



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

REPORT OF EXAMINATION OF THE
ASSOCIATED INDUSTRIES OF MASSACHUSETTS MUTUAL
INSURANCE COMPANY

Burlington, Massachusetts

As of December 31, 2013

NAIC GROUP CODE 2498

NAIC COMPANY CODE 33758

EMPLOYERS ID NUMBER 22-2946313

ASSOCIATED INDUSTRIES OF MASSACHUSETTS MUTUAL INSURANCE COMPANY

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Summary of Significant Findings	2
Subsequent Events	3
Company History	3
General	3
Guaranty Capital	4
Dividends to Shareholders	4
Dividends to Policyholders	5
Corporate Records	5
Board of Directors Minutes	5
Articles of Organization and Bylaws	5
Conflict of Interest Procedures	5
Disaster Recovery and Business Continuity	6
Management and Control	6
Board of Directors	6
Committees of the Board of Directors	7
Officers	7
Affiliated Companies	8
Organization Chart	8
Transactions and Agreements with Subsidiaries and Affiliates	9
Fidelity Bonds and Other Insurance	9
Territory and Plan of Operation	9
Treatment of Policyholders	10
Growth of the Company	10
Loss Experience	10
Reinsurance	11
Pooling Agreement	11
Ceded Reinsurance	11
Joint Marketing Agreement	11
Participation in Assigned Risk Business	11
Accounts and Records	12
Statutory Deposits	13
Financial Statements	14
Statement of Assets, Liabilities, Surplus and Other Funds	15
Statement of Assets, Liabilities, Surplus and Other Funds (continued)	16
Statement of Income	17
Statement of Capital and Surplus	18
Reconciliation of Capital and Surplus	19
Comments on Financial Statements Items	20
Summary of Recommendations	21
Acknowledgement	22



COMMONWEALTH OF MASSACHUSETTS
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ACTING COMMISSIONER OF INSURANCE

April 21, 2015

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

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

ASSOCIATED INDUSTRIES OF MASSACHUSETTS MUTUAL
INSURANCE COMPANY

at its home office located at 54 Third Avenue, Burlington, MA, 01803. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Associated Industries of Massachusetts Mutual Insurance Company (“Company” or “A.I.M. Mutual”) was last examined as of December 31, 2008 by the Massachusetts Division of Insurance (“Division”). The current examination was conducted by the Division and covers the five-year period from January 1, 2009 through December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The current 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* (“Handbook”), the examination standards of the Division and with Massachusetts General Laws. 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. An examination also includes 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.

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, treatment of policyholders 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.

The Company is audited annually by Ernst & Young LLP (“E&Y”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2009 through 2013. A review and use of the Certified Public Accountants’ work papers was made to the extent deemed appropriate and effective. An independent actuarial firm, AGI Services, was retained by the Division to evaluate the adequacy of the Company’s loss and loss adjustment expense reserves as of December 31, 2013. Additionally, the Division engaged AGI Services to review the adequacy and effectiveness of the IT systems controls to determine the level of reliance to be placed on the information generated by the data processing systems.

SUMMARY OF SIGNIFICANT FINDINGS

For a summary of findings contained within this report, refer to the “Summary of Recommendations” section on page 22. The previous examination report noted that Massachusetts General Laws (“M.G.L.”) Chapter 175 section 64 requires that investment

Associated Industries of Massachusetts Mutual Insurance Company

transactions ratified by the Board of Directors ("Board") be recorded in the minutes. The Board minutes did not include a recording of the investment transactions. During the exam period, the investment transactions were not recorded in the minutes.

SUBSEQUENT EVENTS

In 2014, the Company retired its \$15 million surplus note. The surplus note was purchased with a \$13 million loan from the Federal Home Loan Bank ("FHLB"). The purchase of the surplus note was approved by the Division.

Effective January 1, 2015, the Company increased its catastrophe coverage by \$25 million. The 2015 reinsurance program provides a per occurrence limit of \$75 million with a \$25 million maximum any one life ("MAOL"). The catastrophe layers provide full terror and nuclear, biological, chemical and radiological coverage. Capacity and pricing for these layers has been secured for two years through December 31, 2016.

