


STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
DEPARTMENT OF BUSINESS REGULATION  
INSURANCE DIVISION

The attached Report of Examination as of June 30, 2004 of the market conduct condition and affairs of Cambridge Mutual Fire Insurance Company and Merrimack Mutual Fire Insurance Company was recently completed by duly qualified examiners, pursuant to the provision of the Rhode Island Insurance Code.

Due consideration has been given to the comments of the examiners regarding the operations of Cambridge Mutual Fire Insurance Company and Merrimack Mutual Fire Insurance Company and its market conduct condition as reflected from the examination report.

It is therefore ORDERED that said Report be, and it is hereby adopted and filed and made an official record of this department as of this date.

DEPARTMENT OF BUSINESS REGULATION

  
Marilyn Shannon McConaghy  
Director/Insurance Commissioner

ORDER NO. 04-357

DATED: November 24, 2004

REPORT ON

THE MARKET CONDUCT EXAMINATION

OF

**Merrimack Mutual Fire Insurance Company**  
**Cambridge Mutual Fire Insurance Company**

*as of*

**June 30, 2004**

State of Rhode Island  
Department of Business Regulation  
Insurance Division

## TABLE OF CONTENTS

	<b>Page Number</b>
Salutation	3
Foreword	3
Scope of Examination	4
Profile of Companies	4
Claim Practices	6
Homeowners	6
Summary of Recommendations	8
Conclusion	9

Providence, Rhode Island

November 3, 2004

Honorable Marilyn Shannon McConaghy  
Insurance Commissioner  
State of Rhode Island

Dear Commissioner:

In accordance with your instructions and pursuant to the statutes of the State of Rhode Island, a Market Conduct Examination was conducted of the:

**Merrimack Mutual Fire Insurance Company  
Cambridge Mutual Fire Insurance Company  
95 Old River Road  
Andover, Massachusetts 01810-1078**

hereinafter referred to as the "Companies".

The examination was conducted at the home office of the Companies, which is located at 95 Old River Road, Andover, Massachusetts.

#### **FOREWORD**

Our Market Conduct Examination Report is, in general, a report by exception. Information relating to practices, procedures, and/or files subject to review during our examination, has been omitted from the report if errors and/or improprieties were not evidenced.

## **SCOPE OF EXAMINATION**

Authority for this examination is provided by R. I. Gen. Laws §27-13-1 and §27-13.1-3. The examination covered the period from January 1, 2003, through June 30, 2004, and was conducted in accordance with standards established by the National Association of Insurance Commissioners, as well as, procedures developed by the Rhode Island Department of Business Regulation, Insurance Division.

The examination encompassed the review of the following areas: Claims, Complaints, Cancellations and Nonrenewal Practices. The lines of business examined were homeowners.

The primary purpose of the examination was to evaluate the Companies' compliance with Rhode Island General Laws and Insurance Regulations, and to determine whether Rhode Island insureds and claimants were being treated equitably. The test work performed during the examination satisfied this purpose, and forms the basis for the findings and recommendations presented in this report. The examination consisted of verification and evaluation, on a test basis, of information contained in the insurers' files.

## **PROFILE OF COMPANIES**

### **Merrimack Mutual Fire Insurance Company**

#### **History**

Merrimack Mutual Fire Insurance Company is a mutual property/casualty insurance company organized under the laws of Massachusetts. The company was incorporated in February 1828 and commenced business on April 8, 1828. The Company's home office is located in Andover, Massachusetts.

The Company is represented by approximately 1,100 local independent agencies. The Company is licensed in 15 states and writes business in the states of Massachusetts, New York, New Jersey, Rhode Island, Connecticut, Maine, Illinois and New Hampshire.

### **Operations**

The Company's Rhode Island direct written premiums for the year 2003 were as follows:

<u>Line of Business</u>	<u>Direct Written Premium</u>
Homeowners multiple peril	\$5,602,032

### **Management**

The management of the Merrimack Mutual Fire Insurance Company is under the direction of experienced insurance executives, who have spent the greater part of their business careers in the insurance industry.

