



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

*REPORT OF EXAMINATION OF*  
**HOLYOKE MUTUAL INSURANCE COMPANY IN SALEM**

**Salem, Massachusetts**

**As of December 31, 2011**

**NAIC GROUP CODE 0050**

**NAIC COMPANY CODE 14206**

**EMPLOYER ID NUMBER 04-1448835**

Holyoke Mutual Insurance Company in Salem

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# COMMONWEALTH OF MASSACHUSETTS

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May 24, 2013

Honorable Joseph G. Murphy  
Commissioner of Insurance  
Commonwealth of Massachusetts  
Division of Insurance  
1000 Washington Street, Suite 810  
Boston, Massachusetts 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws ("M.G.L."), Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

## **HOLYOKE MUTUAL INSURANCE COMPANY IN SALEM**

at its home office located at One Holyoke Square, Salem, Massachusetts 01970-3391. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

Holyoke Mutual Insurance Company in Salem ("Company") was last examined as of December 31, 2006, by the Massachusetts Division of Insurance ("Division"). The current multi-state examination also was conducted by the Division and it covers the five year period from January 1, 2007, through December 31, 2011, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC Financial Condition Examiners Handbook, the examination standards of the Division and with Massachusetts General Laws. The examination was conducted following the NAIC Risk Focused Examination Model. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with statutory accounting principles and annual statement instructions, when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process and examination efforts were directed accordingly.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, disaster recovery plan, and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules, and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

In accordance with 211 CMR 23.00, the Company was audited annually by an independent certified public accounting firm, Ernst & Young LLP. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2007 through 2011. A review and use of certified public accountants' work papers were made to the extent deemed appropriate and effective.

In 2000, the Company became affiliated with COUNTRY Mutual Insurance Company ("CMIC"), an insurer domiciled in Illinois. An examination of CMIC as of December 31, 2011, was conducted by the Illinois Department of Insurance ("Illinois Department"). The Illinois Department engaged the services of Risk and Regulatory Consulting, LLC to review the reasonableness of the Company's loss and loss adjustment expense reserves as of December 31, 2011. They also engaged INS Regulatory Services, Inc. to review the adequacy and effectiveness of the IT systems controls to determine the level of reliance to be placed on the information

## Holyoke Mutual Insurance Company in Salem

generated by the data processing systems. We relied on the work performed by the Illinois Department wherever possible.

Middlesex Mutual Assurance Company ("Middlesex") is a Connecticut domiciled company that is also affiliated with CMIC. The Company and Middlesex form the brand name MiddleOak and share many functions including claims and premiums. An examination of Middlesex was conducted by the Connecticut Department of Insurance ("Connecticut Department"). We relied upon the work performed by the Connecticut Department wherever possible.

### Status of Findings from the Prior Examination

All exceptions noted in the prior examination have been resolved with the exception of compliance to M.G.L., Chapter 175, Section 64 requiring that investment schedules presented to the Directors for their consideration be maintained in the related minutes. We noted during the current examination that this concern continued to exist. The Company has instituted procedures to ensure that beginning with the minutes of the February 26, 2013 meeting of the Board of Directors, the report of investment transactions will be included as an exhibit to the minutes.

## HISTORY

### General

The Company was chartered on March 14, 1843, and began issuing assessable policies in May of the same year. In April 1942, the Company was authorized to issue non-assessable policies, and in June 1951, it was authorized to write multiple lines of insurance. On January 28, 1975, the Company changed its name from Holyoke Mutual Fire Insurance Company to Holyoke Mutual Insurance Company in Salem.

The Company formed a wholly owned subsidiary, Holyoke Square, Inc. on May 5, 1982. In June 1983, the Company transferred 100 per cent of the shares of an existing subsidiary, Holyoke of Salem Insurance Agency, Inc. to its newly formed subsidiary. In 2007, Holyoke of Salem Insurance Agency, Inc. merged with its direct parent corporation and the surviving entity retained the name Holyoke of Salem Insurance Agency, Inc. ("HOSIA"). HOSIA now operates under the name Dauntless Specialty Brokerage.

In January 2000, the Company became affiliated with CMIC and entered into a pooling agreement with CMIC, under which the Company cedes premiums and losses to CMIC and assumes back a percentage of the pool. From the inception of the agreement until 2006, the pooling percentage was based on the Company's share of the combined surplus. Effective 2006, the pooling percentage was set at 3.94% for five years. In January 2012, the pooling percentage was changed to 4.60%.

Effective January 1, 2006, all of the Company's employees became employees of an affiliated company, Middlesex Mutual Assurance Company, an insurer domiciled in Connecticut. In 2006, the Company and Middlesex started using the brand name of MiddleOak as a way of establishing a common marketing identity for the two companies.