COMPANY HISTORY

General

The Company was originally organized as a reciprocal insurance exchange, named Massachusetts Employers Insurance Exchange ("MEIE"). The Company received a provisional Certificate of Authority effective December 9, 1988, commenced business on January 1, 1989 and received a permanent Certificate of Authority on June 9, 1989. MEIE was a cooperative organization where workers' compensation and employers' liability coverages had been provided on an exchange basis through mutual covenants executed among MEIE's subscribers and a designated attorney-in-fact for MEIE; the subscribers thereby insured one another. MEIE's subscribers were also members of MEIE's sponsoring organization: Associated Industries of Massachusetts, Inc. ("AIM"), a not-for-profit employer service organization.

During 1995, MEIE's subscriber members and its Board of Advisors approved a plan to convert MEIE from a reciprocal insurance exchange into a mutual insurance company. A Commissioner's Order dated January 25, 1996, approved the Plan of Conversion. On February 27, 1996, a Certificate of Authority was issued to the organization under the name "Associated Industries of Massachusetts Mutual Insurance Company".

As part of the Plan of Conversion and as required by statute, various aspects of MEIE's structure and obligations were to be addressed by the new company. Previously, subscribers were required to enter into a subscription agreement whereby the subscribers agreed to insure each other through the exchange of reciprocal contracts executed with MEIE's attorney-in-fact. The reciprocal insurance contracts issued through MEIE were endorsed and subsequently replaced by the Company's policies on the respective anniversary dates of coverage renewal.

Associated Industries of Massachusetts Mutual Insurance Company

Subscribers previously had committed to pay a surplus contribution equal to ten percent of the final annual premium for each of the first five years of their membership in the exchange. Following the conversion, the balance in each member's surplus contribution account remained unchanged. In accordance with the Plan of Conversion, the subscriber savings accounts were converted into interest bearing surplus notes in the Company with principal amounts, terms, and payment schedules equivalent to those of the subscriber savings accounts. As part of the conversion, AIM contributed its existing \$200,000 subordinated surplus note in exchange for \$200,000 of the Company's guaranty capital shares

On April 4, 1996, the Division designated the Company as a servicing carrier to the Massachusetts Workers' Compensation Assigned Risk Pool ("MWCARP") effective July 1, 1996. MWCARP is a residual market for workers' compensation coverage to those employers' entitled to coverage. The Company also became a voluntary direct assignment carrier ("VDAC") to MWCARP effective January 1, 1998.

The Company formed three subsidiaries; Associated Employers Insurance Company ("AEIC"), Massachusetts Employers Insurance Company ("MEIC") and Employers Security Assurance Company ("ESAC"), to offer rates different from A.I.M. Mutual. AEIC was formed in 2001, MEIC in 2007 and ESAC in 2008. In 2010, ESAC was re-domesticated to New Hampshire and the name was changed to New Hampshire Employers Insurance Company ("NHEIC"). All subsidiaries participate in a reinsurance pooling agreement with A.I.M. Mutual whereby the subsidiary cedes 100% to A.I.M. Mutual but does not assume any percentage from the pool.

Guaranty Capital

As a mutual company, the Company has no capital stock. As a reciprocal insurance exchange, MEIE had entered into an unsecured subordinated surplus loan agreement on December 9, 1988 with AIM to satisfy the requirements of statute. By terms of the agreement, MEIE borrowed \$200,000 to be used as the unencumbered surplus of the exchange and repayment of the loan was subject to the prior approval of the Commissioner of Insurance.

In accordance with the Plan of Conversion, AIM contributed the \$200,000 subordinated surplus note it held in exchange for 2,000 shares of \$100 par value guaranty capital of the Company. The shares were issued on February 27, 1996, with an annual dividend rate of seven percent.

Dividends to Shareholders

The Board authorized dividends to be paid to the Company's shareholders during the period of examination amounting to \$70,000. The Company paid the following dividends during the five-year period of the examination:

Associated Industries of Massachusetts Mutual Insurance Company

- The Company paid shareholder dividends of \$14,000 to AIM in 2009.
- The Company paid shareholder dividends of \$14,000 to AIM in 2010.
- The Company paid shareholder dividends of \$14,000 to AIM in 2011.
- The Company paid shareholder dividends of \$14,000 to AIM in 2012.
- The Company paid shareholder dividends of \$14,000 to AIM in 2013.

