

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

REPORT OF EXAMINATION OF THE
MONTGOMERY MUTUAL INSURANCE COMPANY

Boston, Massachusetts

As of December 31, 2013

NAIC GROUP CODE 00111

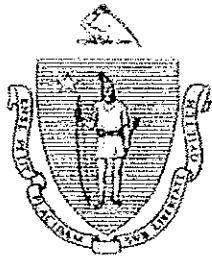
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MONTGOMERY MUTUAL INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
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May 20, 2015

Honorable Daniel R. Judson
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

MONTGOMERY MUTUAL INSURANCE COMPANY

at its home office located at 175 Berkeley Street, Boston, Massachusetts, 02116. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Montgomery Mutual Insurance Company (hereinafter referred to as the "Company," or "MMIC,") was last examined as of December 31, 2009 by the Massachusetts Division of Insurance ("Division"). The current Coordinated Group Examination covers the intervening period from January 1, 2010 through December 31, 2013, and any material transactions and/or events, occurring subsequent and noted during the examination.

The current examination was conducted at the direction of and under the overall management and control of the examination staff of the Massachusetts Division of Insurance in accordance with standards established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee, the requirements of the 2014 Edition of the NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division, and with Massachusetts General Laws. Representatives from the firm of PricewaterhouseCoopers LLP ("PwC") were engaged by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division examination staff. This assistance included a review of accounting records, information technology systems, taxes, investments, and actuarially determined loss and loss adjustment expense reserves of the Liberty Mutual Inter-company Reinsurance Pool (the "LMIC Pool"). Examination procedures performed by PwC were reviewed and approved by the Division. PwC was also engaged to conduct concurrent examinations of Liberty Mutual Insurance Company ("LMIC"), Liberty Mutual Mid-Atlantic Insurance Company ("LMMAIC") and Liberty Mutual Personal Insurance Company ("LMPIC"). Each of those examinations is the subject of separate reports.

The examination was conducted following the NAIC risk- focused examination process. The risk focused approach 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 NAIC Annual Statement Instructions and applicable domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. In addition to the foregoing, 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, employees' pension and benefits plans, 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.

The Company is audited annually by Ernst & Young LLP ("E&Y"), an independent certified public accounting firm, in accordance with 211 CMR 26.00. The firm expressed unqualified opinions on the Company's statutory financial statements for each of the years under examination. E&Y's audit work was evaluated and relied upon where deemed appropriate and effective. The work of the Company's internal auditors was also reviewed and relied upon to the extent deemed appropriate.

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SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings identified during the examination.

SUBSEQUENT EVENTS

Through exam procedures performed, no subsequent events have been identified that are relevant for inclusion within the exam report.

COMPANY HISTORY

General

The Company was incorporated under the laws of the state of Maryland on March 10, 1848. It first operated under the name "Mutual Fire Insurance Company of Montgomery County" until July 1, 1967, when it was merged with another company and changed its name to Montgomery Mutual Insurance Company. In 1996 it entered into an affiliation agreement with LMIC, and effective January 1, 1997, pooled 100% of its underwriting activity with the other members of the Liberty Mutual Group (the "Group"). LMIC has a controlling interest on the MMIC Board of Directors. Effective June 8, 2010, the Company transferred its domicile to the Commonwealth of Massachusetts.

The Company is a member of the Liberty Mutual Second Amended and Restated Intercompany Reinsurance Agreement whereby after external reinsurance, the Company cedes its net underwriting activity to the lead company in the LMIC Pool and its pooling participation is 0.00%. Therefore, the Company reports no underwriting activity or reserve development.

Dividends to Policyholders

There were no dividends to policyholders during the period of this examination.

CORPORATE RECORDS

Articles of Organization and Bylaws

The Company's articles of organization and bylaws were reviewed. There were no amendments to the articles of organization and bylaws for the period ended December 31, 2013.

Board of Directors Minutes

The minutes of the Board of Directors meetings for the period under examination were obtained and reviewed. The review indicated that all meetings were held in accordance with Company bylaws and the laws of the Commonwealth of Massachusetts.

Montgomery Mutual Insurance Company

Conflict of Interest Procedures

As a member of the Liberty Mutual Group the Company follows the guidelines established by the Group as they relate to conflict of interest. The Group has developed an enterprise-wide approach to corporate compliance that specifically includes the means to manage conflict of interest issues. The enterprise-wide approach includes a Code of Business Ethics and Conduct as a reference guide to help personnel define and understand appropriate standards of business conduct and to establish compliance requirements. The approach also has established procedures for the disclosure of possible conflicts of interest involving directors, officers and key employees. The Group has established an Office of Corporate Compliance with responsibility for managing this disclosure program, investigating potential conflict situations, and making recommendations to management for the resolution of any such conflicts. The Group's General Counsel reports the results of the annual disclosure process to the Chief Executive Officer and to the Board of Directors. As a member of the Group, MMIC follows all requirements of the approach and is an active participant in it. As part of the examination, the following were obtained and reviewed:

- The Code of Business Ethics and Conduct
- Conflict of interest disclosure forms provided by elected officers, key employees

Disaster Recovery and Business Continuity

The Company provides for the continuity of management in the event of a catastrophe or other emergency in accordance with sections 180M through 180Q of Chapter 175 of the Massachusetts General Laws.

