

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

REPORT OF EXAMINATION OF
THE COMMERCE INSURANCE COMPANY

Webster, Massachusetts

As of December 31, 2013

NAIC GROUP CODE 0411

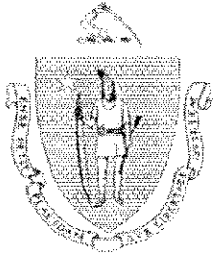
NAIC COMPANY CODE 34754

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COMMERCE INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
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May 28, 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

THE COMMERCE INSURANCE COMPANY

at its home office located at 211 Main Street, Webster, Massachusetts, 01570. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Commerce Insurance Company (hereinafter referred to as "Commerce", or the "Company") was last examined as of December 31, 2008 by the Massachusetts Division of Insurance ("Division"). The current Coordinated Group Examination covers the intervening period from January 1, 2009 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's 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 inter-company reinsurance pool (the "Commerce Pool"). Examination procedures performed by PwC were reviewed and approved by the Division. PwC was also engaged to conduct concurrent examinations of Citation Insurance Company, a Massachusetts domiciled affiliate insurer and Commerce Pool participant, and the subject of a separate examination report.

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 and 211 CMR 23.00. 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.

SUMMARY OF SIGNIFICANT FINDINGS

The Company's recorded liabilities for losses and loss adjustment expenses reserves was determined by examination to fall outside the range of reasonable values and an examination adjustment has been made. Additional information relating to this finding is detailed later in this report.

SUBSEQUENT EVENTS

The following item is noted as a "subsequent events," the disclosure of which in this Examination Report is considered appropriate.

Stockholder Dividends: The Company paid to its parent, MAPFRE USA an extraordinary dividend in the amount of \$193,543,007 during 2014.

COMPANY HISTORY

General

The Company was incorporated as a stock property and casualty insurer on September 15, 1971 under the laws of the Commonwealth of Massachusetts and commenced business in Massachusetts on May 10, 1972 and in New Hampshire in 2001. The Company was a wholly-owned subsidiary of the former Commerce Group, Inc, ("CGI") a publicly traded Massachusetts Insurance Holding Company. Effective June 2008, MAPFRE S.A. acquired CGI and CGI was renamed MAPFRE U. S. A. Corp., ("MAPFRE USA") effective January 1, 2010. Prior to its acquisition by MAPFRE USA, CGI was a publicly traded insurance holding company listed on the New York Stock Exchange. MAPFRE USA is a privately held Insurance Holding Company domiciled in Massachusetts. MAPFRE USA is a member of the MAPFRE international group of insurers, which is headquartered in Spain and operates in over 49 countries.

Effective January 1, 2004, the Company and its insurance subsidiaries and affiliates entered into an inter-company reinsurance pool whereby the Company was and remains the lead insurer of the MAPFRE USA group which at December 31, 2013 consisted of seven property and casualty insurers.

The Company is the largest writer of personal property and casualty insurance in Massachusetts and is the largest writer of personal automobile insurance. The Company also writes property and casualty insurance in the State of New Hampshire. In 2008, the private passenger automobile insurance market in Massachusetts began significant regulatory reform in an effort to introduce managed competition and in April 2008, each insurer was permitted to file and use its own rates subject to disapproval by the Commissioner, which replaced the previous system of fixed and established rates. Other regulatory changes were also implemented which would eventually decrease the Company's market share however it is still the largest writer of personal automobile insurance in the state.

Capital Stock

The Company has authorized, issued, and outstanding 50,000 shares of common capital stock with a par value of \$50.00 per share. All of the outstanding capital stock is owned by MAPFRE USA.

Commerce Insurance Company

Dividends to Stockholders

The following table illustrates the total ordinary and extraordinary dividends paid by the Company to its parent, MAPFRE USA, during the period covered by this examination:

	<u>Dividends Paid</u>
2009	\$ 97,750,000
2010	108,672,989
2011	109,547,842
2012	98,770,810
2013	196,087,255
Total	<u><u>\$610,828.896</u></u>

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 or bylaws for the period ended December 31, 2013.

Board of Directors Minutes

The minutes of the Board of Directors and Committee 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.

Conflict of Interest Procedures

The Company has adopted the following policies which address conflict of interest and other corporate governance areas: Code of Ethics; Conflict of Interest; and Code of Good Governance. The Code of Ethics and the Conflict of Interest policies are maintained as part of the Company's Human Resources Policy Guide. The Code of Good Governance is a document established by the ultimate parent company and requires the Compliance Committee of MAPFRE USA to report annually, as needed, to the respective board of directors and to the Institutional Board of Oversight at the ultimate parent level any warranted exceptions to the Code of Governance that may have occurred.