Dividends to Policyholders

The Board authorized dividends to be paid to the Company's policyholders during the period of examination amounting to \$635,745. The Company paid the following dividends during the five-year period of the examination:

- The Company paid policyholder dividends of \$0 to policyholders in 2009.
- The Company paid policyholder dividends of \$0 to policyholders in 2010.
- The Company paid policyholder dividends of \$84,877 to policyholders in 2011.
- The Company paid policyholder dividends of \$280,611 to policyholders in 2012.
- The Company paid policyholder dividends of \$270,257 to policyholders in 2013.

CORPORATE RECORDS

Board of Directors Minutes

The minutes of the Board 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. Activities of the committees were ratified at meetings of the Board as required by Massachusetts statute.

Articles of Organization and Bylaws

The articles of organization and bylaws and amendments thereto were reviewed. In 2011, the Company amended its bylaws and in 2012 amended its articles of organization to allow them to do business in other states. The amendment to the articles of organization has been approved by the Division.

Conflict of Interest Procedures

The Company has a policy statement pertaining to conflict of interest. In support of its answer to Question 14 of Part 1 General Interrogatories of the Annual Statement, the Company has an established procedure for the disclosure to the Board of any material interest or affiliation on the part of any officer or director which is in or is likely to conflict with his official duties. Annually, each officer and director completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed and no discrepancies were

Associated Industries of Massachusetts Mutual Insurance Company

noted to contradict the Company's response to the General Interrogatory regarding conflicts of interest as reported in the Company's 2013 Annual Statement.

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.

MANAGEMENT AND CONTROL

Board of Directors

According to the bylaws, the Board shall manage and control the business and affairs of the Company. The Board shall consist of not less than eight or more than twelve Directors with the number of Directors determined at each annual member's meeting coinciding with the expiration of one or more Director's term. Each Director holds office for a term of two years. Upon expiration or resignation, his/her successor is elected at the next annual meeting. As long as shares of the authorized guaranty capital remain outstanding, one-half of the Directors shall be elected from the holders of guaranty capital and one-half shall be elected from the members who are not holders of guaranty capital.

At December 31, 2013 the Company's Board was composed of eight persons, which is in compliance with the Company's bylaws and the General Laws of Massachusetts. The members of the Board are as follows:

<u>Director</u>	<u>Business Affiliation</u>
John A. Myers	Executive Chairman and CEO A.I.M. Mutual Insurance Company
William C. Blanker	Director of Special Projects Southworth Company
Peter R. Chase	Chairman and CEO Chase Corporation
Michael G. Faucher	Superior Cake Products, Inc.
John J. Gould	Vice Chairman A.I.M. Mutual Insurance Company
Richard C. Lord	President and CEO Associated Industries of Massachusetts
Wells A. Sampson	* President American Alarm and Communications
Ralph P. Schlenker	President R.P. Schlenker, Inc.

Associated Industries of Massachusetts Mutual Insurance Company

* Michael Riley resigned as Director in 2011, and in accordance with M.G.L. Chapter 156B Section 52 and the bylaws of the Company, Wells Sampson was elected to fill the vacancy.

Committees of the Board of Directors

The Company's bylaws allow that the Board shall authorize such committees as it deems necessary, including a Nominating Committee, to conduct the business of the Board and shall appoint persons to serve thereon. In accord therewith, the Board appointed an Investment Committee to monitor the performance of the Company's investments and authorize the purchase and/or sale of securities, an Audit Committee to provide assistance to the Board in fulfilling their oversight responsibility relating to the integrity of the Company's financial reporting process and a Nominating Committee to present to the Board nominations for any vacancies on the Board. All members of the Audit Committee are independent Directors. The Audit Committee is composed of Directors Ralph P. Schlenker, Chairman, John J. Gould, and Michael G. Faucher. The Investment Committee is composed of Gregory Shah, Chairman, Directors John J. Gould, John A. Myers, and Wells Sampson. The Nominating Committee is composed of Directors William C. Blanker, John J. Gould, John A. Myers and Ralph P. Schlenker.