MANAGEMENT AND CONTROL

Board of Directors

The Company is managed by a Board of Directors which is controlled by LMIC. At December 31, 2013, all Directors of the Company were inside Directors, and their names, together with their titles, were as follows:

<u>Name</u>	<u>Title</u>
Kristen M. Bessette	Chief Actuary Commercial Insurance, LMIG
Michael H. Hughes	President of Safeco Insurance
Kathryn M. Winn	VP General Counsel for Commercial Insurance
J. Paul Condrin, III	President Commercial Insurance, LMIG
Dexter R. Legg	VP, Secretary & Chief of Staff to CEO, LMIG
John D. Doyle	Vice President and Comptroller
Michael J. Lucas	VP, Liberty Mutual
Michael J. Fallon	CFO, Commercial Insurance, LMIG
Carol P. Sipe	Summit President and CEO

Committees of the Board of Directors

The Company's corporate governance structure does not include any direct board committees. As a member of the Group, all aspects of corporate governance for the Group as a whole are handled by Committees of the LMHC, including designated Executive, Investment, Audit, Nominating and Governance, Risk, Compensation, and Contributions Committees. This is in addition to the Board of Directors at the Company discussed above. These LMHC committees serve the Company in a governance perspective and are

Montgomery Mutual Insurance Company

responsible for the approval of entity level decisions, investment strategies and transactions, and compensation matters.

At the LMHC level, a list of members serving on the Committees is as follows:

<u>Audit Committee</u>	<u>Executive Committee</u>	<u>Nominating & Governance</u>
Nicholas M. Donofrio	Francis A. Doyle	Nicholas M. Donofrio
Francis A. Doyle	David H. Long	Francis A. Doyle
Martin P. Slark	Thomas J. May	Ellen A. Rudnick
Eric A. Spiegel	Ellen A. Rudnick	William C. Van Faasen
William C. Van Faasen	William C. Van Faasen	
Annette M. Verschuren	Annette M. Verschuren	
<u>Compensation Committee</u>	<u>Investment Committee</u>	<u>Risk Committee</u>
Charles I. Clough, Jr.	Charles I. Clough, Jr.	Charles I. Clough, Jr.
John P. Manning	Francis A. Doyle	David H. Long
Thomas J. May	David H. Long	Myrtle S. Potter
Myrtle S. Potter	John P. Manning	Ellen A. Rudnick
William C. Van Faasen	Thomas J. May	Martin P. Slark
	Martin P. Slark	Annette M. Verschuren
<u>Contributions Committee</u>	Eric A. Spiegel	
David H. Long	Annette M. Verschuren	
John P. Manning		
Ellen A. Rudnick		
William C. Van Faasen		

Officers

The elected principal senior officers and their respective titles at December 31, 2013 were as follows:

<u>Name</u>	<u>Title</u>
James P. Condryn, III	President and CEO
Dexter R. Legg	Secretary and Vice President
Laurance H. Soyer Yahia	Treasurer and Vice President
John D. Doyle	Vice President and Comptroller
Alex Fontanes	Vice President and Chief Investment Officer
Michael J. Fallon	Vice President and Chief Financial Officer
Kathryn M. Winn	Vice President and General Counsel

Affiliated Companies

As a mutual company MMIC is owned by its policyholders, however the Company is a member of the Liberty Mutual Holding Company, Inc., a Massachusetts insurance holding company and the direct parent of LMIC.

The Company has in place various management agreements with LMIC.

Acquisitions, Affiliates, and Key Transactions

- Pursuant to the approval of the state insurance authorities, effective January 1, 2013, the participants

Montgomery Mutual Insurance Company

of the Peerless Amended and Restated Reinsurance Pooling Agreement were added to the LMIC Pool. Also effective as of the same date, the Liberty Mutual Intercompany Reinsurance Agreement was renamed the Liberty Mutual Second Amended and Restated Intercompany Reinsurance Agreement, and the Peerless Amended and Restated Reinsurance Pooling Agreement was terminated.