## Holyoke Mutual Insurance Company in Salem

### Guaranty Capital

At December 31, 2011, the Company's guaranty capital account consisted of 1,000 shares of authorized, issued, and outstanding shares with a par value of \$100 per share. The owners of the guaranty capital are classified as "shareholders". A four per cent (\$4,000.00) dividend was paid to the shareholders in 2011.

A review of the shareholders' register indicated that the shares were held by CMIC and various individuals, companies, and organizations. At the date of examination, CMIC held 871 of the 1,000 shares.

### Dividends to Shareholders of Guaranty Capital

In the period of examination, the Board of Directors authorized the following dividends to be paid to shareholders of the Company's guaranty capital:

<u>Date</u>	<u>Amount</u>
2007	\$1,456
2008	3,000
2009	3,997
2010	4,000
2011	4,000

### Dividends to Policyholders

CMIC pays dividends on its crop hail policies. As a result of the reinsurance pooling agreement, the Company also shares in the payment of such dividends. In the period of examination, the Company paid the following dividends to policyholders:

<u>Date</u>	<u>Amount</u>
2007	\$125,517
2008	(1,943)
2009	58,054
2010	118,619
2011	(1,880)

Holyoke Mutual Insurance Company in Salem

Growth of the Company

The growth of the Company for the years 2007 through 2011 is indicated in the following schedule which was prepared from information in the Company's Annual Statements, including changes, if any, made as a result of this examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written</u>	<u>Surplus</u>
2011	\$200,823,622	\$83,809,851	\$82,362,904
2010	200,321,761	82,257,116	87,327,779
2009	189,289,212	80,835,009	82,280,867
2008	188,495,457	81,449,633	75,102,467
2007	173,621,961	79,666,097	78,843,834

**MANAGEMENT**

*Annual Meeting*

According to the Company's bylaws, the Annual Meetings of the Company shall be held on the first Thursday of May in each year or on such other date and time as may be determined by the Board of Directors ("Board"). Every individual, partnership, corporation, or association to whom a policy has been issued by the Company, and whose policy has not expired or been cancelled, shall be a member of the Company and be entitled at any meeting of the Company to one vote for each policy held. Also, every shareholder shall be entitled to one vote for each share of guaranty capital held. Absent members or shareholders may vote by proxy but no member by virtue of his policies and/or proxies shall be entitled to more than twenty votes. At any meeting of the Company, fifteen members shall be required to make a quorum. The minutes indicated that a quorum was obtained at each annual meeting held in the examination period.

*Board of Directors*

According to the Company's bylaws, there shall be elected by ballot a Board of not less than eight or more than twelve Directors, half chosen from shareholders and half from members that are not shareholders. The Board shall be divided into three classes, each consisting of approximately one-third of the total number of Directors constituting the full Board, with the members of only one class retiring each year and successors chosen by ballot at the annual meeting of the Company; Directors shall serve for a term of three years and until successors are elected and qualified. Five or more Directors shall constitute a quorum for the transaction of business by vote of a majority of those in attendance. The Directors shall have the general management of all of the affairs of the Company with authority to do all things which the Company could do, except the amendment of the bylaws, the election of Directors for full term, or as otherwise limited by the bylaws.

Holyoke Mutual Insurance Company in Salem

At December 31, 2011, the Board was comprised of ten directors, which is in compliance with the Company's bylaws. Directors duly elected and serving at December 31, 2011, with their business or professional affiliations were the following:

<u>Director</u>	<u>Business Affiliation</u>
Johnnie Dale Blackburn	Chief Executive Officer, CMIC
Barbara Ann Baurer	Executive Vice President and Chief Operating Operating Officer, CMIC
* Steven Ray Denault	Senior Vice President, CMIC
Alice Britain Griffin	Self-employed; formerly with Griffin Pension Services, Inc.
* James Melvin Jacobs	General Counsel, Secretary, and Chief Legal Officer, CMIC
Caleb Loring, III	Trustee, The 911 Trust Company
David Allan Magers	Executive Vice President and Chief Financial Officer, CMIC,
* Robert Stratton Parker	Dean, Georgetown University
Doyle James Williams	Executive Vice President, CMIC
* Peter Marley Wood	Managing Director, Retired, J. P. Morgan & Company, Inc.

\* Newly elected to Directorship since the prior examination.

