STATE OF RHODE ISLAND
DEPARTMENT OF BUSINESS REGULATION
INSURANCE DIVISION

The attached Report of Examination as of December 31, 1995, of the condition and affairs of Quincy Mutual Fire Insurance Company was recently completed by duly qualified examiners, pursuant to provisions of the Rhode Island Insurance Code.

Due consideration has been given to the comments of the examiners regarding the operation of the Quincy Mutual Fire Insurance Company and its market conduct condition as reflected from the 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

Barry G. Hittner
Director/Insurance Commissioner

ORDER NO. 97-0034
DATED: June 6, 1997

REPORT ON

MARKET CONDUCT EXAMINATION

OF

QUINCY MUTUAL FIRE INSURANCE COMPANY

(NAIC COMPANY CODE 15067)

AS OF
DECEMBER 31, 1995

INSURANCE DIVISION
DEPARTMENT OF BUSINESS REGULATION
STATE OF RHODE ISLAND

TABLE OF CONTENTS

PROVIDENCE, RHODE ISLAND

April 21, 1997

Honorable Barry G. Hittner
Insurance Commissioner
State of Rhode Island

Dear Sir:

In accordance with your instructions and pursuant to Title 27, Chapters 13 and 13.1 of the General Laws of Rhode Island, a Market Conduct Examination was conducted of the:

Quincy Mutual Fire Insurance Company

57 Washington Street

Quincy, Massachusetts 02269-0149

which is hereinafter referred to as the "Company" or "Quincy Mutual." Our report is submitted as follows:

FOREWORD

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

SCOPE OF EXAMINATION

We conducted our examination in accordance with Title 27 Chapters 13 and 13.1 of the General Laws of Rhode Island. The examination covers the period from January 1, 1994, through December 31, 1995. Performance of the examination was in accordance with standards established by the National Association of Insurance Commissioners and procedures developed by the Rhode Island Department of Business Regulation, Insurance Division. The examination was conducted at the Company's office located at 57 Washington Street in Quincy, Massachusetts.

Areas examined include: Certificate of Authority, Consumer or Other Related Complaints, Producer Licensing, Underwriting and Rating, Cancellations and Nonrenewals, and Claim Practices. The lines of business examined were Homeowners and Personal Automobile.

The primary purpose of the examination was to evaluate the Company's compliance with Rhode Island Insurance Laws and Regulations, and to determine whether Rhode Island policyholders and claimants are being treated equitably and fairly. The test work performed during the examination satisfied this purpose, and forms the basis for the findings and recommendations presented in this report.

COMPANY OVERVIEW

History

Quincy Mutual was incorporated by the Commonwealth of Massachusetts in March of 1851. Business written by the Company was initially conducted strictly in Massachusetts. In 1853, the Company began expanding its territory, ultimately operating in twenty (20) states located primarily along the Atlantic and Gulf coasts.

Gradually the Company withdrew from twelve (12) states, and in the 1980's, became a regional company with operations in the six New England states, New York and New Jersey. In 1996, the Company continues to be well established in all eight (8) of these states.

Since its inception, the Company has maintained its office and all operations in Quincy, Massachusetts. In 1931 the Company built and occupied its own building at the present site, and the Company's facilities were expanded in 1954, and again in 1993. The Company is represented by a service company in New Jersey for commercial lines.

Company Operations

Quincy Mutual writes personal lines (homeowners, dwelling fire and inland marine) in all eight (8) states where it currently operates. It writes personal auto in five (5) states - Rhode Island, Connecticut, Massachusetts, New Hampshire and Maine.

The Company writes commercial lines (businessowners policies, commercial multi-peril and inland marine) in all eight states. It writes commercial auto in Massachusetts and New Hampshire. A filing to write commercial auto has been approved in Rhode Island, but the Company has not yet begun to actively write this coverage.

The Company's marketing is, as it has been throughout its history, exclusively with the American Agency system of independent insurance agents.