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

Annual Meeting of the Stockholder

As the sole stockholder of the Company, the Board of Directors of MAPFRE USA has voted to waive notice of the annual meeting and hold the annual meeting when and if deemed necessary.

Board of Directors

The Company is managed by a Board of Directors, the Chairman of which presides at stockholder meetings and meetings of the Board. The Board consists of not less than five or more than twenty. Directors are elected for a period of one year and shall serve until their successors are respectively elected and qualified.

The Board of Directors meets regularly throughout the year and may, in accordance with the bylaws hold special meetings or take action by unanimous written consent. A review was made of the minutes of meetings for the five-year period covered by this examination. During the examination period, the Board met at least four times during each calendar year.

Directors as of December 31, 2013, along with their titles and affiliation were as follows:

Name	Title and Affiliation
Randall V. Becker	Executive Vice President and CFO
Domingo Sugranyes Bickel	Member of Board of Trustees of Fundacion MAPFRE, Member of the Board of Directors of MAPFRE Internacional
Gerald Fels (*)	Chairman, <i>retired</i>
Javier Fernandez-Cid	Chairman of MAPFRE Internacional and MAPFRE USA
Mark A. Shaw	President of AAA of Southern New England
Jaime Tamayo	President and CEO
Esteban Tejera	General Manager of MAPFRE SA
Edward L. Timmes, CPA	Financial Consultant
Luis Manuel Viceira Alguacil	Professor at Harvard Business School
(*) <i>Mr. Fels Retired Effective 12/31/13</i>	

Committees of the Board of Directors

During the period covered by this examination, the Company had in place an Audit Committee, the purpose of which is to oversee the work of the independent auditor and to carry out such other duties and responsibilities as the Board may delegate to the committee in compliance with the articles of organization and the bylaws and applicable law.

Members of the Commerce Audit Committee as of December 31, 2013 were as follows:

Domingo Sugranyes, Chairman
Randall V. Becker
Edward Timmes
Luis Viceira

Commerce Insurance Company

As of the date of this examination, many aspects of corporate governance for the Group as a whole are handled by Committees of MAPFRE USA, including an Audit Committee, Investment Strategy Committee and an Executive and Compensation Committee

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

Audit Committee

Domingo Sugranyes, Chair
Edward Timmes
Luis Viceira

Investment Strategy Committee

Jaime Tamayo
Daniel P. Olohan
Eric Trigilio
Edward Timmes
Leoncio Alcaide
Luis Viceira
Patrick Dolan
Randall V. Becker
Robert E. McKenna

Executive and Compensation Committee

Javier Fernandez-Cid
Domingo Sugranyes
Edward Timmes
Luis Viceira

In addition to the above, the audit committee of MAPFRE USA has directed the General Counsel to establish, oversee, and ensure adherence with the Corporate Compliance Program and has appointed the General Counsel to serve as the Chief Compliance Officer and as the Chairman of the Corporate Compliance Committee. The Chief Compliance Officer provides reports regarding the Corporate Compliance Program to the Chief Executive Officer and the Audit Committee.

Officers

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

<u>Name</u>	<u>Title</u>
Jaime Tamayo	President and CEO
Randall V. Becker	Executive Vice President and CFO
Daniel P. Olohan (*)	Executive Vice President and General Counsel
David Cochrane	Executive Vice President
Cathleen Moynihan (*)	Executive Vice President
Patrick McDonald (*)	Executive Vice President
Javier Gonzalez Montero (*)	Executive Vice President
Robert E. McKenna	Senior Vice President
Eric Trigilio (*)	Senior Vice President
Steven Shiner (*)	Senior Vice President
John Kelly (*)	Senior Vice President
Ruben Santos	Senior Vice President

(*) Denotes serving in current role since 2014

Commerce Insurance Company

Affiliated Companies

The Company is a member of a holding company system and is subject to the registration requirements of Chapter 175, Section 206C of the Massachusetts General Laws. FUNDACION MAPFRE is the "ultimate controlling person" of the Group per Form B, as filed with the Division. The following is an abbreviated summary of the organization structure based on Schedule Y:

MAPFRE S.A.

MAPFRE International, S.A.

MAPFRE USA Corporation

Commerce Insurance Company

MAPFRE Insurance Company

MAPFRE Insurance Company of Florida

Citation Insurance Company

ACIC Holding Co. Inc.