Director Johnnie Dale Blackburn resigned from the Board effective January 31, 2012, and the Board of Directors elected Kurt Franklin Bock of Bloomington, Illinois, to be a Director, Chairman of the Board, and Chairman of the Governance Committee, effective February 1, 2012. Also, Director Alice Britain Griffin resigned from the Board effective May 2012. At the 2012 Annual Meeting, Dennis Bisgaard was voted as a Director to replace Alice Britain Griffin.

Holyoke Mutual Insurance Company in Salem

*Committees of the Board of Directors*

Annually the Board of Directors appointed three standing committees – the Audit Committee, the Governance Committee, and the Investment Committee. Members constituting each Committee as of December 31, 2011, were the following:

Audit Committee

Peter Marley Wood, Chairman  
Alice Britain Griffin

Robert Stratton Parker  
Caleb Loring, III

Governance Committee

Johnnie Dale Blackburn, Chairman  
Alice Britain Griffin  
Robert Stratton Parker

Steven Ray Denault  
James Melvin Jacobs

Investment Committee

David Allan Magers, Chairperson  
Doyle James Williams  
Gary Joseph Vallo

Barbara Ann Baurer  
Caleb Loring, III  
Peter Marley Wood

*Officers*

According to the Company's bylaws, the Directors shall annually choose (i) a president, who shall be a member of the Board, (ii) a secretary, and (iii) a treasurer, who may also be the president or the secretary. The Directors may also annually choose a vice president, an assistant secretary, an assistant treasurer, or any other officer as they may deem advisable. Directors may at any time fill any vacancy on the Board or in any office for the unexpired term, and may elect at any time any officer to serve until the next Annual Meeting.

Holyoke Mutual Insurance Company in Salem

The principal officers and their respective titles at December 31, 2011, were the following:

<u>Officer</u>	<u>Title</u>
*Johnnie Dale Blackburn	Chairman
Barbara Ann Baurer	President and Vice Chairperson
Gary Joseph Vallo	Chief Executive Officer
David Allan Magers	Executive Vice President and Chief Financial Officer
Steven Ray Denault	Senior Vice President
Doyle James Williams	Executive Vice President
William Joseph George, Jr.	Executive Vice President – Chief Sales and Marketing Officer
Kevin Ejler Reardon	Executive Vice President – Chief Claims and Service Officer
Robert Anthony Mueller	Executive Vice President – Chief Strategic Planning & Underwriting Officer
James Melvin Jacobs	General Counsel, Secretary, and Chief Legal Officer
Peter Edward Dunn	Senior Vice President – Alternative Distribution and National Marketing
Paul Joseph Federico	Senior Vice President - NNE Sales and Marketing
Thomas John Ford	Senior Vice President - Real Estate
Peter Damian Kasper	Senior Vice President – Commercial Lines Sales and Marketing
Alan Todd Reiss	Senior Vice President - Service Operations
Gregory Russell Scruton	Senior Vice President - Actuarial and Assistant Treasurer
Anne Marie Tarryk	Senior Vice President - Distributed Technology
Suzanne Elizabeth Wilson	Senior Vice President - Human Resources
Karen M. Bogli	Vice President - Data Base Reporting
Peter J. Borowski	Vice President and Corporate Controller
Christine M. Bussone	Vice President - Commercial Lines Underwriting
Robert L. Francazio	Vice President – Commercial Lines Habitational Underwriting
Bruce D. Hale	Vice President - Business Process
Jonathan Scott Herron	Vice President – Claims
Peter A. LaMalfa, Jr.	Vice President - Agency Development
James H. McClintock	Vice President - Personal Lines Underwriting
Joseph Meagher	Vice President - Property Claims
Anne M. Stunck	Vice President - Product Research and Development
Kimberly M. Sullivan	Vice President - Casualty Claims
Sean E. Sweeney	Vice President - Business System Delivery
Alan Keith Dodds	Treasurer
Ronald Dale Pridgeon	Vice President and Corporate Property/Casualty Actuary
Daniel O. Schwanke	Vice President – Actuarial

\*Effective January 31, 2012 Johnnie Dale Blackburn retired and Kurt Franklin Bock became Chairman.

## Holyoke Mutual Insurance Company in Salem

### Conflict of Interest Procedures

As reported in its answer to Question 14 of Part 1 Common Interrogatories of its 2011 Annual Statement, the Company has adopted a code of ethical business conduct which includes a procedure for the disclosure of any material interest or affiliation on the part of any Director, officer or family member which may conflict with his/her official duties. At the beginning of each year, every Director, officer, and division director of CMIC must complete, sign, and file with the Office of the General Counsel an Annual Conflict Report Form disclosing any material conflict(s) of interest.

The completed questionnaires for Directors and officers listed on the jurat page of the Company's Annual Statements for years 2007 through 2011 were reviewed and no material conflicts were noted.

### Corporate Records

#### *Articles of Incorporation and Bylaws*

The Company's Articles of Incorporation, bylaws, and amendments thereto were read. There were no changes to the Articles of Incorporation since the prior examination. One change was made to the bylaws in the period of examination; the number of classes of Directors on the Board of Directors was reduced from four classes, with Directors in each class serving a term of four years, to three classes with Directors in each class serving a term of three years. This change was authorized by vote of a majority of members and shareholders at the Annual Meeting of the Company held on May 3, 2007.

#### *Disaster Recovery and Business Continuity*

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L., Chapter 175, Sections 180M through 180Q.

#### *Annual Meeting*

In accordance with the bylaws, the Annual Meeting of the Company was held each year under the examination period. The minutes of the meeting were reviewed to ensure compliance with the bylaws and to verify the election of the Board of Directors.

#### *Board of Directors Minutes*

The minutes of meetings of the Board of Directors and its Committees for the period under examination were read and they indicated that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts.

**AFFILIATED COMPANIES**

Per Form B as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L., Chapter 175, Section 206C and Regulation 211 CMR 7.00. The ultimate controlling entity of the system is Illinois Agricultural Association ("IAA"), an Illinois not-for-profit corporation. Control among group members is maintained through a combination of factors, including common management, inter-locking Boards of Directors, and stock ownership.

For Informational Purposes Only

Holyoke Mutual Insurance Company in Salem

**ORGANIZATIONAL CHART**

The corporate organization of which the Company is a member was represented as follows at December 31, 2011:

Illinois Agricultural Association

- Controls COUNTRY Mutual Insurance Company ®
  - Owns COUNTRY Casualty Insurance Company ®
  - Owns COUNTRY Preferred Insurance Company ®
  - Owns Modern Service Insurance Company
  - Part Owns Cotton States Life Insurance. CompanySM
  - Part Owns CCM Real Estate II, LLC
  - Controls Middlesex Mutual Assurance Company
    - Owns MSI Preferred Insurance Company
    - Owns The Midfield Corporation
  - Controls **Holyoke Mutual Insurance Company in Salem**
    - Owns Holyoke of Salem Insurance Agency, Inc.
  - Controls Cotton States Mutual Insurance CompanySM
    - Owns Shield Insurance Company
- Owns Illinois Agricultural Holding Co.
  - Owns Illinois Agricultural Service Company
  - Owns CC Services, Inc.
  - Owns COUNTRY Life Insurance Company ®
    - Owns COUNTRY Investors Life Assurance Company ®
    - Owns COUNTRY Capital Management Company
    - Owns COUNTRY Trust Bank ®
    - Part Owns Cotton States Life Insurance CompanySM
- Controls IAA Credit Union
- Controls IAA Foundation
- Controls Agricultural Support Association
- Part Owns AgriVisor, LLC
- Part Owns Illinois Agricultural Auditing Association
- Part Owns Prairie Farms Dairy, Inc.
  - Part Owns Muller-Pinehurst Dairy, Inc.
  - Owns East Side Jersey Dairy, Inc.
  - Owns P.F.D. Supply Corporation
  - Owns Ice Cream Specialties, Inc.
  - Owns GMS Transportation Co.
  - Part Owns Madison Farms Butter, LLC
  - Part Owns Turner Holdings, LLC
  - Part Owns Hiland Dairy Foods Company, LLC
    - Part Owns Turner Holdings, LLC
    - Owns Belfonte Ice Cream Co.
    - Part Owns SkyPark LLC
    - Owns Roberts Dairy Company, LLC

## Holyoke Mutual Insurance Company in Salem

### Transactions and Agreements with Subsidiaries and Affiliates

In addition to reinsurance arrangements, the three predominant areas involving the Company and its affiliates are the Alliance Agreement, inter-affiliate service agreements, and a tax sharing agreement. Each is described briefly in the following summary.

#### *Alliance Agreement*

The Company and CMIC entered into an Alliance Agreement. It was deemed to be in the best interests of both of these two parties to enter into this agreement in order to leverage complementary competencies, to enhance growth and profitability, and to increase geographic diversification.

In 2006, both Middlesex and Holyoke began using the brand name of MiddleOak for marketing. Also, effective January 1, 2006, all employees of the Company became employees of Middlesex. As a result the employee benefits program and personnel policies were changed accordingly.