At December 31, 2003, the Officers of the Company were as follows: William Edward Nichols, (President and Treasurer), Malcolm Wayne Brawn, (Secretary).

### **Cambridge Mutual Fire Insurance Company**

Cambridge Mutual Fire Insurance Company is a mutual property/casualty insurance company organized under the laws of Massachusetts. The company was incorporated in March of 1833 and commenced business in January, 1834. The Company's home office is located in Andover, Massachusetts.

The Company is represented by approximately 1,100 local independent agencies. The Company is licensed in 15 states and writes business in the states of Massachusetts, New York, New Jersey, Rhode Island, Connecticut, Maine, Illinois and New Hampshire.

### **Operations**

The Company's Rhode Island direct written premiums for the year 2003 were as follows:

<u>Line of Business</u>	<u>Direct Written Premium</u>
Homeowners multiple peril	\$3,852,776

## **Management**

The management of the Cambridge Mutual Fire Insurance Company is under the direction of experienced insurance executives, who have spent the greater part of their business careers in the insurance industry.

At December 31, 2003, the officers of the Company were as follows: William Edward Nichols, (President and Treasurer), Malcolm Wayne Brawn, (Secretary).

## **CLAIM PRACTICES**

### **Homeowners**

A review of the Companies' homeowner claim practices for the period under examination was conducted to determine whether the Companies complied with the applicable provisions of its homeowner policy, did not misrepresent policyholders' rights, acknowledged pertinent communications regarding claims, made prompt investigation of claims and made fair and equitable settlement of claims. In addition, the review was performed to evaluate whether the Companies were in compliance with R. I. Gen. Laws §27-5-3, §27-9.1-4, §27-29-3, §27-57-1 and Rhode Island Insurance Regulation 73.

The Companies provided the examiners with a listing of claims closed with and without payment during the period under examination. This population was 1,241, of which 898 were paid claims and 343 were claims closed without payment. A sample of 50 homeowner claim files was selected for review, which consisted of 38 paid and 12 closed without payment claims.

During our testing, the examiners noted seven claim files in which the Companies did not forward a written acknowledgement of the claim within 10 days of notification of loss, as required by Rhode Island Insurance Regulation R27-73-005.D. Therefore, the Companies were in violation of Rhode Island Insurance Regulation R27-73-005.D. It should be noted that the seven files contained documentation that contact was made by the adjuster with the claimant within 24 hours in accordance with the Companies' procedures. Early in 2004, the Companies advised their adjusters that a written

acknowledgement of the loss would be sent directly from the Companies' home office to the claimant on the date the loss notice is received.

**Recommendation # 1:** It is recommended that the Companies monitor their claims handling procedures to ensure compliance with Rhode Island Insurance Regulation R27-73-005.D.



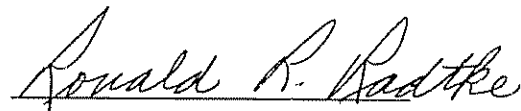
	<u>Summary of Recommendation(s)</u>	
<b>1.</b>	<b>Recommendation # 1:</b> It is recommended that the Companies monitor their claims handling procedures to ensure compliance with Rhode Island Insurance Regulation R27-73-005.D.	<b>Page #</b> <b>7</b>

## CONCLUSION

We have applied verification procedures to the data contained in this report using both subjective and statistical sampling techniques as deemed appropriate. While sampling techniques do not give complete assurance that all errors and irregularities will be detected, those that were detected during the course of this examination have been disclosed in this report. We were not informed of, and did not become aware of any other error or irregularity that could have a material effect on the market conduct condition of the Company as presented in this report.

Assisting the undersigned in the conduct of this examination, was Robert G. Arrow, FLMI, Senior Market Conduct Examiner.

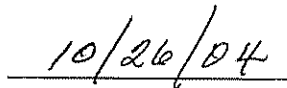
Respectfully submitted,



Ronald R. Radtke

Senior Market Conduct Examiner

Rhode Island Insurance Division



Date