American Commerce Insurance Company

Commerce West Insurance Company

MAPFRE Insurance Company of New York

In addition to the above, the Company is affiliated with other entities of the Group owned and or controlled by its ultimate parent.

Acquisitions, Affiliates, and Key Transactions

- In 2009, the Company acquired ownership in three companies including MAPFRE Insurance Company of Florida ("MAPFRE FL"); MAPFRE Insurance Company ("MAPFRE NJ"); and MAPFRE Intermediaries, Inc. MAPFRE FL and MAPFRE NJ are property and casualty insurers domiciled in Florida and New Jersey respectively and are members of and participants in the Commerce Group Inter-company Reinsurance Pool. MAPFRE Intermediaries, Inc, is an insurance agency based in Florida.

Transactions and Agreements with Subsidiaries & Affiliates

Management Cost Allocation Agreement

The Company has in place a Management Cost Allocation Agreement which provides that the Company is charged or reimbursed for services rendered by the Company or insurance affiliates and entails 1) investment related and 2) non-investment related services. Costs pertaining to investment related services are actual cost born by the Company which, per agreement, were determined to be the total rate of 15 basis points per annum times the investment balance at each regular calendar quarter. Non-investment related charges are based on actual cost. Loss adjustment expenses are apportioned through studies in accordance with SSAP No. 70. Expenses other than investment and loss adjustment expenses will be apportioned to each company based on its direct written premium relative to that of the Company.

Tax Sharing Agreement

The Company's federal income tax return is consolidated with other affiliates in the federal income tax return of MAPFRE USA. The income tax allocation is subject to a written tax sharing agreement and allocation is based upon separate return calculations with current payment for losses and other tax items utilized in the

consolidated return.

Organizational Chart

The Company is a member of the MAPFRE S.A. Insurance Group, which is the leading insurer in Spain and operates in over 49 countries and five continents. MAPFRE USA Group actively writes property and casualty business in 16 states. Additionally, there are a number of non-insurance entities within the MAPFRE 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 providing protection against various exposures including property, employer liability, general liability, and excess umbrella liability. All policies evidencing the above coverage's were with licensed and/or authorized insurers in Massachusetts and were in-force at December 31, 2013.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's ultimate parent, MAPFRE USA, sponsors a 401(k) retirement plan for which substantially all employees are eligible. The 401(k) plan includes a matching contribution from the Company of 50% of the first 6% of eligible compensation contributed by the participant to the plan. In addition profit sharing contributions shall be made by the Company with respect to each plan year in an amount equal to 3% of each eligible participants covered compensation.

MAPFRE USA has an Incentive Compensation Plan which provides for the award of Incentive Awards (IA'S). At the discretion of the MAPFRE USA Board of Directors all officers and other management employees are eligible to participate in the plan. IA's entitle recipients to cash payments at a specified settlement date, subject to certain specified conditions. The cash payments are based upon reported net earnings and direct written premium of MAPFRE USA over the one year period of the grant.

TERRITORY AND PLAN OF OPERATION

The Company is the largest member of the Group and the lead insurer of the inter-company reinsurance pool. The Company is the largest writer of private passenger auto insurance, homeowners' insurance, and commercial automobile insurance in Massachusetts. The Company distributes its' products primarily through a network of approximately 4,200 independent agents and brokers, although other distribution channels are utilized by other members of the group in other states. The Company is rated "A" (Excellent) by A.M. Best Company.

Treatment of Policyholders

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, 2013 through December 31, 2013. The market conduct examination was called pursuant to authority in Massachusetts General Laws 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 of Rudmose and Noller Advisors, LLC were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Regulation Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The business areas that were reviewed under this comprehensive market conduct examination are Company Operations/Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; Underwriting and Rating and Claims. Each business area reviewed includes the identification and evaluation of the insurer's internal controls.

GROWTH OF COMPANY

The growth of the Company for the years 2009 through 2013 is shown in the following schedule, which was prepared from the Company's statutory Annual Statement filings:

	Gross Written Premium	Net Written Premium	Admitted Assets	Liabilities	Surplus
2009	\$1,746,223,248	\$1,258,605,932	\$2,553,164,354	\$1,503,403,278	\$1,049,761,076
2010	1,870,239,892	1,332,718,706	2,645,581,661	1,570,886,363	1,074,695,298
2011	1,955,429,431	1,391,374,106	2,672,532,381	1,684,824,278	987,708,103
2012	1,954,513,370	1,209,756,425	2,372,600,306	1,374,764,222	987,836,084
2013	2,051,803,619	1,320,301,408	2,272,106,979	1,437,350,524	834,756,455

REINSURANCE

The Company's reinsurance program primarily consists of ceded business in the form of excess of loss, quota share, catastrophe contracts, and facultative treaties. The principal assuming company is MAPFRE RE, the reinsurance subsidiary of MAPFRE S.A. and an affiliate of MAPFRE USA and the Company.