The Company's 1995 direct written premiums by line of business were as follows:

Line of Business	Premiums Written
Fire	$ 299,446
Allied Lines	279,845
Homeowners Multiple Peril	4,355,993
Commercial Multiple Peril (non-liability)	431,329
Commercial Multiple Peril (liability)	258,369
Inland Marine	11,736
Other Private Passenger Auto Liability	5,331,130
Private Passenger Auto Physical Damage	3,779,723
Totals	**$14,747,571**

MANAGEMENT

On December 31, 1995, the Company was managed by the following individuals:

Chairman of the Board and Chief Executive Officer	Karl L. Briggs
President and Treasurer	Karl D. Briggs
Secretary and Vice President	Kevin M. Meskell
Vice President	Roger B. Brooks
Vice President	Thomas A. Harris
Vice President	Robert A. Houghton

CERTIFICATE OF AUTHORITY

The Company's Rhode Island Certificate of Authority was reviewed in conjunction with an examination of the Company's Rhode Island operations, in order to determine whether during the period under examination, the Company was in compliance with Section 27-2-11 of the General Laws of Rhode Island. In addition, a review was performed to determine whether the Company was in compliance with its own Certificate of Authority and to assess whether the Company has transacted business through lawfully constituted and licensed producers.

Quincy Mutual is licensed in the State of Rhode Island to write fire, marine (except ocean), boiler (no inspector), worker's compensation, property damage, glass, sprinkler leakage, water damage, burglary, robbery, theft, and automobile insurance.

A review of this area indicated that operations of the Company during the period under examination were in compliance with the Company's Certificate of Authority.

CONSUMER OR OTHER RELATED COMPLAINTS

A review of Quincy Mutual's Consumer or Other Related Complaints register for the period under examination was conducted to determine whether actions taken by the Company were in compliance with Section 27-29-3 of the General Laws of Rhode Island, and any other applicable Rhode Island Laws and Regulations. The review was also conducted to assess the Company's compliance with its established complaint handling procedures and applicable policy contract provisions, to determine whether complaints were processed and resolved in a timely manner, and to determine whether a pattern existed in the types of complaints generated by the Company's operations.

For the years 1994 and 1995, six (6) complaints relative to Quincy Mutual's operations were directed by the complainant to the Rhode Island Insurance Division. Complaints are defined by Section 27-29-4(13) of the General Laws of Rhode Island, as any written communication primarily expressing a grievance. All but one (1) of the six (6) complaints were listed on Quincy Mutual's complaint register, as required by Section 27-29-4(13) of the General Laws of Rhode Island. It was also noted during the review of the Company's complaint register that only complaints directed to the Company by the Rhode Island Insurance Division were logged on the complaint register, which is in violation of Section 27-29-3 of the General Laws of Rhode Island.

The Company has agreed in writing to log all future complaints, regardless of the source, on its complaint register.

Once the omission was brought to the Company's attention, the one (1) complaint which was not listed on Quincy Mutual's complaint register was located in the related complaint file. A review of this complaint file indicated that the Company had processed the original claim in accordance with the policy contract and applicable Rhode Island Law, therefore, the exclusion of this complaint on the Company's complaint register appears to be an unintentional oversight.

The five (5) complaints on the Company's complaint register were reviewed, and found to have been handled in accordance with applicable policy contract language and Rhode Island Laws and Regulations.

UNDERWRITING AND RATE APPLICATION

Homeowners

A review of the Company's Homeowners Underwriting and Rating practices for new business written during the period under examination was performed to determine whether the Company's

underwriting and rating procedures were in compliance with the following: Sections 27-2-17(c), 27-5, 27-6, 27-9-7, and Section 27-44-5 of the General Laws of Rhode Island and Rhode Island Insurance Regulation XXII. The examination was also performed to determine whether new policies were underwritten and rated in compliance with the Company's underwriting and rating guidelines and procedures.

During the period under examination, the Company issued 3,569 new homeowner policies to Rhode Island residents. From the population of new business written, a sample of one hundred and nineteen (119) policy files was selected for review. Of the one hundred and nineteen (119) policy files selected for review, eighteen (18) files were tested by manually re-rating each policy. The remaining one hundred and one (101) items in the sample were tested for proper rating by verifying the correct application of each rating factor to the computer generated premium. The manual re-rating work performed resulted in two (2) exceptions wherein the Company had charged the insured the incorrect premium.

The first exception was a result of the Company's use of the incorrect territory classification, protection class and premium group, in the rating of the policy, which resulted in an undercharge to the insured. The Company indicated that it was their former practice to take the information supplied by the producer, as correct. Quincy Mutual now verifies the territory classification, protection class and premium group on all new business written. The Company is also working on automating their systems to allow for the automatic application of the correct territory and protection classification whenever new and renewal business is entered into the Company's computer system.

