



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

*REPORT OF EXAMINATION OF THE*  
**AUTOMOTIVE INDUSTRIES COMPENSATION CORPORATION**

**West Springfield, Massachusetts**

**As of December 31, 2014**

**EMPLOYER ID NUMBER 04-3259998**

# **AUTOMOTIVE INDUSTRIES COMPENSATION CORPORATION**

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**COMMONWEALTH OF MASSACHUSETTS**  
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**DIVISION OF INSURANCE**

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February 1, 2017

The 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 152, Section 25I, an examination has been made of the financial condition and affairs of

**AUTOMOTIVE INDUSTRIES COMPENSATION CORPORATION**

at its administrative office located at 123 Interstate Drive, West Springfield, Massachusetts 01090.  
The following report thereon is respectfully submitted.

## Automotive Industries Compensation Corporation

### **SCOPE OF EXAMINATION**

Automotive Industries Compensation Corporation ("Group") was last examined as of December 31, 2010, by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the four-year period from January 1, 2011 through December 31, 2014, 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*, 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 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. 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 Group were considered in accordance with a modified risk-focused examination process.

In addition to a review of the financial condition of the Group, the examination included a review of the Group's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bond and other insurance, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Group 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 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 2011 through 2014. A review and use of the certified public accountants' work papers were made available to the examiners and were utilized to the extent considered appropriate.

### **SUMMARY OF SIGNIFICANT FINDINGS OF FACT**

#### *Unclaimed Property*

The Group does not file the unclaimed property report in compliance with 960 CMR 4 and Massachusetts General Law, Chapter 200A, Section 7.

#### *Uncollected Premiums*

The Group has included premiums over 90 days due and prepaid insurance as admitted assets, both of which are non-admitted under statutory reporting.

# Automotive Industries Compensation Corporation

## 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. Consistent with Massachusetts General Law, Chapter 152, and Section 25E through 25U, the Group was created to provide workers' compensation coverage for a group of eligible companies which are engaged in the automotive industry. The Automotive 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 administrative service agreement, engages FutureComp to perform and manage the day-to-day activities of the Group. FutureComp is a subsidiary of USI Insurance Services, which acquired FutureComp with its purchase of TD Insurance on November 1, 2012.

### Dividends

In accordance with 211 CMR 67.08 (4), if actuarially sound, the Group may declare and accrue dividend liabilities from a fund year's operating activity during that fund year, but shall not begin distributions for that fund year until at least 24 month after the end of the fund year.

The following amounts were reported as dividends declared and unpaid each year covered by this examination.

2014	\$1,864,700
2013	2,640,416
2012	4,067,132
2011	4,344,334

Under the distribution formula provided for by 211 CMR 67.08 (4) the following amounts were paid and distributed as dividends to policyholders (members) during the period covered by this examination.

2014	\$ 978,260
2013	1,051,300
2012	1,048,596
2011	1,091,274

## Automotive Industries Compensation Corporation

### MANAGEMENT AND CONTROL

#### Annual Meeting of the Members

The annual meeting of the members shall be held on the third Tuesday of September, or such date as may be designated by the Board of Directors ("Board"). The minutes of the annual meeting of the members were reviewed and actions taken appear to be in compliance with the bylaws.

#### Board of Directors Minutes

The minutes of meetings of the Board of Directors ("Board") for the period under examination were reviewed. Although the annual meeting is not held during the specified time prescribed by the bylaws, actions taken and approved by the Board at each meeting appear to meet the requirements of the bylaws and laws of the Commonwealth of Massachusetts.

#### Articles of Organization and Bylaws

The articles of organization and bylaws of the Group were reviewed. The Group was formed under Massachusetts General Laws, Chapter 180 to operate as a workers' compensation self-insurance group as defined by Chapter 152 of the General Law in order to support the activities and further a group of eligible companies which are engaged in the automotive industry.

Section 3.7.3 of the bylaws addressing the withdrawal guidelines of members was amended effective January 1, 2010 to provide that members must provide 180 day notice in order to withdraw effective for the next policy year, and if proper notice was not provided by the member and the member chose to withdraw anyway, the member would be responsible for payment of the full annual premium of that fund year.

This same section of the bylaws was subsequently amended in 2011 changing the above to require a withdrawing member to not only pay the premium for the full fund year but also pay the premium of the next subsequent fund year.