Catastrophe coverage is provided for by two separate agreements with MAPFRE RE, one of which is specifically for MAPFRE FL and one for the remaining MAPFRE USA companies. The catastrophe programs have the following layers:

Layers	Main Program		Florida Only Program	
First	\$ 50,000,000 excess	\$ 50,000,000	\$15,000,000 excess	\$10,000,000
Second	150,000,000 excess	100,000,000	25,000,000 excess	25,000,000
Third	200,000,000 excess	250,000,000		None
Fourth	350,000,000 excess	450,000,000		None
Fifth	200,000,000 excess	800,000,000		None

Various retention levels are used across each layer. The main program does not cover comprehensive

automobile, however the main program does cover all FAIR plan-type participation in excess of any reinsurance purchased by any of the plans.

Effective January 1, 2013, the Company entered into a per risk excess of loss treaty with MAPFRE RE for personal homeowner property business. The treaty has two layers; first layer is for \$1.1 million excess of \$1.1 million and the second layer is for \$2.2 million excess of \$2.2 million subject to limitations of \$1.6 million for the first layer and \$4.4 million for the second layer.

Effective July 1, 2013, the Company entered into a 28% quota share agreement with MAPFRE RE covering all property and casualty non-automobile business, but excluding umbrella and general liability and also excluding Florida other than auto business.

The Company has in place with MAPFRE RE a casualty clash cover on an excess of loss basis for any one event or occurrence with a maximum recovery of \$8.0 million over a net retention of \$2.0 million.

The Company has in place an umbrella quota share treaty with MAPFRE RE which covers various umbrella policies. Different lines of business and exposure limits have different quota share percentages and coverage limits. Policies covered under this agreement include personal and commercial liability umbrella policies and business owner policies.

The Company has in place with General Reinsurance Corp (Gen Re") four facultative reinsurance agreements whereby the Company reinsures personal and commercial lines. The Company began placing personal property facultative reinsurance with MAPFRE RE effective January 1, 2012. There is also a facultative reinsurance agreement with Gen Re for commercial business written by MAPFRE FL.

American Nuclear Insurers

The Company is a member company of the American Nuclear Insurers, which is a non-profit, unincorporated association of insurers through which members provide, on a several and not joint basis, property insurance protection and nuclear energy liability insurance protection. Members may participate in the pool by being a direct writing member, a ceding member, an assuming member or any combination thereof. The Company participates as a ceding and assuming member.

Massachusetts Automobile Insurance Plan

In 2008, the Massachusetts Commissioner of Insurance implemented the Massachusetts Automobile Insurance Plan (MAIP) to provide private passenger automobile insurance for those individuals unable to obtain insurance in the voluntary market. MAIP ultimately replaced Commonwealth Automobile Reinsurers (CAR), and now MAIP assigns individuals directly to an insurance company, as opposed to CAR. As the largest writer of automobile insurance in Massachusetts, this change had an impact on the Company's automobile book of business and pricing of those risks.

Inter-Company Reinsurance Pooling Agreement

The Company and its insurance affiliates participate in an inter-company reinsurance pooling agreement (Commerce Pool) in which the companies share underwriting profit and losses in proportion to their pool participation percentages. The pooling agreement allows all companies to rely on the capacity of the entire

Commerce Insurance Company

pool rather than on their own capital and surplus. The Company is the lead insurer of the Commerce Pool and as such assumes the direct business of all pool participants. All external reinsurance, in the form of catastrophe, quota share, facultative and excess of loss contracts is ceded to the external reinsurers by the Company. The Company then cedes the net business after external reinsurance back to its affiliates (pool participants) at the stated pool participation percentages.