#### *Service Agreements*

The Company and CC Services, Inc. ("CCSI"), a downstream subsidiary of IAA, entered into a Service Agreement effective January 1, 2000. Per this agreement, CCSI shall provide the Company with such financial, marketing, information, and other services, and shall purchase such goods and services from third parties on behalf of the Company, as may be requested by the Company. Charges for services provided by CCSI to the Company shall be based upon actual expenses incurred by CCSI.

The Company and Middlesex entered into a service agreement effective August 2, 2005. Under the terms of the agreement, they are to provide each other with financial, marketing, information services, underwriting, claims handling, rental office and/or storage space, actuarial, and other services as necessary. Charges for services shall be based upon actual expenses. The billing and payment is the same as that of the Service Agreement between the Company and CMIC as outlined above. However, the Company does not provide services to Middlesex as all the employees are now Middlesex employees.

#### *Tax-Sharing Agreement*

The Company participates in a tax allocation agreement and files a consolidated federal income tax return with its only subsidiary, Holyoke of Salem Insurance Agency Inc. The allocation method is based upon the respective tax liability of each member computed as if a separate return were filed, in accordance with the Internal Revenue Code. Per the agreement, the Company reimburses or is reimbursed by its subsidiary for the portion of the tax benefit/expense which the subsidiary provides; inter-affiliate balances are settled in the same year as the consolidated tax return is filed.

**FIDELITY BOND AND OTHER INSURANCE**

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with M.G.L., Chapter 175, Section 60. The aggregate limit of liability exceeds the NAIC suggested minimum. The Company has further protected its interests and property by policies of insurance covering other insurable risks. Coverages were provided by insurers licensed in the Commonwealth of Massachusetts and were in force as of December 31, 2011.

**PENSION AND INSURANCE PLANS**

The Company has no employees; all management services are provided under an agreement with Middlesex Mutual. All employee benefit plans are provided by Middlesex; however, many of the plans are products of CMIC. The Company has no legal obligation for the benefits under these plans. The company is charged for its allocable share of these expenses.

**STATUTORY DEPOSITS**

The Company is licensed to transact business in numerous jurisdictions; therefore, the Company had statutory deposits with the following states as of December 31, 2011:

<u>Location</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>
Arizona	US Treasury Note 3.125% Due 8/31/13	\$ 150,000	\$ 150,312	\$ 157,148
Georgia	US Treasury Note 4.25% Due 11/15/14	85,000	86,047	94,377
Massachusetts	US Treasury Bond 7.5% Due 11/15/16	425,000	470,950	560,436
	US Treasury Bond 4.5% Due 2/15/16	1,775,000	1,745,373	2,052,205
Nevada	US Treasury Note 4% Due 2/15/15	200,000	204,338	222,125
New Mexico	US Treasury Note 2.375% Due 3/31/16	350,000	350,568	374,801
North Carolina	US Treasury Note 4% Due 2/15/14	325,000	318,167	350,492
Oregon	US Treasury Note 4% Due 2/15/15	260,000	265,204	288,763
South Dakota	US Treasury Note 3.125% Due 1/31/17	150,000	150,035	166,734
	Totals	<u>\$3,720,000</u>	<u>\$3,740,994</u>	<u>\$4,267,081</u>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operation**

The Company is licensed to write business in the following states: Arkansas, Arizona, Colorado, Connecticut, Georgia, Idaho, Maine, Massachusetts, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Oregon, Rhode Island, South Carolina, South Dakota, Texas, Utah, Vermont, Washington and Wyoming. In addition they are a qualified reinsurer in Illinois.

### **Treatment of Policyholders and Claimants – Market Conduct**

During the financial examination of the Company, the Division's Market Conduct Department initiated a comprehensive market conduct examination of the Company for the period January 1, 2011 through December 31, 2011. The market conduct examination was called pursuant to authority in M.G.L., Chapter 175, Section 4. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm AM Bennett were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Conduct Examiner's Handbook, the market conduct examination standards of the Division and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The basic business areas that were reviewed under this market conduct examination are Company Operations/Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; Underwriting and Rating; Claims, in addition to an assessment of the Company's internal control environment.

## **REINSURANCE**

### **Inter-Affiliate Reinsurance Pooling Agreement**

The Company and CMIC entered into a Reinsurance Pooling Agreement effective January 1, 2000. Per terms of the agreement, on an ongoing basis, the Company will cede and CMIC will assume 100% of the Company's net premiums written, net losses paid, net loss reserves, loss adjustment expenses paid, loss adjustment expense reserves, contingent commission reserve, other expense reserves, and dividends to policyholders both paid and unpaid.

CMIC shall add to its own business, after outside reinsurance, the business ceded to it by the Company and the business ceded to it by other participating affiliates. Pursuant to pooling retrocession agreements with CMIC, the Company and the other mutual insurers then will assume from the pool a percentage of the pool's net unearned premium reserve, net loss reserve, net loss adjustment expense reserve, contingent commission reserve, and other expense reserves. Prior to 2006, the Company's participation ratio in the pool was determined by a ratio of the Company's surplus to CMIC's surplus. Effective January 1, 2006, the Company's participation

Holyoke Mutual Insurance Company in Salem

ratio was set at 3.94% for five years. The Company's pool percentage shall be recalculated at any time a company is added, eliminated, or changes its ratio in the pool. Such recalculation shall be based upon the most recent Annual Statements of CMIC and the Company, provided the Company's pool percentage shall only be adjusted upward or downward in a year that CMIC's and the Company's respective Annual Statements reveal that the Company's existing pool percentage has increased or decreased more than ½ percentage point.

The mutual insurance companies participating in the CMIC pool with their percentage share of the pool for the examination period were the following:

<i>Participating Company</i>	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
COUNTRY Mutual Insurance Company	87.19%	87.19%	87.19%	87.19%	87.19%
Middlesex Mutual Assurance Company	4.52%	4.52%	4.52%	4.52%	4.52%
Cotton States Mutual Insurance Company	4.35%	4.35%	4.35%	4.35%	4.35%
Holyoke Mutual Insurance Company in Salem	3.94%	3.94%	3.94%	3.94%	3.94%

Effective January 1, 2012, there was a consolidation of reinsurance agreements ceding business to CMIC. Amendments were made to the reinsurance pooling agreement between the Company and CMIC whereby the agreement was modified and consolidated with reinsurance agreements of other affiliated companies ceding business to CMIC; these became a single intercompany quota share reinsurance agreement involving all parties.

Similarly, there was a consolidation of CMIC's retrocession agreements with its affiliated mutual insurers. The separate pooling retrocession agreements of CMIC with the Company, with Middlesex, and with Cotton States Mutual Insurance Company, ("CSMIC"), were amended and consolidated into a single, restated, pooling retrocession agreement among CMIC and these three companies whereby new pool percentages were set. Participation percentages per the restated pooling retrocession agreement were changed to a five-year fixed rate determined by the approximate ratio of the participants' surplus; a comparison of the rate changes follows:

<u>Participating Company</u>	<u>2011</u>	<u>2012</u>
COUNTRY Mutual Insurance Company	87.19%	88.60%
Middlesex Mutual Assurance Company	4.52%	3.40%
Cotton States Mutual Insurance Company	4.35%	3.40%
Holyoke Mutual Insurance Company in Salem	3.94%	4.60%

Assumed Reinsurance

The Company participates in the FAIR Plans in the states in which it is licensed. Also, the Company participates in the Automobile Facility Plans in both Massachusetts and New Hampshire. As a participant, the Company services individual accounts and is reimbursed by the facilities for losses and expenses. The Company's assessments are proportionate to its market share in each state.

### **ACCOUNTS AND RECORDS**

The internal control structure was discussed with management through questionnaires, interviews, and through a review of work performed by the Company's independent certified public accountants. No material deficiencies were noted.

The NAIC provides a questionnaire covering evaluation of controls in the IT systems environment. The questionnaire was completed by the Company and reviewed by the Illinois Department to evaluate the adequacy of the IT controls for the systems that are common to all companies. In addition to the questionnaire, interviews were conducted by the Illinois Department with Company staff to gather supplemental information and corroborate the Company's responses to the questionnaire. In addition, the Connecticut Department performed an IT systems review for those systems that pertain to MiddleOak only. We have relied on the work performed by the Illinois and Connecticut Departments. Neither noted any material deficiencies.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2011 annual statement. No exceptions were noted.

The books and records of the Company are audited annually by Ernst & Young LLP, independent Certified Public Accountants, in accordance with 211 CMR 23.00.

### **FINANCIAL STATEMENTS**

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and the NAIC as of December 31, 2011:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2011

Statement of Income for the Year Ended December 31, 2011

Statement of Capital and Surplus for the Year Ended December 31, 2011

Reconciliation of Capital and Surplus For Each Year in the Five-Year Period Ended December 31, 2011

Holyoke Mutual Insurance Company in Salem

**Statement of Assets, Liabilities, Surplus and Other Funds  
As of December 31, 2011**

<b>Assets</b>	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>	<u>Notes</u>
Bonds	\$ 112,697,383	\$ 0	\$ 112,697,383	
Common stocks	22,899,175		22,899,175	
Real estate: Properties occupied by the Company	2,984,198		2,984,198	
Cash	(712,617)		(712,617)	
Short-term investments	13,085,393		13,085,393	
Other invested assets	365,271		365,271	
Subtotals, cash and invested assets	<u>151,318,803</u>		<u>151,318,803</u>	
Investment income due and accrued	1,566,415		1,566,415	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	7,306,775		7,306,775	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	26,415,160		26,415,160	
Reinsurance:				
Amounts recoverable from reinsurers	2,526,759		2,526,759	
Funds held by or deposited with reinsured companies	1,699,110		1,699,110	
Current federal and foreign income tax recoverable and interest thereon	2,060,475		2,060,475	
Net deferred tax asset	3,456,190		3,456,190	
Guaranty funds receivable or on deposit	452		452	
Receivables from parent, subsidiaries and affiliates	38,209		38,209	
Aggregate write-ins for other than invested assets:				
Equities in pools and associations	4,288,183		4,288,183	
Receivables due from others	147,091		147,091	
 Total Assets	 <u>\$ 200,823,622</u>	 <u>\$ 0</u>	 <u>\$ 200,823,622</u>	

Holyoke Mutual Insurance Company in Salem

**Statement of Assets, Liabilities, Surplus and Other Funds (continued)**  
**As of December 31, 2011**

<b>Liabilities</b>	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Losses	\$ 40,940,257	\$ 0	\$ 40,940,257	(1)
Reinsurance payable on paid losses and loss adjustment expenses	5,141,533		5,141,533	
Loss adjustment expenses	7,397,375		7,397,375	(1)
Commissions payable, contingent commissions and other similar charges	3,640,556		3,640,556	
Other expenses	1,481,526		1,481,526	
Taxes, licenses and fees	570,297		570,297	
Current federal and foreign income taxes	38,206		38,206	
Unearned premiums	31,878,600		31,878,600	
Advance premium	252,911		252,911	
Ceded reinsurance premiums payable	22,595,142		22,595,142	
Funds held by company under reinsurance treaties	642,740		642,740	
Remittances and items not allocated	415,069		415,069	
Payable to parent, subsidiaries and affiliates	3,038,979		3,038,979	
Aggregate write-in for liabilities:				
Retro-active reinsurance reserve assumed	294,011		294,011	
Reserve for uncashed checks	128,949		128,949	
Contingent liability for lawsuit settlement	4,597		4,597	
Uncleared Suspense Items	(30)		(30)	
<b>Total Liabilities</b>	<b>118,460,718</b>		<b>118,460,718</b>	
Aggregate write-in for special surplus funds:				
Special surplus from deferred taxes	59,801		59,801	
Aggregate write-in for other than special surplus funds:				
Guaranty capital	100,000		100,000	
Unassigned funds (surplus)	82,203,103		82,203,103	
Surplus as regards policyholders	82,362,904		82,362,904	
<b>Total Liabilities, Capital, and Surplus</b>	<b>\$ 200,823,622</b>	<b>\$ 0</b>	<b>\$ 200,823,622</b>	

Holyoke Mutual Insurance Company in Salem

**Statement of Income  
For the Year Ended December 31, 2011**

	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Premiums earned	\$ 83,185,019	\$ 0	\$ 83,185,019	
Deductions:				
Losses incurred	63,036,389		63,036,389	
Loss adjustment expenses incurred	8,349,380		8,349,380	
Other underwriting expenses incurred	25,165,519		25,165,519	
Total underwriting deductions	96,551,288		96,551,288	
Net underwriting gain or (loss)	(13,366,269)		(13,366,269)	
Net investment income earned	5,313,201		5,313,201	
Net realized capital gains or (losses)	1,022,333		1,022,333	
Net investment gain (loss)	6,335,534		6,335,534	
Net gain (loss) from agents' or premium balances charged off	(240,466)		(240,466)	
Finance and service charges not included in premiums	333,926		333,926	
Aggregate write-ins for miscellaneous income:				
Legal consulting	(6,141)		(6,141)	
Retroactive reinsurance loss	(20,668)		(20,668)	
Other expense	(71,595)		(71,595)	
Total other income	(4,944)		(4,944)	
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(7,035,679)		(7,035,679)	
Dividends to policyholders	(1,880)		(1,880)	
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(7,033,799)		(7,033,799)	
Federal and foreign income taxes incurred	(2,348,015)		(2,348,015)	
Net Income	\$ (4,685,784)	\$ 0	\$ (4,685,784)	

Holyoke Mutual Insurance Company in Salem

**Statement of Capital and Surplus  
For the Year Ended December 31, 2011**

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Surplus as regards policyholders, December 31 prior year	\$ 87,327,779	\$ 0	\$ 87,327,779
Net income	(4,685,784)		(4,685,784)
Change in net unrealized capital gains or (losses)	(1,184,459)		(1,184,459)
Change in net deferred income tax	694,179		694,179
Change in nonadmitted assets	124,698		124,698
Aggregate write-ins for gains and (losses) in surplus:			
Additional adjustment for non-admitted deferred tax assets	59,801		59,801
Error correction	30,690		30,690
Dividends to shareholders of guaranty capital	(4,000)		(4,000)
Change in surplus as regards policyholders for the year	<u>(4,964,875)</u>		<u>(4,964,875)</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 82,362,904</u>	<u>\$ 0</u>	<u>\$ 82,362,904</u>

Holyoke Mutual Insurance Company in Salem

**Reconciliation of Capital and Surplus  
For Each Year in the Five-Year Period Ended December 31, 2011**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Surplus as regards policyholders as of December 31, prior year	\$ 87,327,779	\$ 82,280,867	\$ 75,102,467	\$ 78,843,834	\$ 72,412,521
Net income or (loss)	(4,685,784)	1,252,732	7,645,173	43,815	6,438,837
Change in net unrealized capital gains or (losses)	(1,184,459)	2,145,025	419,724	(4,112,625)	159,903
Change in net deferred income tax	694,179	252,679	(771,548)	1,445,178	34,540
Change in non-admitted assets	124,698	1,850,368	(115,176)	(1,165,044)	(200,511)
Aggregate write-in for gains and (losses) in surplus:					
Additional adjustment for non-admitted deferred tax assets	59,801	(449,892)	449,892		
Error correction	30,690				
Dividends to shareholders of guaranty capital	(4,000)	(4,000)	(3,997)	(3,000)	(1,456)
Commission expense error correction			(445,668)		
Investment income error correction				50,309	
Net change in surplus as regards policyholders for the year	<u>(4,964,875)</u>	<u>5,046,912</u>	<u>7,178,400</u>	<u>(3,741,367)</u>	<u>6,431,313</u>
Surplus as regards policyholders as of December 31, current year	<u>\$ 82,362,904</u>	<u>\$ 87,327,779</u>	<u>\$ 82,280,867</u>	<u>\$ 75,102,467</u>	<u>\$ 78,843,834</u>

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1:**

CMIC acts as the lead company in an inter-company reinsurance pooling arrangement with eight other affiliated property/casualty insurers. These eight companies effectively cede all of their direct and assumed insurance business to CMIC which pro-rates the combined pooled results among the four mutual insurers pursuant to the pooling retrocession agreements. The pool participation percentages for 2011 were as follow:

COUNTRY Mutual Insurance Company	87.19%
Country Casualty Insurance Company	
Country Preferred Insurance Company	
Modern Service Insurance Company *	
MSI Preferred Insurance Company	
Shield Insurance Company	
Middlesex Mutual Assurance Company	4.52%
Cotton States Mutual Insurance Company	4.35%
Holyoke Mutual Insurance Company in Salem	3.94%

\* *This insurer retains credit risk, including uncollectible reinsurance, certain asbestos and environmental exposure, and exposure through a loss corridor.*

Risk & Regulatory Consulting, LLC ("RRC") was engaged by the Illinois Department to perform a comprehensive actuarial analysis of the loss and LAE reserves of the property and casualty insurance companies within the Pool. The actuarial analysis was conducted in accordance with generally accepted actuarial reserving standards and principles. The analysis evaluated the processes, procedures, methods, and assumptions used to determine the reasonableness of the carried loss and LAE reserves of the Pool as of December 31, 2011. The RRC actuary concurred with the company actuary in his conclusion regarding the reasonableness of the carried reserves.

After reviewing the work performed on the entire pool of CMIC, the Division determined that there was sufficient work done and that it could rely upon the work of Illinois and the actuarial work performed on the entire pool in which the Company participates as indicated above. The conclusion reached is that the carried reserves of the Company as of December 31, 2011, are reasonable; thus, no adjustment to these liabilities has been made in the financial statements within this Report of Examination.

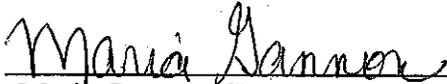
**ACKNOWLEDGEMENT**

Acknowledgement is made of the cooperation and courtesies extended by the Company personnel during the examination.

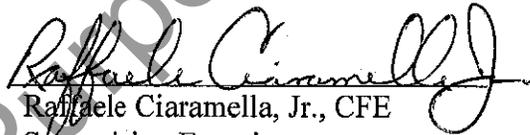
The assistance rendered by the following Division examiners who participated in this examination hereby is acknowledged:

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