#### 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 incorporation, by law, or the bylaws. The Board of Directors shall consist of not fewer than three Directors. The Group's Board of Directors consisted of the following individuals:

<u>Name of Director</u>	<u>Affiliation</u>
Karyn Barretto	AICC Sponsor - Automotive Wholesalers Association of New England
Robert York	Graffman's, Inc. dba Motor Supply
Craig Barrett	Wareham Ford
Philip Healy	Executive Director of AWANE

## Automotive Industries Compensation Corporation

Richard Delaney	Dave Delaney's Columbia Collision Center
Bill Johnson	Pleasant Street Auto Body & Repair, Inc.
Sarah Foster	Quirk Chevrolet Manchester
Mark Wagner	Wagner & Wagner Auto Sales, Inc.
Mike Lindley	McMar, Inc
Rita Bousquet	Auburn Auto Parts
Mike Gardner	Penta-G Corporation

### Officers

According to the bylaws, the officers of the Group shall consist of a President, Treasurer, Clerk and any such other officers, if any, as the Board may determine. The president and treasurer must be directors and the clerk must be a resident of Massachusetts.

Officers of the Group as of December 31, 2014 were as follows:

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

### Management Services Agreement

The Group has in place a Management Services Agreement with FutureComp whereby the management company ("Third Party Administrator") 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 is 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 or associate members in good standing of the Automotive Wholesalers Association of New England. Members must have a payroll domiciled in the Commonwealth of Massachusetts. As of the examination date, the Group consisted of 256 active members.

## **REINSURANCE**

Massachusetts General Law, Chapter 152, Section 25G and 211 CMR 67.21 requires the Group to have in place reinsurance and excess insurance coverage. The Group's retention is required to be actuarially sound and shall not be more than 30% of the net premium of the Group up to a maximum of \$500,000. The specific excess coverage shall be at least \$5,000,000 per occurrence. The Regulation allows for these limits to be revisited after a Group has been in operation for three years.

## Automotive Industries Compensation Corporation

For 2014 and 2013 the Group's net retention was \$850,000 and for 2012 and 2011 the net retention was set at \$750,000. The aggregate limit of liability each year has been \$5,000,000, which is consistent with the regulation.

The Group's excess reinsurance coverage is placed with Midwest Employers Casualty Company, which is licensed and authorized in the Commonwealth of Massachusetts and rated "A" by A.M. Best & Company, which meets the guidelines included in the regulation.



Automotive Industries Compensation Corporation

**FINANCIAL STATEMENTS**

The following financial exhibits are based on the statutory financial statements prepared by the Third Party Administrator and filed by the Group with the Division and present the financial condition of the Group for the period ending December 31, 2014. The financial statements are the responsibility of the Group's management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2014

Statement of Income for the Year Ended December 31, 2014

# Automotive Industries Compensation Corporation

## Automotive Industries Compensation Corporation Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2014

<b>Assets</b>	Per Annual Statement
Bonds	\$4,726,800
Cash, cash equivalents, and short-term investments	1,061,422
Subtotals, cash and invested assets	<u>5,788,222</u>
Investment income due and accrued	30,448
Premiums and considerations:	
Uncollected premiums and agents' balances	14,515
 Total Assets	 <u><u>\$5,833,185</u></u>
 <b>Liabilities</b>	
Losses	\$3,443,946
Loss adjustment expense	424,596
Other expenses	49,748
Taxes, licenses and fees	26,846
Dividends declared and unpaid:	
Policyholders	1,864,700
Ceded Reinsurance premiums payable	<u>23,348</u>
 Total Liabilities	 5,833,184
 Surplus as regards policyholders	 <u>0</u>
 Total liabilities and policyholder surplus	 <u><u>\$5,833,184</u></u>

Automotive Industries Compensation Corporation

**Automotive Industries Compensation Corporation**

**Statement of Income**

**For the Year Ended December 31, 2014**

	<u>Per Annual Statement</u>
<b>Underwriting Income</b>	
Premiums earned	\$4,923,601
<b>Deductions</b>	
Losses incurred	3,260,787
Loss adjustment expenses incurred	546,297
Other underwriting expenses incurred	1,059,714
Total underwriting deductions	<u>4,866,798</u>
Net underwriting gain (loss)	<u>56,803</u>
<b>Investment Income</b>	
Net investment income earned	86,848
Net realized capital gains or (losses)	58,892
Net investment gain or (loss)	<u>145,740</u>
Net income before dividends to policyholders and before federal income taxes	202,543
Dividends to Policyholders	<u>202,543</u>
Net income after dividends to policholders and before federal income taxes	0
Net Income	<u><u>\$0</u></u>

Automotive Industries Compensation Corporation

**SIGNATURE PAGE**

Acknowledgement is made of the cooperation and courtesies extended by the Trustees and employees of the Group's administrator, FutureComp, during the examination.

The assistance rendered by the following Division examiner who participated in the examination is hereby acknowledged.

D. Bob Dowd, Examiner II



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