Minutes of the Investment Committee documented regular meetings of the Investment Committee members with representatives of the Company's investment advisors/managers, GR-NEAM. Minutes of the Audit Committee documented regular meetings of the Audit Committee with the Company's independent auditors, E & Y. Minutes of the Nominating Committee documented regular meetings of the Nominating Committee at which the members discussed nominations to the Board.

Officers

According to the Company's bylaws, the Board shall elect the officers of the Company. The officers of the Company shall be the President, the Secretary, the Clerk, the Treasurer, the Chairperson of the Board and such other officers as deemed necessary. The officers shall be elected annually by the Directors and shall unless removed, hold office until his or her successor is elected and qualified. No officer need be a member or Director.

The bylaws state that the President shall be the Chief Executive Officer of the Company and shall have general operating charge of the business. In addition to what is defined explicitly in the bylaws, the Company's officers shall have and may exercise such duties and powers prescribed by law, are commonly incident to his or her office and as the Board may from time to time prescribe. Except as otherwise required or prohibited by law, any one or more offices may be held by the same person.

Associated Industries of Massachusetts Mutual Insurance Company

The officers of the Company at December 31, 2013 are as follows:

<u>Name</u>		<u>Title</u>
John A. Myers		Executive Chairman of the Board and Chief Executive Officer
Michael E. Standing	*	President
Gregory R. Shah		Vice President and Secretary/Treasurer
Robert R. Cella		Vice President Operations
Paul M. Kehoe	**	Controller
Michael P. Kelley	***	Vice President Claim

*January 1, 2015 Michael Standing became Chief Executive Officer.

**January 1, 2015 Paul Kehoe, Controller became Vice President and Treasurer.

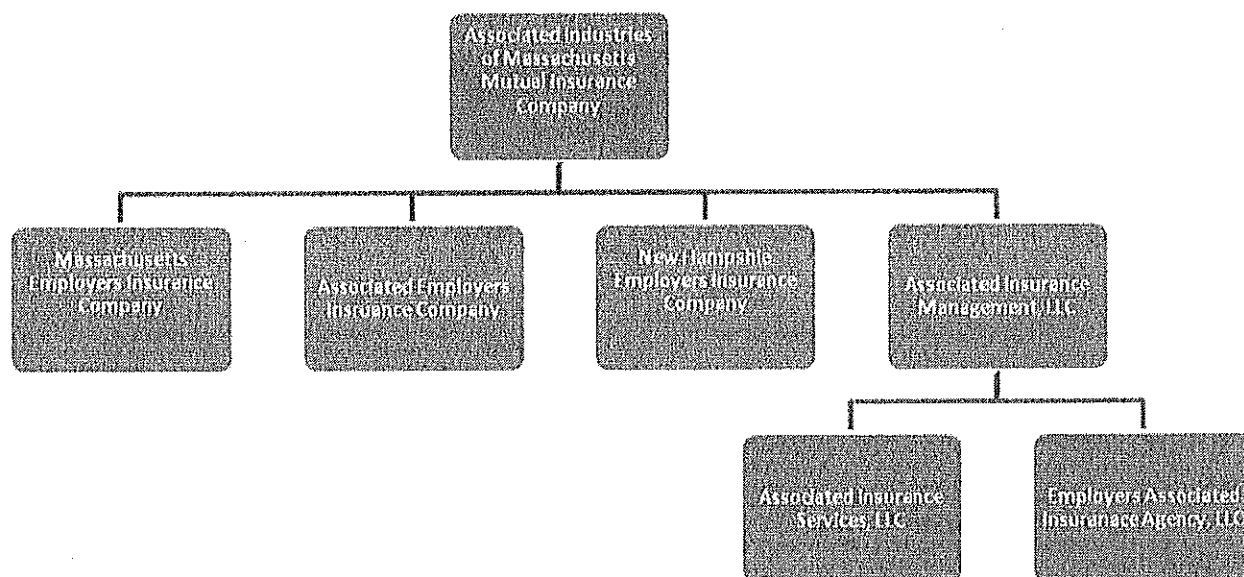
***February 2014 Michael Kelley resigned as Vice President Claim.