Transactions and Agreements with Subsidiaries and Affiliates

Management Services Agreement

The Company is a part to a management services agreement (the "Agreement") with LMIC. Under the agreement, LMIC may provide the Company with office space, supplies, equipment, telephone and wire services, the use of computers and similar machines and services of personnel employed by LMIC and LMGI. Services provided include, but are not limited to, risk underwriting, claims processing, claims adjustments, policyholder services, contract management, and administration. LMIC is reimbursed for the cost of all services which it provides under the agreement.

Investment and Cash Management Agreements

The Company is a party to an investment management agreement with Liberty Mutual Group Asset Management ("LMGAM"), where LMGAM provides services to the Company.

Tax Sharing Agreement

The Company's federal income tax return is consolidated with other affiliates in the federal income tax return of LMHC. The income tax allocation is subject to a written tax sharing agreement and allocation is based upon separate return calculations with credit applied for losses as appropriate. The Company has the enforceable right to recoup prior year payments in the event of future losses.

Organizational Chart

LMIG operates in 30 countries and key markets around the globe which include 12 countries in Europe, nine countries throughout Asia and the Pacific, and eight countries in Latin America. In the United States there are 59 licensed insurance companies domiciled in nine different states. Additionally, there are a number of non-insurance entities within the LMIG organizational structure. Please refer to the Company's December 31, 2013 Annual Statement filing for a complete organizational chart.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, under a Financial Institutions Bond designed for insurance companies, consistent with Massachusetts General Laws, Chapter 175, Section 60. The aggregate limit of liability on these policies is in excess of NAIC suggested minimum amounts for fidelity insurance.. The Company is also a name insured, either itself or together with other subsidiaries and affiliates on policies with external carriers that provide coverage for aircraft liability, excess umbrella and property damage. The excess umbrella policies are with external carriers however, the lead umbrella carrier is Liberty Insurance Corporation. All policies evidencing the above coverages were with licensed and/or authorized insurers in Massachusetts and were in-force at December 31, 2013.

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PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not have any direct employees and therefore, does not have any direct obligations for a defined benefit plan, deferred compensation arrangements, compensated absences or other postretirement benefit plans. Services for operations of the Company are provided for under the management services agreement with LMIC.

TERRITORY AND PLAN OF OPERATION

Although licensed in 10 states and the District of Columbia, the Company primarily writes business in Maryland, North Carolina, South Carolina and Virginia. The Company writes both personal and commercial lines. 100% of written premium is ceded to the LMIC Pool.

GROWTH OF COMPANY

The growth of the Company for the years 2010 through 2013 is shown in the following schedule, which was prepared from the Company's statutory annual statements:

	Gross Written Premium	Net Written Premium	Admitted Assets	Liabilities	Surplus
2010	\$ 33,658,456	\$ -	\$ 48,290,043	\$ 3,463,303	\$ 44,826,740
2011	29,343,577	-	51,850,356	5,624,500	46,225,856
2012	26,117,315	-	51,505,138	3,933,076	47,572,062
2013	23,187,731	-	50,348,914	1,854,237	48,494,677

REINSURANCE

Liberty Mutual Inter-Company Reinsurance Pooling Agreement

As previously noted the Company is a member of the LMIC Pool. LMIC is the lead insurer of the Pool and as such is the principal administrator of all pooling operations. In addition, pursuant to the approval of the state insurance regulators, effective January 1, 2013, the participants of the Peerless Amended and Restated Reinsurance Pooling Agreement (including the Company) were added to the LMIC Pool and the Peerless Amended and Restated Reinsurance Pooling Agreement was terminated. After external reinsurance, all Pool participants cede 100% of underwriting operations to the Pool, and assume from the Pool their respective share of the net underwriting results of the Pool on a pro-rata basis. The Company's participation ratio is 0.00% and therefore do not report any net underwriting financial results.

ACCOUNTS AND RECORDS

The Company's accounts and records are maintained on a general ledger system consisting of a general ledger ("ledger") and numerous automated feeder systems which interface with the ledger. Manual entries are also input into the ledger. The ledger maintains account level detail on a company basis. The ledger interfaces with a

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reporting tool that is used to produce financial statements and supplemental reports.

All accounting entries have specific elements for company and statutory accounting basis. These elements serve as the basis for proper posting to the appropriate entity and accounting basis. Additionally, information is broken down into the appropriate segment, line of business and cost center. Cost center information is used to capture expense information and to allocate those expenses to various reporting entities by ratios determined by line of business and function. The core financial application systems include general ledger, accounts payable, and cash disbursements.

The accounts and records of the Company are subject to review by the Company's Corporate Auditing Department and are audited annually by Ernst and Young LLP, independent certified public accountants. No material deficiencies were noted in the Company's accounts and records in the course of this examination.

The internal control structure was examined using the following major approaches: review of the work performed by E&Y; discussions with management based on the use of the NAIC's Exhibit C Questionnaire and re-performance testing to the extent necessary and deemed appropriate.

