



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

REPORT OF EXAMINATION OF THE
AUTOMOTIVE INDUSTRIES COMPENSATION CORPORATION

Chicopee, Massachusetts

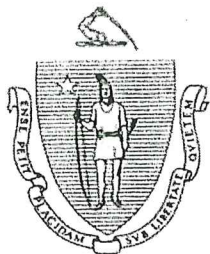
As of December 31, 2017

EMPLOYER ID NUMBER 04-3259998

AUTOMOTIVE INDUSTRIES COMPENSATION CORPORATION

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COMMONWEALTH OF MASSACHUSETTS
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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

November 4, 2019

The Honorable Gary D. Anderson
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 152, Section 25I, an examination has been made of the financial condition and affairs of the

AUTOMOTIVE INDUSTRIES COMPENSATION CORPORATION

at its administrative office located at 711 East Main Street, Suite 201, Chicopee, Massachusetts, 01020. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Automotive Industries Compensation Corporation. ("AICC" or "Group") was last examined as of December 31, 2014 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the three-year period from January 1, 2015 through December 31, 2017, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Group by obtaining information about the Group, including corporate governance, identifying and assessing inherent risks within the Group, and evaluating system controls and procedures used to mitigate those risks.

All accounts and activities of the Group were considered in accordance with a modified risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Group's financial statements.

This examination report includes significant findings of fact, and general information about the Group and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Group.

The Group is audited annually by Shores, Tagman, Butler & Company, P.A, an independent certified public accounting firm. The firm expressed unqualified opinions on the Group's financial statements for the calendar years 2015 through 2017. A review and use of the Certified Public Accountants' work papers were made to the extent deemed appropriate and effective.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

Fund Deficit

Massachusetts General Laws, Chapter 152, Section 25R and 211 Commonwealth of Massachusetts Regulation ("CMR") 67.14 require that a deficit in any fund year be made up with an assessment of members. A fund year deficit exists for each year 2013, 2014, 2015 and 2016. It is recommended that each of the fund year's deficits be made up immediately by assessing the members. We note the Group and its Administrator are actively addressing this situation.

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Security for Liquid Assets below Reserves

In 2017 the Group's liquid assets were less than its reserves. The Group failed to provide security for this difference as required under 211 CMR 67.08.

Advance Premium

The Group did not comply with Massachusetts General Laws, Chapter 152, Section 25Q and 211 CMR 67.06 requiring that the Group collect at least twenty-five percent of each member's annual premium prior to the start of the Group's fund year. It is recommended that the Group comply with the above noted statute and regulation. In addition, 211 CMR 67.08 requires the Group to adhere to NAIC Accounting Practices and Procedures as well as NAIC Annual and Quarterly Financial Statement Reporting Guidelines in reporting these advance premium payments.

Unclaimed Property

It was noted during the previous examination that the Group had not filed its unclaimed property report in compliance with 960 CMR 4 and Massachusetts General Laws, Chapter 200A, Section 7. Although the Group has since filed the unclaimed property report, the filing was incomplete as all escheatable funds were not remitted. It is recommended that proper controls and procedures are put in place to ensure that all escheatable funds are remitted to the Massachusetts Office of State Treasurer.

GROUP HISTORY

General

The Group was organized on December 27, 1994, and commenced business within the Commonwealth of Massachusetts on January 1, 1995, pursuant to and in accordance with Massachusetts General Laws, Chapter 180, to establish a not-for-profit association of employers to constitute a workers' compensation self-insurance group. The Group was created consistent with Massachusetts General Laws, Chapter 152, Sections 25E through 25U, and 211 CMR 67.00 to provide workers' compensation coverage for a group of eligible companies which are engaged in the automotive industry. The Automotive Wholesalers Association of New England is the sponsoring organization, and all members of the Group must be members in good standing of this sponsoring organization.

The Group, by a written management services agreement, engages FutureComp to perform and manage the day-to-day activities of the Group. FutureComp is a subsidiary of USI Insurance Services.

Dividends

The Group may accrue dividends from a fund year's operating results and make a dividend distribution to the members in accordance with the formula guidelines provided for by 211 CMR

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67.08. Due to operating losses the Group did not pay dividends during the exam year, rather declared following amounts as reductions to dividends payable to policyholders (members) during the period covered by this examination:

2017	\$(453,079)
2016	(634,750)
2015	(178,778)

MANAGEMENT AND CONTROL

Board of Directors Minutes

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

Article of Organization and Bylaws

The articles of organization and bylaws of the Group were reviewed. There were no changes to the articles of organization and bylaws during the examination period. Further, the Group has been in compliance with the article of organization and bylaws.

Board of Directors

According to the bylaws, the Group's business shall be managed by a Board of Directors which may exercise all of the powers of the Group, except as otherwise provided by the articles of organization, by law, or the bylaws. The Board of Directors shall consist of not fewer than three Directors nor more than the number of members in the Group. The Group's Board of Directors consisted of the following individuals:

<u>Name of Directors</u>	<u>Title</u>
Mike Lindley	President, McMar, Inc.
Mike Gardner	President, Penta-G Corporation
Karyn Barretto	Vice President of Operations, Automotive Wholesalers Association of New England
Robert York	Chairman, Automotive Wholesalers Association of New England
Craig Barrett	Owner & General Manager, Wareham Ford
Philip Healy	Executive Director, Automotive Wholesalers Association of New England
Richard Delaney	Dealer Principal, Dave Delaney's Columbia Collision Center
Bill Johnson	President, Pleasant Street Auto Body & Repair, Inc.
Sarah Foster	Benefits Manager, Quirk Chevrolet Manchester

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Jim Condon	Director HR & Risk Management, Wagner & Wagner Auto Sales, Inc.
Jesse Kaplan	General Manager, GEM Auto Parts Co., Inc.