The second exception resulted when the Company used the incorrect protection classification and the incorrect edition of the "Quality Coverage Endorsement" (QEE1), which is an endorsement to increase coverage for personal property and which provides additional coverages such as lock

replacement and refrigerated products coverage, etc. Edition 6/92 of the (QEE1) was provided to the insured instead of the 6/94 edition, which should have been used. The 6/94 edition provided additional coverage and required an increase in premium of ten dollars ($10.00). The Company provided an explanation to this finding, explaining that in August of 1994, an amended Quality Coverage Endorsement was filed with the Rhode Island Insurance Division, which also increased the premium by ten dollars ($10.00). In error, the Company processed several policies with the old edition date of the form, and the lower ($25.00 versus $35.00) premium charge. Because the latter form broadened coverage for the insured, the Company corrected every policy affected, and waived the additional fee until policy renewal.

Four (4) of the manually re-rated policies were found to have incorrect public protection classifications, however, the errors did not affect the policy premium.

The remaining one hundred and one (101) items in the sample generated the following twenty-four (24) exceptions:

Nineteen (19) policies contained the incorrect protection class for the insured premises. None of these errors affected the policy premium.

One (1) policy contained the incorrect territory classification and premium group. If this policy were re-rated with the correct territory classification, the result would have been an increase in premium, therefore, the Company will make the necessary correction and premium charge at policy renewal.

Four (4) policies contained coverage for Builder's Risk (Endorsement QMBR Theft Coverage Dwelling Under Construction) which requires an additional premium of one hundred dollars ($100.00). The Company was unable to provide documentation that the QMBR Endorsement

and premium charge of $100.00 was filed with and approved by the Rhode Island Insurance Division, as required by Section 27-6-8 of the General Laws of Rhode Island.

The Company stated that a filing was probably made by their marketing department in 1987, but they could not locate the filing or the approval. The current company procedure is to have all filings for any internal department handled through the Business Analysts, and all filings must be maintained in one central location.

It is recommended that the Company determine whether the QMBR endorsement and premium charge was actually filed with the Rhode Island Department of Business Regulation. If the filing has not been made, it is recommended that the Company file the endorsement and premium charge for the QMBR endorsement with the Rhode Island Department of Business Regulation.

Personal Automobile

A review of the Company's Rhode Island Personal Automobile Underwriting and Rating for the period under examination was performed to determine whether the new policies were underwritten and rated in compliance with the Company's formal underwriting and rating guidelines and procedures. The review is also performed to assess the Company's compliance with Sections 27-2-17, 27-7-2.5, 27-9, 27-29-14, and Section 27-44 of the General Laws of Rhode Island. The Company's compliance with the following Insurance Regulations is also assessed: Regulation III , Regulation X, Regulation XXII, Regulation XXV, Regulation XLV (superseded 5/28/94 by Regulation LXXXIV), Regulation LIII, Regulation LXXX, and Regulation LXXXIV (effective 5/28/94).

During the period under examination, the Company issued 4,074 new personal automobile policies to Rhode Island residents. From this number, a sample of one hundred and twenty (120)

policy files was selected. The sample selected contained fifty-three (53) assigned risk policies, for which no test work was performed, since this underwriting and rating is not performed by the Company. The remaining sixty-seven (67) policies were tested, ten (10) of those being manually re-rated to test the Company's computerized rating. All ten (10) of the policies which were tested were found to have been rated properly.

The review of the Company's underwriting resulted in the following exceptions:

Three (3) policies contained incorrect vehicle symbols; two (2) of the policies with the incorrect symbol were overcharged and the remaining policy was undercharged. One (1) policy did not contain all of the premium credits for passive restraints and an anti-theft device.

The four exceptions noted above are considered non-compliance with Section 27-44-5 (f) (3) of the General Laws of Rhode Island, which states in part... "that a misclassification of a risk shall be considered an adjustment without adequate justification." Quincy Mutual has taken action to correct the overcharges on these policies by issuing the appropriate credit to the policy premium. The policy which was undercharged will be corrected at renewal.

One (1) policy reviewed, which had two vehicles covered under the policy, did not contain Uninsured Motorist Property Damage Coverage on the vehicle for which the coverage was requested by the insured. Instead, the Company provided the coverage on the other vehicle on the policy, which already had collision coverage and was a higher priced vehicle. The Company corrected their error by endorsing the policy, applying the coverage to the appropriate vehicle, and crediting the policy premium for the overcharge.