Pool participants and their respective pro-rata pooling percentages as of December 31, 2013 are as follows:

Company	NAIC CoCode	Pooling Percentage
Commerce Insurance Company (Lead Company)	34754	71.2%
Citation Insurance Company	40274	7.4%
American Commerce Insurance Company	19941	9.1%
Commerce West Insurance Company	13161	4.6%
MAPFRE Insurance Company of New York	25275	3.9%
MAPFRE Insurance Company of Florida	34932	2.1%
MAPFRE Insurance Company (NJ)	23876	1.7%

ACCOUNTS AND RECORDS

The Company's accounts and records are maintained on a general ledger system consisting of a general ledger and numerous automated feeder systems which interface with the ledger. Manual entries are also input into the general ledger. The accounts and records of the Company are subject to review by the Company's Corporate Auditing Department and are audited annually by Ernst & 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 B and Exhibit C Questionnaires, and re-performance testing to the extent necessary and deemed appropriate.

The books and records of the Company are audited annually by E&Y, in accordance with 211 CMR 26.00 and 211 CMR 23.

Commerce Insurance Company

STATUTORY DEPOSITS

The following identifies the statutory deposits maintained by the Company 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
California			\$100,510	\$98,945
Massachusetts	\$1,579,003	\$1,576,796		
Total	\$1,579,003	\$1,576,796	\$100,510	\$98,945

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 Five-Year Period Ended December 31, 2013

Commerce Insurance Company

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

	Per Annual Statement
Bonds	\$1,347,389,216
Preferred stock	95,315,300
Common stock	81,874,566
Real estate: Property occupied by the company	46,761,755
Cash, cash equivalents, and short-term investments	39,846,921
Other invested assets	47,457,014
Receivable for securities	579,340
Subtotals, cash and invested assets	1,659,224,112
Investment income due and accrued	14,054,422
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	116,140,184
Premium and agents balances deferred and not yet due	331,443,059
Amounts recoverable from reinsurers	42,319,534
Funds held or deposited with reinsured companies	618,264
Current federal income tax recoverable	5,942,873
Net Deferred tax assets	64,576,120
EDP equipment and software	7,575,406
Receivable from parent, subsidiaries and affiliates	3,950,248
Aggregate write-ins for other than invested assets	26,262,757
Total Assets	\$2,272,106,979
Losses	\$435,282,218
Reinsurance payable on paid losses and loss adjustment expense	34,383,301
Loss adjustment expense	108,179,927
Commissions payable, contingent commissions and other similar charges	33,316,408
Other expenses	35,716,548
Unearned premiums	654,601,822
Advance premium	27,046,561
Ceded reinsurance premium payable	53,437,161
Funds held by company under reinsurance treaties	45,137,394
Amounts withheld or retained by company for account of others	551,781
Provision for reinsurance	249,555
Payable for securities	6,060,100
Aggregate write-ins for liabilities	3,387,748
Total Liabilities	1,437,350,524
Common capital stock	2,500,000
Gross paid in and contributed surplus	202,399,102
Unassigned funds (surplus)	629,857,353
Surplus as regards policyholders	834,756,455
Total liabilities and policyholder surplus	\$2,272,106,979

Commerce Insurance Company

Commerce Insurance Company
Statement of Income, Capital and Surplus
For the Year Ended December 31, 2013

	Per Annual Statement
Underwriting Income	
Premiums earned	\$1,286,152,714
Deductions	
Losses incurred	801,136,954
Loss adjustment expenses incurred	144,200,293
Other underwriting expenses incurred	370,115,022
Aggregate write-ins for underwriting deductions	(388,751)
Total underwriting deductions	1,315,063,518
Net underwriting gain (loss)	(28,910,804)
Investment Income	
Net investment income earned	79,883,950
Net realized capital gains or (losses)	13,151,585
Net investment gain or (loss)	93,035,535
Other Income	
Finance and service charges not included in premiums	36,255,528
Aggregate write-ins for miscellaneous income	9,385
Total other income	36,264,913
Net income before dividends to policyholders and before federal income taxes	100,389,644
Foreign and federal income taxes incurred	12,372,636
Net income	\$88,017,008
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	987,836,084
Net income	88,017,008
Change in net unrealized capital gains or (losses)	(11,254,678)
Change in net deferred income tax	(3,956,365)
Change in nonadmitted assets	(27,575,787)
Change in provision for reinsurance	(12,906)
Dividends to stockholders	(196,087,255)
Aggregate write-ins for gains and losses in surplus	(2,209,646)
Change in surplus	(153,079,629)
Surplus as regards policyholders, December 31 current year	\$834,756,455

Commerce Insurance Company

Commerce Insurance Company
Reconciliation of Capital and Surplus
For Each Year in the Five Year Period Ended December 31, 2013