Officers

Officers of the Group as of December 31, 2017 were as follows:

<u>Name of Officers</u>	<u>Title</u>
Mike Lindley	President and Treasurer
Mike Gardner	Vice President and Clerk

Management Services Agreement

The Group has in place a Management Services Agreement with FutureComp whereby the management company has the authority and responsibility to conduct, supervise and manage the day-to-day operations of the Group. Included in the scope of this agreement are all accounting and reporting functions; premium billing, collection and underwriting; claim administration and case management; and all other administrative functions deemed necessary.

TERRITORY AND PLAN OF OPERATION

The Group is permitted to transact workers' compensation business only in the Commonwealth of Massachusetts to qualifying members which are engaged in the Massachusetts automotive industry. The Group reported \$8.35 million of 2017 direct premium written in Massachusetts.

REINSURANCE

Ceded Reinsurance

The Group maintains specific and aggregate excess workers compensation coverage through Midwest Employers Casualty Company, which is licensed and authorized in the Commonwealth of Massachusetts and rated "A+" by A.M. Best & Company. The Group's specific retention for 2017 was \$850,000. The limits of liability per occurrence and in aggregate for each year under examination were \$5,000,000.

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FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Group with the Division and present the financial condition of the Group for the period ending December 31, 2017. The financial statements are the responsibility of Group management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2017

Statement of Income for the Year Ended December 31, 2017

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Statement of Assets, Liabilities, Surplus and Other Funds As of December 31, 2017

	Per Annual Statement
ASSETS	
Bonds	\$ 4,078,742
Cash, cash equivalents and short-term investments	1,357,519
Subtotals, cash and invested assets	<u>5,436,261</u>
Investment income due and accrued	23,537
Uncollected premiums and agents' balances	43,264
Amounts recoverable from reinsurers	38,956
Total Assets	<u>\$ 5,542,018</u>
LIABILITIES	
Losses	\$ 5,244,193
Loss adjustment expenses	599,023
Other expenses	64,276
Taxes, licenses and fees	33,514
Dividends declared and unpaid: Policyholders	(410,882)
Ceded reinsurance premiums payable	11,894
Total Liabilities	<u>5,542,018</u>
SURPLUS	
Surplus as regards policyholders	<u>-</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 5,542,018</u>

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Statement of Income For the Year Ended December 31, 2017

	Per Annual Statement
Premiums earned	\$ 7,673,506
Deductions:	
Losses incurred	5,565,448
Loss adjustment expenses	1,029,488
Other underwriting expenses	1,585,695
Total underwriting deductions	<u>8,180,631</u>
Net underwriting gain (loss)	(507,125)
 Net investment income earned	 69,483
Net realized capital gains (losses) less capital gains tax	<u>(15,437)</u>
Net investment gain (loss)	54,046
 Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	 (453,079)
Dividends to policyholders	<u>(453,079)</u>
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	 -
Federal and foreign income taxes incurred	<u>-</u>
Net income	<u><u>\$ 0</u></u>

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ANALYSIS OF CHANGE IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There have been no changes made to the financial statements as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Loss and Loss Adjustment Expenses ("LAE") Reserves

The Group retained the services of Milliman, Inc. ("Milliman") to prepare an independent actuarial analysis of the Group's loss and LAE liabilities as of December 31, 2017. The analysis is performed on a net basis.

Milliman's projection of future claim reporting and payment is based on AICC's historical results supplemented with applicable insurance industry data where deemed appropriate. The use of industry data adds uncertainty to Milliman's estimates.

Milliman evaluated the loss reserves on an undiscounted basis with regard to the time value of money. The net loss reserves reported on Page 3 of the statutory Annual Statement have been discounted using a discount factor that would result from use of the interest rates and loss payment patterns prescribed by and under section 846 of the Internal Revenue code of 1986, as amended. Such discount of loss and LAE reserves is permitted by Massachusetts regulation 211 CMR 67.00.

The following chart illustrates the results of Milliman's analysis providing the actuarial central estimate. The Group holds reserves for loss and LAE at the central estimate.

<u>Automotive Industries Compensation Corporation</u>			
<u>Milliman's Central Estimate</u>	<u>Group Carried</u>	<u>Discount</u>	<u>Group Carried Discounted</u>
\$6,321,130	\$6,321,130	\$(477,915)	\$5,843,215

SUBSEQUENT EVENTS

As previously noted, the Group and its Administrator recognize that various fund year deficits exist and are actively in the process of implementing plans, including member assessments, to eliminate these fund year deficits. In addition, the Group has reduced premium deviations and suspended dividend distributions.

SUMMARY OF RECOMMENDATIONS

The Division recommends that the Group continue to carry loss and LAE reserves only at the actuary's central estimate.


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SIGNATURE PAGE

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

The assistance rendered by the following examiner participating in this examination is acknowledged.

Michael Lewandowski, Financial Examiner II



John M. Curran, CFE
Supervising Examiner and EIC
Commonwealth of Massachusetts
Division of Insurance