Affiliated Companies

As stated in the Insurance Company Holding Company System Form B and C 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. Ultimate control of the holding company system is held by A.I.M. Mutual. The Company became part of the holding company system on November 21, 2000.

Organization Chart

At December 31, 2013, the following companies were part of the following organizational structure:



Associated Industries of Massachusetts Mutual Insurance Company

Transactions and Agreements with Subsidiaries and Affiliates

Management Agreement

In 1996, the Company entered into a management agreement with MEIE Attorney-in-Fact. Under the agreement, MEIE provides services to run the day-to-day operations of the Company. MEIE later became Associated Insurance Management, Inc. ("AIM Inc."), now Associated Insurance Management, LLC ("AIM, LLC"). These services include but are not limited to underwriting, claims and accounting services. A.I.M. Mutual reimburses AIM, LLC 100% for the costs of running the business. In addition, if the Board determines that there are excess funds available for distribution to its policyholders, then AIM, LLC shall be entitled to receive 5% of any distributions paid or credited to the policyholders.

In 1994, the Company entered into a licensing agreement with AIM. Under the agreement, A.I.M. Mutual is permitted to use the Licensed Marks of AIM. These marks are "A.I.M." and "Associated Industries of Massachusetts" and the A.I.M. logo. In return for the use of these marks, A.I.M. Mutual pays to AIM a royalty of 3% of Earned Premiums for each calendar year to a maximum of \$1,200,000.

Tax Sharing Agreement

The Company participates in tax allocation agreements with its wholly owned subsidiaries, AEIC, MEIC and NHEIC. 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.

Pooling Agreement

Effective 2001, A.I.M. Mutual entered into a pooling agreement with AEIC, in 2007 with MEIC and in 2008 with NHEIC.

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 purchasing policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2013.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write workers' compensation and employers' liability in Massachusetts and New Hampshire. In 2013, the Company became licensed in Connecticut.

Associated Industries of Massachusetts Mutual Insurance Company

Treatment of Policyholders

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination. During the claims test work, it was noted that the Company investigates and settles claims on a timely and fair basis.

GROWTH OF THE COMPANY

The growth of the Company for the years 2009 through 2013 is shown in the following schedule, which was prepared with data from the Company's annual statements.

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written</u>	<u>Surplus</u>
2009	\$365,090,929	\$ 78,066,662	\$137,322,134
2010	379,559,046	80,149,654	149,898,479
2011	413,128,298	103,071,768	154,788,273
2012	448,371,347	112,999,871	164,390,946
2013	492,926,252	126,127,229	178,157,659

LOSS EXPERIENCE

The Company's incurred losses and loss adjustment expenses ("LAE") have been increasing in recent years, peaking at 76.7% in 2013. The Company's loss ratio for the years 2013 and 2012 increased from 75.7% to 76.7%.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Premiums earned	\$78,497,719	\$77,054,638	\$100,349,118	\$110,517,735	\$120,865,634
Losses and LAE incurred	\$56,749,546	\$52,989,360	\$ 76,791,741	\$ 83,659,466	\$ 92,707,430
Loss ratio	72.3%	68.8%	76.5%	75.7%	76.7%

Losses and LAE incurred for the year ended December 31, 2013, increased by \$9,047,964 or 10.8% to \$92,707,430 from \$83,659,466 for the comparable 2012 period. Losses and LAE incurred as a percentage of premiums increased slightly from 72% in 2009 to 77% in 2013. See commentary on the reasonableness of the loss and LAE reserves under Note 1 of the Comments on Financial Statement Items section of this Report of Examination.

REINSURANCE

Pooling Agreement

The Company and its subsidiaries, AEIC, MEIC and NHEIC entered into a Reinsurance Pooling Agreement. The agreements were effective in 2001 for AEIC, 2007 for MEIC and 2008 for NHEIC. Under terms of the agreement, the Company's subsidiaries cede 100% to A.I.M. Mutual but assume nothing from the pool.