One (1) policy contained an anti-theft credit for an anti-theft device which was not properly documented by the Company, and one (1) policy was credited with a discount for anti-lock

brakes, however evidence of the vehicle being equipped with anti-lock brakes was not obtained by the Company.

It is recommended that the Company delete the anti-theft credit and the anti-lock brake credits at renewal for the vehicles on these policies, unless it receives evidence of the devices on these vehicles.

Two (2) policies contained incorrect territory codes, however the errors did not impact the policy premium. The Company's new systems will correct the coding at renewal, therefore no further action is necessary.

One (1) policy was written in the Company's standard program, although the risk appears to have qualified for the preferred program, which would have resulted in a lower premium. This policy appears to have been written in non-compliance with the Company's underwriting guidelines, as filed in accordance with Regulation LXXX (Underwriting Standards and Guidelines).

It is recommended that the Company re-evaluate this policy to determine whether it is unfairly discriminatory to classify this policy as standard, when it appears to qualify for preferred rating. Any premium adjustments relating to reclassification should be credited to the policy back to the original date of issuance of the policy.

CANCELLATIONS AND NONRENEWALS

Homeowners Cancellations and Nonrenewals

The Company's Cancellation and Nonrenewal Practices for homeowner policies during the period under examination were reviewed to determine whether the Company was in compliance

with Section 27-5-3.4 of the General Laws of Rhode Island. The examination was also conducted to assess the Company's compliance with the cancellation and nonrenewal provisions of its homeowner policy contracts.

From the population of eighty-one (81) company initiated homeowner cancellations and nonrenewals (thirty-nine (39) were cancellations and forty-two (42) were nonrenewals), a sample of thirteen (13) cancellations and twenty-one (21) nonrenewals was selected for review, representing forty-two percent (42%) of the population.

The results of the review indicate that the Company is processing homeowner cancellations and nonrenewals in compliance with its policy contract language, and Section 27-5-3.4 of the General Laws of Rhode Island.

Personal Automobile Cancellations

An examination of the Company's personal automobile cancellation practices was conducted to assess whether, during the period under examination, the Company was in compliance with Rhode Island Insurance Regulation XVI and Section 31-47-4 of the General Laws of Rhode Island. The examination was also performed to assess the Company's compliance with its own personal automobile policy contract and underwriting guidelines.

From a population of one hundred and forty-three (143) cancellations initiated by the Company during the period under examination, a sample of twenty-two (22) cancellations was selected for review, representing fifteen percent (15%) of the population.

The results of the review indicate that during the period under examination, the Company processed its personal automobile cancellations in compliance with applicable Rhode Island

Laws and Regulations, and in compliance with its own policy contract and underwriting guidelines.

Personal Automobile Nonrenewals

A review of the Company's Personal Automobile Nonrenewals for the period under examination was performed to determine whether the Company was in compliance with the applicable provisions of its personal automobile policy, Section 31-47 of the General Laws of Rhode Island and Regulation XVI.

From a population of two hundred and ninety-eight (298) personal automobile nonrenewals, one hundred and two (102) Company initiated personal automobile policy nonrenewals were identified. A sample of twenty (20) nonrenewals or twenty percent (20%) of the Company initiated nonrenewals population was selected for review.

Based upon the results of this review, it appears that during the period under examination, the Company has processed personal automobile nonrenewals in compliance with its own underwriting guidelines and in compliance with Rhode Island Laws and Regulations.

CLAIM PRACTICES

Homeowners

A review of the Homeowners Paid Claims and Closed Without Payment Claims was performed to determine whether during the period under examination, the Company complied with all applicable provisions of its homeowners policies, properly represented policyholder's rights, acknowledged pertinent communications regarding claims, made prompt investigations of

claims, used properly licensed claim adjusters, and made fair and equitable settlements of claims in compliance with Sections 27-5-3, 27-8-12, 27-9.1-4, 27-10-1, 27-10-6, and 27-10-8 of the General Laws of Rhode Island, and Rhode Island Insurance Regulation XXVIII (superseded 2/14/94 by Regulation LXXIII).

The Company processed 1,699 homeowner claims during the period under examination. One thousand three hundred and fifty-five (1,355) were paid claims, and three hundred and forty-four (344) were claims that were opened but closed without payment. From the population of paid homeowner claims and closed without payment homeowner claims, a sample of one hundred and fifteen (115) claims was selected for review.