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

STATUTORY DEPOSITS

The following identifies the statutory deposits maintained by the Company with numerous jurisdictions as of December 31, 2013:

		<i>Deposits with the State of Domicile For the Benefit of All Policyholders</i>		<i>All Other Special Deposits</i>	
		Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
Delaware	DE	\$ -	\$ -	\$ 118,829	\$ 131,055
Florida	FL	216,052	238,282	-	-
Massachusetts	MA	863,644	861,617	150,759	151,337
North Carolina	NC	1,028,250	1,004,746	-	-
South Carolina	SC	242,029	244,003	-	-
Tennessee	TN	-	-	162,039	178,712
Total		\$ 2,349,975	\$ 2,348,648	\$ 431,627	\$ 461,104

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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 for the Year Ended December 31, 2013

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

Montgomery Mutual Insurance Company

Montgomery Mutual Insurance Company Statement of Assets, Liabilities, Surplus and Other Funds For the year-ended December 31, 2013

	Per Company	Exam Changes	Per Examination
Bonds	\$ 46,593,649	\$ -	\$ 46,593,649
Common Stocks	154,748	-	154,748
Cash and Short-term investments	1,448,411	-	1,448,411
Securities lending reinvested collateral assets	49,036	-	49,036
Investment income due and accrued	335,949	-	335,949
Amounts recoverable from reinsurers	1,298,572	-	1,298,572
Current federal and foreign income tax recoverable and interest thereon	110,338	-	110,338
Receivables from parent, subsidiaries and affiliates	358,211	-	358,211
<i>Total assets</i>	<u>\$ 50,348,914</u>	<u>\$ -</u>	<u>\$ 50,348,914</u>
Net Deferred Tax Liability	\$ 16,038	\$ -	\$ 16,038
Ceded reinsurance premiums payable (net of ceding commissions)	1,664,157	-	1,664,157
Payable to parent, subsidiaries and affiliates	125,006	-	125,006
Payable for securities lending	49,036	-	49,036
<i>Total liabilities</i>	<u>1,854,237</u>	<u>-</u>	<u>1,854,237</u>
Unassigned funds (surplus)	<u>48,494,677</u>	<u>-</u>	<u>48,494,677</u>
<i>Total surplus as regards policyholders</i>	<u>48,494,677</u>	<u>-</u>	<u>48,494,677</u>
Total liabilities and surplus	<u>\$ 50,348,914</u>	<u>\$ -</u>	<u>\$ 50,348,914</u>

Montgomery Mutual Insurance Company

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Statement of Income

For the year-ended December 31, 2013

	<u>Per Company</u>	<u>Exam Changes</u>	<u>Per Examination</u>
Net investment income earned	\$ 1,348,225	\$ -	\$ 1,348,225
Aggregate write-ins for miscellaneous income	(458)	-	(458)
Federal and foreign income taxes incurred	423,000	-	423,000
Net income	<u>\$ 924,797</u>	<u>\$ -</u>	<u>\$ 924,797</u>

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Montgomery Mutual Insurance Company
Statement of Capital and Surplus
For the year-ended December 31, 2013

	<u>Per Company</u>	<u>Exam Changes</u>	<u>Per Examination</u>
Surplus as regards policyholders, December 31, 2012	\$ 47,572,062	\$ -	\$ 47,572,062
Net income	924,797	-	924,797
Change in net unrealized capital gains or (losses) less capital gains tax	6,822	-	6,822
Change in net deferred income tax	(12,327)	-	(12,327)
Change in nonadmitted assets	3,323	-	3,323
Change in surplus as regards policyholders for the year	922,615	-	922,615
Surplus as regards policyholders, December 31, 2013	<u>\$ 48,494,677</u>	<u>\$ -</u>	<u>\$ 48,494,677</u>

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Reconciliation of Capital and Surplus

For each of the four year periods-ended December 31, 2013


	2013	2012	2011	2010
Surplus as regards policyholders, beginning of year	\$47,572,062	\$46,225,856	\$44,826,740	\$43,728,662
Net income	924,797	1,346,347	1,374,887	1,281,688
Change in net unrealized capital gains or (losses) less capital gains tax	6,822	2,093	15,749	(2,184)
Change in net deferred income tax	(12,372)	(372,873)	(85,520)	(248,846)
Change in nonadmitted assets	3,323	370,639	94,000	67,420
Change in surplus as regards policyholders for the year	922,615	1,346,206	1,399,116	1,098,078
Surplus as regards policyholders, end of year	<u>\$48,494,677</u>	<u>\$47,572,062</u>	<u>\$46,225,856</u>	<u>\$44,826,740</u>

Montgomery Mutual Insurance Company

ACKNOWLEDGEMENT

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

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



John M. Curran, CFE
Supervising Examiner & Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance