letter is sent when the check has been outstanding for three years, notifying the payee that if he or she does not contact the Company immediately for a replacement check, the check amount will be 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 with Company personnel the Company's procedures for locating missing policyholders and claimants, and for escheating funds, and reviewed supporting documentation.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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 loss history are provided to the customer by the Company or the agency, when requested.
- Phone calls and emails received from policyholders during business hours are expected to be responded to immediately. Inquiries received from policyholders after hours are to be responded to during the next business day.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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, VI-7, and VI-10:

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- The Company will accept any Acord Massachusetts-approved application forms, or its own application form for its homeowners, dwelling fire, and umbrella liability policies.
- The Company requires its agencies to prequalify potential applicants for insurance by submitting their names and addresses on the Company's web based portal. The applicant's name, mailing address, and risk location are submitted through the agency portal to evaluate distance to coast, loss history, and the applicant's credit-based insurance score. Agencies are notified of unacceptable risks, and they may appeal to the underwriter for an exception, which will be considered.
- Prior to January 2015, if an applicant was ineligible due to an unacceptable credit-based insurance score, the Company would send a FCRA adverse action notice to the applicant and the agency. Beginning in January 2015, the Company only issued the FCRA adverse action notice if the agency takes an application from the applicant, without first prequalifying him or her, and an ineligible score is received after the application is taken.
- If the Company declines to write a policy due to past loss history of the applicant, a letter is mailed to the applicant explaining the decision and providing information about how to correct inaccuracies.
- When the signed application and supporting information is received at the Company, they are reviewed by an underwriter. New business is produced by the appointed independent agencies and bound by them at the application date.
- The Company employs four underwriters, who underwrite and service business produced by an assigned group of agencies. Every risk is reviewed by underwriting, either through a rules-based automated review, or through manual review by an underwriter to identify any remaining concerns about the pre-qualified and bound risks.
- Within the first 60 days of coverage, all new business is subject to external inspections, and for rental properties, internal inspections. Also, oil or kerosene heated homes are subject to a heating inspection.
- Homeowners rating criteria include territory, coverage amount and type, property age, protection class, structure type, property age, as well as discounts for security features, safety features and higher deductibles. No price optimization software is used to underwrite or price the Company's policies.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

- The Company files its rates with the Division for approval to comply with statutory and regulatory requirements. Prior to implementing rate changes, new rates are subject to user testing.
- 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.

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 policies issued or renewed during the examination period, to test rate classifications and underlying policy information. For each of these test selections, RNA verified 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.
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Objective: This Standard addresses whether all mandated disclosures for rates and coverages are timely provided to insureds in accordance with statutes and regulations. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written policies and procedures for processing new and renewal business.
- The Company's supervisory procedures and system's controls are designed to ensure that new business submissions are accurate and complete, including the use of all Company-required forms and instructions.
- The Company's insurance policies and attachments 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 policies issued or renewed during the examination

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

period, to test for timely disclosure of rates and coverages.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company provides required rate and coverage disclosures to applicants 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 broker 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 agency commissions in accordance with written agency contracts.
- The Company's agency 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 commission processing and producer contracting. In conjunction with new and renewal business testing, RNA selected 25 homeowners policies issued or renewed during the examination period, to review commissions paid to agencies, and for indications of rebating, commission cutting or inducements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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 that all policy forms and endorsements be filed 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 policies issued or renewed during the examination period, to test for the use of approved policy forms and endorsements in compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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

- The Company has written underwriting and rating policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- Any changes in policy coverage must be requested through the agency.

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

Controls Assessment: See Standard VI-1.

Controls Reliance: See Standard VI-1.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA reviewed the procedures for declining risks to ensure that they are not unfairly discriminatory. RNA reviewed a summary of risks declined in 2015 and the reasons therefore, including risks declined for unacceptable credit-based insurance score.

Transaction Testing Results:

Finding: The Company requires its agents to prequalify potential applicants for an acceptable credit-based insurance score. Prior to January 2015, if an applicant was ineligible during the prequalification process due to an unacceptable credit-based insurance score, the Company would send a FCRA adverse action notice to the applicant and the agent. Beginning in January 2015, the Company only issued the FCRA adverse action notice to the applicant, if the agent took the application from the applicant, without first prequalifying him or her, and an ineligible score was received after the application was taken. Thus, after January 2015, applicants not meeting the

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

minimum credit-based insurance score during the prequalification process did not receive a FCRA adverse action notice as required by the FCRA and M.G.L. c. 93, § 62.

Observation: Based upon review and testing, declinations for insurance coverage were not unfairly discriminatory.

Required Action: The Company shall revert to its pre-January 2015 practice of providing a FCRA adverse action notice to the applicant during the prequalification process, if the applicant does not meet the minimum credit-based insurance score, since the reason for terminating the insurance application process is the unacceptable credit-based insurance score. This practice will disclose the determination to the applicant, and will allow the applicant to review his or her credit history for accuracy and completeness in compliance with the FCRA and M.G.L. c. 93, § 62.

Subsequent Company Action: The Company agrees with the required action and has taken steps to implement it.

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 procedures are reviewed 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 policy requires that written homeowners company-initiated cancellation notices and the specific reasons for the cancellations be sent to policyholders and agents at least 21 days prior to the cancellation effective date.
- Company policy requires that written homeowners non-renewal notices and the specific reasons for the non-renewals be sent to policyholders and agents at least 45 days prior to the policy non-renewal effective date.

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 company-initiated cancellations and 25 homeowners non-renewals for testing. All transactions were evaluated for compliance with statutory requirements.

Transaction Testing Results:

Findings: Testing indicated that for two homeowners company-initiated cancellation notices, the reasons listed on the notices were not adequately specific as required by M.G.L. c.175, § 99. Also, testing indicated that for 14 homeowners non-renewal notices, the reasons listed on the notices were not adequately specific as required by M.G.L. c.175, § 193P.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

Observations: Except as noted above, for the company-initiated cancellations and non-renewals tested, the Company provided timely and adequate notice to the policyholders with the specific reasons for the cancellations or non-renewals properly disclosed. The specific reasons were reasonable and in compliance with statutory requirements.

Required Actions: The Company shall develop new controls and procedures to ensure that specific reasons are included on company-initiated cancellation and non-renewal notices, and provide training and guidance to staff about these controls and procedures. Finally, the Company shall provide to the Division a summary of the Company's actions to address these required actions.

Subsequent Company Actions: The Company agrees with the required actions and has made changes to its controls and procedures to ensure that all company-initiated cancellation and non-renewal notices include specific reasons on the notices.

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

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 states that it 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. RNA inquired about the extent of Massachusetts rescissions during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company does not rescind coverage. As such, the Company's policies and procedures appear reasonable.

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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 Company does not write commercial lines business.

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

No work performed. This Standard is not covered in the scope of examination as the Company does not write commercial 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 Company does not write commercial 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 Company does not write commercial lines business.

Standard VI-15. Verification of loss reporting.

No work performed. This Standard is not covered in the scope of examination as the Company does not write commercial 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 Company does not write commercial lines business.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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 in accordance with statutory requirements.
- Written Company policies and procedures are designed to reasonably assure consistency in the application of underwriting guidelines, rating classifications, premium discounts, and surcharges determined at, or near, the inception of coverage.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.

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 policies issued or renewed during the examination period to test whether underwriting, rating and classification are based on adequate information developed at, or near, inception of coverage. RNA also sought evidence of complaints to ensure that underwriting is completed at or near inception of the coverage.

Transaction Testing Results:

Findings: None.

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

Recommendation: None.

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

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

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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

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

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

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

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.

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 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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 because the Company does not mass market property and casualty insurance in Massachusetts.

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 has processes to reconcile statistical and financial data, to correct data coding errors, and to make subsequent reporting changes, as needed.
- The Company's policy is to report complete and accurate premium data quarterly in the required formats to ISO.

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 policies issued or renewed during the examination period, to test data coding for selected policy determinants.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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.
- Agencies submit signed applications electronically to the new business processing area.
- Underwriting systems controls are designed to ensure electronic applications are complete.

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 18 homeowners policies issued during the examination period, to test whether the applications were properly completed, and whether policy files adequately support the Company's decisions.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, applications were properly completed, and policy files adequately supported the Company's decisions.

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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 and through Standard VII-13:

- Written policies and procedures govern the claims handling process. The Company's claims function is managed by the claims manager. The Company's four underwriters serve as claims examiners, who are assigned claims according to the same agencies they support for underwriting.
- New claims and correspondence for current claims are received via phone, fax, email, or the Company's website. Policyholders typically contact their agency producer to report property claims, and the agency producer completes and submits the first notice of loss through the Company's website, detailing policy and loss information.
- The Company also maintains relationships with four independent adjusting firms and four disaster response firms to ensure it has sufficient capacity to handle storms or catastrophes. The Company provides written service standards to its loss adjusting partners. The service standards define the Company's expectations regarding the scope and timeliness of work.
- The independent adjusters must make an initial contact with claimants within 24 hours of receiving the first loss notice. Claims are investigated to determine the cause of loss, and an initial liability determination is made with an estimate for the reserve.
- The claims manager monitors claims activity throughout its processing using diaries, email, and verbal contact with the underwriters and independent adjusters.
- The independent adjusters provide any required notices to local building inspectors when property damage exceeds \$1,000, and copies of the notices are provided to the Company in the independent adjusters' reports.
- Independent adjusters and the claims manager are trained to judgmentally make bodily injury evaluations, and to document their damages analyses in summary narratives and in estimates of fair settlement ranges that support their conclusions.
- The Company engages outside counsel when claimants are represented by counsel, or if the Company is served with a legal summons or complaint.
- The Company uses ISO ClaimSearch to screen all third party claim payments against the OFAC SDN list. The Company has developed procedures which identify claim "red flags" for investigation of potential fraud. Independent adjusters also provide fraud investigation services when needed. Bodily injury claims are matched against ISO ClaimSearch. When fraud is strongly suspected, it is reported to the IFB.
- Reservation of rights and excess loss letters are issued when potential coverage issues arise.
- Any necessary Massachusetts Department of Revenue intercept checks, Medicare and Medicaid checks and ISO delinquent child support checks are completed by the Company and documented in the claims files.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