The review indicated that with the exception of one (1) claim, all claims were processed by the Company in compliance with applicable Rhode Island Laws and Regulations, the Company's policy contract, and the Company's claim processing guidelines. The one (1) claim exception resulted when the Company collected partial subrogation from the liable third party, and in error, reimbursed a pro rata share of their recovery to their insured instead of the full amount of the insured's deductible. Section 27-8-12 of the General Laws of Rhode Island, requires the Company to "first pay to the insured the deductible portion of the casualty loss less the prorated share of the subrogation expenses...". Since there were no subrogation expenses involved in the collection of subrogation, the Company should have paid the insured for the entire deductible.

Upon notification of this finding, the Company immediately paid the insured for the additional funds owed due to this error. The Company confirmed that this error was an oversight, and that the Company is aware of the provisions of Section 27-8-12 of the General Laws of Rhode Island, and is following the provisions of this law whenever subrogation proceeds are collected.

Personal Automobile

A review of the Company's Personal Automobile Paid Claims and Claims Closed Without Payment for the period under examination was performed to determine whether the Company has complied with the applicable provisions of its personal automobile policy contracts, properly represented policyholder rights, acknowledged pertinent communications regarding claims, made prompt investigations of claims, and provided fair and equitable settlement of claims in compliance with Sections 27-7-5, 27-8-12, 27-8-14, 27-9.1-4, 27-10-1, 27-10-6, 27-10-8, 27-10.1-1, and 42-28-47 of the General Laws of Rhode Island; and Rhode Island Insurance Regulations X , XXIV, and XXVIII (superseded 2/14/94 by Regulation LXXIII).

The Company processed 2,704 personal automobile claims for the period under examination. Two thousand three hundred and eighty-nine (2,389) were paid claims and three hundred and fifteen (315) were claims that were closed without payment. From the population of paid and closed without payment claims, a sample of one hundred and eighteen (118) personal automobile claims was selected for review.

Two (2) policies reviewed indicate that the Company did not report one (1) theft of an insured's vehicle and one (1) salvage of a vehicle to the National Insurance Crime Bureau (NICB), as required by Section 27-8-14 of the General Laws of Rhode Island. In all other instances, the files reviewed indicate that during the period under examination, the Company was processing personal automobile claims in compliance with its personal automobile policy contract, and in compliance with applicable Rhode Island Laws and Regulations.

It is recommended that the Company review its procedures to ensure that all thefts and salvage vehicles are reported to the NICB, as required by Rhode Island Law.

Reinspection of Collision Repairs

A review of the Company's reinspections of collision damage claims was performed to evaluate whether or not the Company performed reinspections in compliance with Section 27-10.1-9 of the General Laws of Rhode Island and Rhode Island Insurance Regulation LXXVI , which requires that at least ten-percent (10%) of all collision damage claims be reinspected after they have been repaired.

The Company processed a total of five hundred and five (505) collision damage claims from the effective date of Regulation LXXVI as amended, through the end of the period under examination. Evidence was provided which indicates that at least fifty-two (52) reinspections were performed, which is above the ten-percent (10%) minimum required by Regulation LXXVI, therefore the Company has complied with Section 27-10.1-9 of the General Laws of Rhode Island and Regulation LXXVI for the period under examination.

SUMMARY OF RECOMMENDATIONS

Page 11

It is recommended that the Company determine whether the QMBR endorsement and premium charge was actually filed with the Rhode Island Department of Business Regulation. If the filing has not been made, it is recommended that the Company file the endorsement and premium charge for the QMBR endorsement with the Rhode Island Department of Business Regulation.

Page 14

It is recommended that the Company delete the anti-theft credit and the anti-lock brake credit at renewal for the vehicles on these policies unless it receives evidence of the devices on these vehicles.

It is recommended that the Company re-evaluate this policy to determine whether it is unfairly discriminatory to classify this policy as standard, when it appears to qualify for preferred rating. Any premium adjustments relating to reclassification should be credited to the policy back to the original date of issuance of the policy.

Page 17

It is recommended that the Company review its procedures to ensure that all thefts and salvage vehicles are reported to the NICB, as required by Rhode Island Law.

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 irregularity which 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 from the Rhode Island Insurance Division were Ronald R. Radtke, Senior Market Conduct Examiner, Robert G. Arrow, FLMI, AIE, Senior Market Conduct Examiner, and John P. Carr, CPCU, AIE, Principal Market Conduct Examiner.

Respectfully submitted,

Sharon K. Gordon

Sharon K. Gordon, CPA, CFE
Insurance Examiner-In-Charge
State of Rhode Island