Per Annual Statement

	2013	2012	2011	2010	2009
Surplus as regards policyholders, December 31 previous year	\$987,836,084	\$987,708,103	\$1,074,695,298	\$1,049,761,076	\$977,827,584
Net income (loss)	88,017,008	106,087,255	44,839,234	109,547,842	108,672,989
Change in net unrealized capital gains or (losses)	(11,254,678)	7,732,598	(4,932,950)	22,808,381	44,480,201
Change in net deferred income taxes	(3,956,365)	(21,277,134)	(2,044,857)	(8,461,015)	(11,793,937)
Change in nonadmitted assets	(27,575,787)	(7,616,793)	(10,544,019)	10,142,847	25,303,836
Change in provision for reinsurance	(12,906)	(124,649)	(112,000)		
Surplus adjustments: Paid in					(3,132,772)
Dividends to stockholders	(196,087,255)	(98,770,810)	(109,547,842)	(108,672,989)	(97,750,000)
Aggregate write-ins for gains and losses in surplus	(2,209,646)	14,097,514	(4,644,761)	(430,844)	6,153,175
Change in surplus	(153,079,629)	127,981	(86,987,195)	24,934,222	71,933,492
Surplus as regards policyholders, December 31 current year	\$834,756,455	\$987,836,084	\$987,708,103	\$1,074,695,298	\$1,049,761,076

Commerce Insurance Company

Analysis of Changes To Surplus Resulting from the Examination

Surplus at December 31, 2013 per Annual Statement		\$834,756,455
	<u>Increase</u>	<u>(Decrease)</u>
Losses		\$33,526,000
Loss Adjustment expenses		8,331,000
Net Increase / (Decrease)		<u>(41,858,000)</u>
Surplus at 12/31/13 after adjustments		<u>\$792,898,455</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Summary of Loss and Loss Adjustment Expense Reserves ("Loss and LAE Reserves")

The Division retained PwC to review the reasonableness of Commerce's loss and loss adjustment expense reserves as of December 31, 2013. In order to review the reasonableness of its reserves, PwC reviewed the reasonableness of the Commerce Pool's reserves. The pooling agreement described in the Reinsurance section of this report identifies all members of the pool as well as each entity's pro-rata share of the pool's underwriting results. The actuarial review process included individual consideration of the pool's direct, assumed and ceded components in order to determine the reasonableness of its net loss and loss adjustment expense reserves. The net result for the pool is then allocated to individual pooling members based on its pro-rata share of the pool. The following table illustrates the Company's carried reserves in comparison to PwC's analysis:

<u>Commerce Inter-Company Reinsurance Pool (Total Pool)</u> (in \$ thousands)					
	<u>PwC Estimates</u>			<u>Total Pool Carried</u>	<u>(Deficiency) Vs. Indicated</u>
	<u>Low</u>	<u>Indicated</u>	<u>High</u>		
Net Pooled Loss & LAE	\$780,966	\$822,069	\$863,172	\$763,280	\$ (58,789)
<u>Commerce Insurance Company Net Loss and LAE Reserves (71.2% of total pool)</u> (in \$ thousands)					
	<u>PwC Estimates</u>			<u>Company Carried</u>	<u>(Deficiency) Vs. Indicated</u>
	<u>Low</u>	<u>Indicated</u>	<u>High</u>		
CIC Net Loss and LAE Reserves (71.2% Participation)	\$556,047	\$585,313	\$614,579	\$543,455	\$ (41,858)

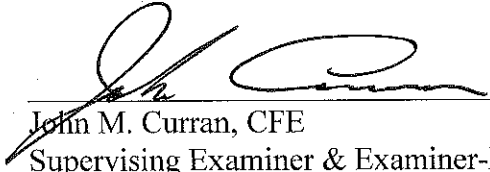
As can be seen, the Company's carried reserves fall below PwC's indicated value and fall below PwC's range of reasonable estimates. During 2014, the Company observed adverse development in prior accident years. In response to the adverse emergence, the Company's actuarial department was able to identify the root cause of problem and indentified the years effected (2009 through 2011 and a small amount in 2102). Based on a number of studies and analysis, management determined that reserve strengthening was necessary and booked an additional \$13.8 million of adverse development in September, 2014 and an additional \$11 million during the fourth quarter of 2014, to total pool reserves, as they continued to identify adverse development and refine future reserves. As a result, the Company's reserve position as of 12/31/14 is relatively stronger than the position that existed at 12/31/13.

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 standards of practice adopted by the Actuarial Standards Board.

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.



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