- Third party property damage claimants are generally required to sign a liability release. Releases are also routinely required from third party bodily injury claimants.
- Signed proof of loss statements may be obtained for large loss settlements.
- Claim status is monitored by the Company through the receipt of status reports from independent adjusters and defense counsel, and through use of claims aging diaries reminding management of specific action steps needed.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its 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. RNA verified the date each selected claim was recorded by the Company, and noted whether the initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was recorded 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.

<u>Standard VII-2. Timely investigations are conducted.</u>
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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. 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

Observations: Based upon testing, claims were investigated timely according to the Company's policies and statutory requirements.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 24 paid claims, six denied or closed-without-payment claims, and 20 open claims for testing. RNA tested each selected claim noting whether the claims were resolved in a timely manner.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was resolved in a timely manner in accordance with Company's policies and statutory requirements related to timely handling. Based upon testing, it appears that the Company's processes for timely handling claims are generally 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. RNA tested each selected claim noting whether the Company timely responded to general claim correspondence.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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 providing timely responses to general claims correspondence are functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 24 paid claims, six denied or closed-without-payment claims, and 20 open claims for testing. RNA reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was adequately documented according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for documenting claim files are functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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. 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 complaint log for complaints that were claim-related noting no such complaints.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was handled according to policy provisions and statutory requirements. Based upon testing, it appears that the Company handles claims in accordance with policy provisions and statutory requirements.

Recommendations: None.

<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. RNA reviewed the file for each selected claim, and verified that required claim forms were appropriately used.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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. RNA reviewed the file for each selected claim, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner. The Division's financial examiners and actuaries also evaluate reserving in conjunction with the ongoing financial examination of the Company.

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.

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 claims for testing. RNA evaluated whether the Company handled these claims timely and properly before closing or denying them.

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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. Full claim settlement attestation is required for certain liability claims through a written settlement agreement. Based upon review, it appears that the Company's processes for issuing claim payment checks are appropriate and functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected homeowners claims

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

including 24 paid claims, six denied or closed-without-payment claims, and 20 open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim practices appeared to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and whether the Company attempted to settle claims for less than reasonable amounts due under the policies.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 24 paid claims, six denied or closed-without-payment claims, and 20 open claims for testing. RNA reviewed the file for each selected claim, and noted whether reservation of rights or excess of loss letters were warranted and issued as appropriate.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted two homeowners claims where reservation of rights letters were issued, and no claims where excess of loss letters were used. The use of the reservation of rights letters appeared appropriate. RNA noted no instances where reservation of rights or excess of loss letters should have been used, but were not. Based upon review and testing, it appears that the Company's processes for utilizing reservation of rights and excess of loss letters are generally functioning in accordance with its policies and procedures.

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

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. RNA reviewed each selected claim file, and noted whether deductible reimbursement to insureds upon subrogation recoveries were reasonably timely and accurate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted no subrogation recoveries in the claims tested, and as such, no deductible reimbursement to insureds was required. Based upon review and testing, it appears that the Company's processes for making deductible reimbursement to insureds upon subrogation recoveries are functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

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

- Company policy is to report complete and accurate loss data timely in the required format to ISO.
- Claim statistical data is provided quarterly from claim system to ISO.
- The Company has processes to reconcile statistical and financial data, to correct data coding errors, and to make subsequent reporting changes, as needed.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 24 paid claims, six denied or closed-without-payment claims, and 20 open claims for testing. RNA reviewed each selected claim file and noted whether selected loss data was accurate and

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

complete.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

SUMMARY

Based upon the procedures performed in this examination, RNA has reviewed and tested Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims as set forth in the *2015 NAIC Market Regulation Handbooks*, 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 Underwriting and Rating.

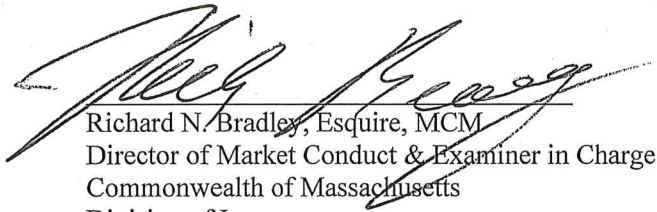
REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY
BARNSTABLE COUNTY INSURANCE COMPANY

ACKNOWLEDGEMENT

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

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

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



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