Ceded Reinsurance

A.I.M. Mutual has three layers of per occurrence excess of loss reinsurance; which also includes AEIC, MEIC and NHEIC. The retention and limits are as follows: \$1,750,000 xs \$1,250,000; \$7,000,000 xs \$3,000,000 and \$15,000,000 xs \$10,000,000. Most of the coverage was purchased using the reinsurance intermediary Guy Carpenter. However, part of the third layer was purchased directly by the Company. All reinsurers are rated A or better.

They also have purchased through Guy Carpenter a per claimant treaty for \$15,000,000 xs \$10,000,000. The reinsurer is rated A or better.

Joint Marketing Agreement

In late 2010, the Company introduced the Commercial Solutions Underwriting Alliance which is a joint marketing program with Quincy Mutual Insurance Company ("Quincy Mutual"). This program provides policyholders with a complete multiline commercial program of insurance; the workers compensation policy written by AEIC and the property, liability and commercial auto policies written by Quincy Mutual. Also, A.I.M. Mutual will service Quincy Mutual's new and existing workers compensation business for a fee.

A.I.M. Mutual entered into a Pooling Agreement with Quincy Mutual. The initial pool would be made up of customers for whom A.I.M. Mutual currently writes the workers compensation policy and Quincy Mutual writes a companion piece of business. For the first 2 years the split is 50/50. In subsequent years the proportionate shares will be trued up based on how much premium each company writes in the pool; however, Quincy Mutual's workers compensation will always be split 50/50.

Participation in Assigned Risk Business

The Company began participating in the MWCARP pool effective with policy year 1991. In 1994, they exercised the option to make a lump sum settlement of its obligations for policy year 1991. For policy years 1992 to 1994 the Company retroceded 100% to American Reinsurance Company. Subsequent to policy year 1994, the Company participates in the MWCARP results relative to its market share.

Associated Industries of Massachusetts Mutual Insurance Company

On April 4, 1996, the Company was designated as a servicing carrier to MWCARP effective July 1, 1996. The Company is assigned risks to be insured and provides services including policy issuance, claim handling and loss control to those risks. In turn, the Company cedes all of the premiums and losses of such risks to MWCARP, but remains responsible for certain loss adjustment expenses and underwriting expenses it incurs. The Company receives a servicing carrier fee based on written premiums with certain adjustments.

Effective January 1, 1998, the Company was approved as a VDAC to MWCARP. As such, the Company takes its approximate equivalent share of the pool in the form of specific policies assigned to it in lieu of accepting a percentage share of the pool. All of the premiums, losses, loss adjustment expenses, and underwriting expenses for these policies are retained by the Company, subject to applicable reinsurance.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires, interviews and through review of the work performed by the Company's independent certified public accounting firm. Testing of the following key activities was performed: investments; premiums and underwriting; reserves and claims; reinsurance ceded and assumed; taxes and related parties. No material deficiencies were noted. The Company's claim inventory was tested on a sample basis for completeness and accuracy. No material errors or exceptions were detected.

The NAIC provides a questionnaire covering the evaluation of the controls in the IT systems environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the IT controls. In addition to the questionnaire, interviews with Company staff were conducted to gather supplemental information and corroborate the Company's responses to the questionnaire. A review was also made of the documentation supporting Management and Organization Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls, Logical and Physical Security Controls, Contingency Controls, Personal Computer, Local Area Network ("LAN"), Wide Area Network ("WAN") and Internet Controls. No material deficiencies were noted.

The Company maintains its accounts and records on an electronic data processing basis. All entries are input to this data processing system, which then generates general ledger and supporting reports, as well as other reports common to the insurance industry. No material exceptions were noted.

The books and records of the Company are audited annually by E & Y, independent certified public accountants, in accordance with 211 CMR 23.00 and 211 CMR 26.00.

Associated Industries of Massachusetts Mutual Insurance Company

STATUTORY DEPOSITS

<u>Jurisdiction</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Connecticut	U.S. Treasury Note .125% Due 4/30/15	\$ 50,000	\$ 49,928	\$ 49,948
Massachusetts	U.S. Treasury Note 1.5% Due 8/31/18	200,000	198,195	198,954
New Hampshire	FNMA 4.625% Due 10/15/14	50,000	50,000	51,748
U.S Department of Labor	U.S. Treasury Note 2.5% Due 4/30/15	200,000	200,636	206,064
		<u>\$ 500,000</u>	<u>\$ 498,759</u>	<u>\$ 506,714</u>

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2013. The financial statements are the responsibility of Company management. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2013

Statement of Income for the Year Ended December 31, 2013

Statement of Capital and Surplus as of December 31, 2013

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2013

Associated Industries of Massachusetts Mutual Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2013

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Assets			
Bonds	\$ 385,779,702	\$ 0	\$ 385,779,702
Common stocks	41,938,854		41,938,854
Cash and short term investments	8,586,932		8,586,932
Other Invested Assets	3,138,314		3,138,314
Subtotals, cash and invested assets	439,443,802	0	439,443,802
Investment income due and accrued	3,005,344		3,005,344
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	7,563,816		7,563,816
Deferred premiums, agents' balances booked but deferred and not yet due	28,799,347		28,799,347
Accrued retrospective premiums	261,083		261,083
Reinsurance:			
Amounts recoverable from reinsurers	4,124,058		4,124,058
Current federal and foreign income tax recoverable and interest thereon	228,740		228,740
Net deferred tax asset	9,392,478		9,392,478
Electronic data processing equipment	68,860		68,860
Aggregate write-ins for other than invested assets	38,724		38,724
 Total Assets	 <u>\$ 492,926,252</u>	 <u>\$ 0</u>	 <u>\$ 492,926,252</u>

Associated Industries of Massachusetts Mutual Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2013

	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Liabilities				
Losses	\$ 192,497,193	\$ 0	\$ 192,497,193	(1)
Loss adjustment expenses	43,298,526		43,298,526	(1)
Commissions payable, contingent commissions and other similar charges	3,845,000		3,845,000	
Other expenses	2,600,347		2,600,347	
Taxes, licenses and fees	5,492,152		5,492,152	
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$14,212,381)	45,917,928		45,917,928	
Advance premiums	2,447,524		2,447,524	
Ceded reinsurance premiums payable	10,085,351		10,085,351	
Amounts withheld on account of others	1,758,567		1,758,567	
Payable to parent, subsidiaries and affiliates	5,816,435		5,816,435	
Aggregate write-ins for liabilities	1,009,570		1,009,570	
Total liabilities	314,768,593		314,768,593	
Aggregate write-ins for special surplus funds	200,000		200,000	
Surplus notes	15,000,000		15,000,000	
Unassigned funds	162,957,659		162,957,659	
Surplus as regards policyholders	178,157,659	0	178,157,659	
Total Liabilities, Surplus and Other Funds	\$ 492,926,252	\$ 0	\$ 492,926,252	

Associated Industries of Massachusetts Mutual Insurance Company
Statement of Income
For the Year Ended December 31, 2013

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premiums earned	\$ 120,865,634	\$ 0	\$ 120,865,634
Deductions:			
Losses incurred	76,928,329		76,928,329
Loss adjustment expenses incurred	15,779,101		15,779,101
Other underwriting expenses incurred	29,474,954		29,474,954
Total underwriting deductions	122,182,384	0	122,182,384
Net underwriting gain (loss)	(1,316,750)	0	(1,316,750)
Net investment income earned	9,846,256		9,846,256
Net realized capital gains (losses) less capital gains tax or \$1,040,316	2,019,435		2,019,435
Net investment gain (loss)	11,865,691	0	11,865,691
Net gain (loss) from agents' or premium balances charged off	(733,629)		(733,629)
Aggregate write ins for miscellaneous income	2,294		2,294
Total other income	(731,335)	0	(731,335)
Net income before dividends to policyholders	9,817,606		9,817,606
Dividends to policyholders	270,257		270,257
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	9,547,349	0	9,547,349
Federal and foreign taxes incurred	1,572,605		1,572,605
Net Income (loss)	\$ 7,974,744	\$ 0	\$ 7,974,744

Associated Industries of Massachusetts Mutual Insurance Company
Statement of Capital and Surplus
As of December 31, 2013

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Surplus as regards policyholders, December 31, 2012	\$ 164,390,946	\$ 0	\$ 164,390,946
Net income	7,974,744		7,974,744
Change in net unrealized capital gains or (losses)	5,741,525		5,741,525
Change in net deferred income tax	(1,113,955)		(1,113,955)
Change in nonadmitted assets	1,178,399		1,178,399
Aggregate write ins for gains and losses in surplus	(14,000)		(14,000)
Change in surplus as regards policyholders for the year	<u>13,766,713</u>	<u>0</u>	<u>13,766,713</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$ 178,157,659</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 178,157,659</u></u>

Associated Industries of Massachusetts Mutual Insurance Company

Reconciliation of Capital and Surplus

For Each Year in the Five Year Period Ended December 31, 2013

	2013	2012	2011	2010	2009
Capital and Surplus, December 31, prior year	\$ 164,390,946	\$ 154,788,273	\$ 149,898,479	\$ 137,322,134	\$ 124,169,847
Net income	7,974,744	9,952,024	3,895,802	8,854,417	10,137,059
Change in net unrealized capital					
gains or (losses) less capital					
gains tax	5,741,525	2,142,650	294,832	1,864,186	2,468,942
Change in net deferred income tax	(1,113,955)	(524,574)	1,664,086	954,990	(1,541,443)
Change in nonadmitted assets	1,178,399	(1,953,427)	(950,926)	916,751	2,101,729
Aggregate write-ins for gains and losses in surplus	(14,000)	(14,000)	(14,000)	(14,000)	(14,000)
Net change in capital and surplus for the year	13,766,713	9,602,673	4,889,794	12,576,344	13,152,287
Capital and Surplus,					
December 31 current year	<u>\$ 178,157,659</u>	<u>\$ 164,390,946</u>	<u>\$ 154,788,273</u>	<u>\$ 149,898,479</u>	<u>\$ 137,322,134</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1 - Summary of Loss and Loss Adjustment Expense Reserves (“Loss and LAE Reserves”)

The Division engaged AGI Services to review the reasonableness of the loss and LAE reserves of the Company as of December 31, 2013. The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the Standard of Practice adopted by the Actuarial Standards Board.

AGI Services performed an analysis of the loss and LAE reserves evaluated as of December 31, 2013. With regard to comparisons to the estimates derived by the Company’s Appointed Actuary, Milliman, AGI Services notes that as of December 31, 2013, the Company held net loss and LAE reserves within the Appointed Actuary’s range of reasonable reserve estimates. The Company held net loss and LAE reserves of approximately \$235.8 million as of December 31, 2013; which is the central estimate of the Milliman range.

The consulting actuary, AGI Services, noted the central estimate of the net loss and LAE reserves of \$196.2 million is lower than the Company booked reserves of \$235.8 million by \$39.6 million, or 16.7% of reserves. The net booked reserves are higher than the AGI Services range of reasonable estimates from \$176.5 million to \$225.6 million by \$10.2.

The table below summarizes a comparison of AGI Service’s range of reasonable estimates for loss and LAE reserves to the Company’s net carried loss and LAE reserves as of December 31, 2013.

	Low Point of Range	Select Estimate	High Point of Range
AGI Services Estimate	\$176.5 million	\$196.2 million	\$225.6 million
Company Carried	235.8 million	235.8 million	235.8 million
Company Carried over/(Under)AGI Services	59.3 million	39.6 million	10.2 million

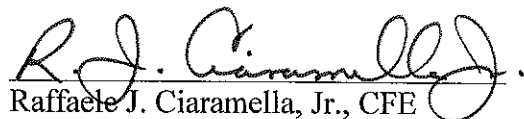
SUMMARY OF RECOMMENDATIONS

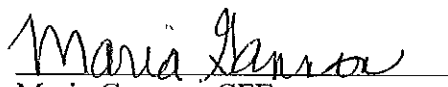
M.G.L. Chapter 175 Section 64 requires that investment transactions ratified by the Board be recorded in the minutes. The Board minutes do not include a recording of the investment transactions. Accordingly, the Company shall complete the required action to have the Secretary ensure that the investment transactions are recorded in the Board minutes.

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the course of the examination.

The assistance rendered by AGI Services who participated in this examination is hereby acknowledged.


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