



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

REPORT OF EXAMINATION OF THE
CAMBRIDGE MUTUAL FIRE INSURANCE COMPANY

Andover, Massachusetts

As of December 31, 2014

NAIC GROUP CODE 0022

NAIC COMPANY CODE 19771

EMPLOYERS ID NO. 04-1144900

CAMBRIDGE MUTUAL FIRE INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • Toll-free (877) 563-4467
<http://www.mass.gov/doi>

CHARLES D. BAKER
GOVERNOR

KARYN E. POLITO
LIEUTENANT GOVERNOR

JAY ASH
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

JOHN C. CHAPMAN
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

DANIEL R. JUDSON
COMMISSIONER OF INSURANCE

May 24, 2016

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

CAMBRIDGE MUTUAL FIRE INSURANCE COMPANY

at its home office located at 95 Old River Road, Andover, Massachusetts, 01810-1078. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Cambridge Mutual Fire Insurance Company ("Company") was last examined as of December 31, 2009 by the Massachusetts Division of Insurance ("Division"). The current examination was conducted by the Division and covers the five year period from January 1, 2010 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.

Concurrent with this examination, the following insurance affiliates in the Andover Insurance Group were also examined and separate reports have been issued:

Merrimack Mutual Fire Insurance Company
Bay State Insurance Company

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 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.

All accounts and activities of the company were considered in accordance with the 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 Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 175, Section 4, and general information about the insurer 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 Company.

The Company is audited annually by PricewaterhouseCoopers LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2010 through 2014. A review and use of the Certified Public Accountants' workpapers were made to the extent deemed appropriate and effective. An independent consulting firm, AGI Services, Inc. ("AGI") was retained by the Division to evaluate the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2014. Additionally, AGI reviewed 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 OF FACT

The examination included a review to verify the current status of findings commented upon in the Report of Examination as of December 31, 2009. There were no significant findings during the previous examination and there are no significant findings related to the current examination.

COMPANY HISTORY

General

The Company is a mutual company and was incorporated on March 14, 1833 under the laws of the Commonwealth of Massachusetts and commenced business on January 1, 1834. The company absorbed by merger, on January 1, 1971, Traders and Mechanics Insurance Company of Lowell, Massachusetts. The Merrimack Mutual Fire Insurance Company is the lead company of the Andover Group. Under the same management are the Merrimack Mutual Fire Insurance Company and the Bay State Insurance Company.

MANAGEMENT AND CONTROL

Annual Meeting

In accordance with the bylaws, the Annual Meeting of the Company is held on the second Monday in May of each year. Eight members constitute a quorum for the transaction of business at any annual or special meeting. The minutes indicated that a quorum was obtained at each annual meeting held during the examination period.

Board of Directors

The bylaws provide that the Board of Directors ("the Board") shall manage the business and affairs of the Company except as otherwise provided by the Articles of Incorporation. The Board shall consist of not fewer than seven or more than ten directors with the number determined at each annual meeting. Each director holds office for a term of four years. Upon expiration or resignation, his/her successor is elected at the next Annual Meeting.

The bylaws do not specify the number of meetings to be held during a year. The minutes of the Board of Directors meetings indicated that meetings were held four times per year during the examination period. At any meeting of the Board, five directors constitute a quorum. The minutes indicated that a quorum was obtained at all meetings of the Board of Directors held during the examination period.

At December 31, 2014 the Board was comprised of nine directors which are in compliance with the Company's bylaws. The director's names and business affiliation were as follows:

Cambridge Mutual Fire Insurance Company

<u>Director</u>	<u>Business Affiliation</u>
John Appleton	Retired, Senior Vice President Fidelity Investments
Charles A. Austin, III	Senior Vice President Anchor Capital Advisors, Inc.
Benjamin C. Bixby	Retired, President and Director Bixby International Corporation
Malcolm W. Brawn	President and Chief Executive Officer The Andover Companies
David F. Dietz	Partner Goodwin Procter
Robert P. McDonald	Chairman and Treasurer Erland Construction, Inc.
John A. Swift	Vice President The Andover Companies
Donald F. Vose	Vice President and Secretary The Andover Companies
C. Edward Wallis	Senior Vice President and Treasurer The Andover Companies

Investment Committee

The Board of Directors appointed an Investment committee in accordance with the bylaws. The Committee has enacted an Investment Policy to guide the Company's investments in accordance with Massachusetts General Laws with prudent quality and diversification of the investments. The directors serving on this Committee at December 31, 2014 were as follows: C. Edward Wallis, Chairman, John Appleton, Charles A. Austin, III, and Malcolm W. Brawn.

Audit Committee

The Audit Committee consists of five independent Board members including a certified public accountant and this Committee also jointly serves for Merrimack Mutual Fire Insurance Company ("Merrimack") and Bay State Insurance Company ("Bay State"). The Committee serves as an independent and objective party to monitor the Companies' financial reporting processes and internal controls. Directors serving on this Committee at December 31, 2014 were as follows: John Appleton, Charles A. Austin, III, Chairman, Benjamin C. Bixby, David F. Dietz, and Robert P. McDonald.

Cambridge Mutual Fire Insurance Company

Officers

The bylaws of the Company provide that the officers of the Company shall be a President, a Treasurer, a Secretary and other officers as deemed necessary. Pursuant to the bylaws, the officers of the Company are elected by the Board of Directors at the first meeting of the Board held after the Annual Meeting.

The elected officers and their respective titles at December 31, 2014 follow:

<u>Name</u>	<u>Title</u>
Malcolm W. Brawn	President and Chief Executive Officer
C. Edward Wallis	Senior Vice President and Treasurer
Donald F. Vose	Vice President and Secretary
Stephen E. Randall	Vice President
John A. Swift	Vice President
Janet A. Wallace	Vice President

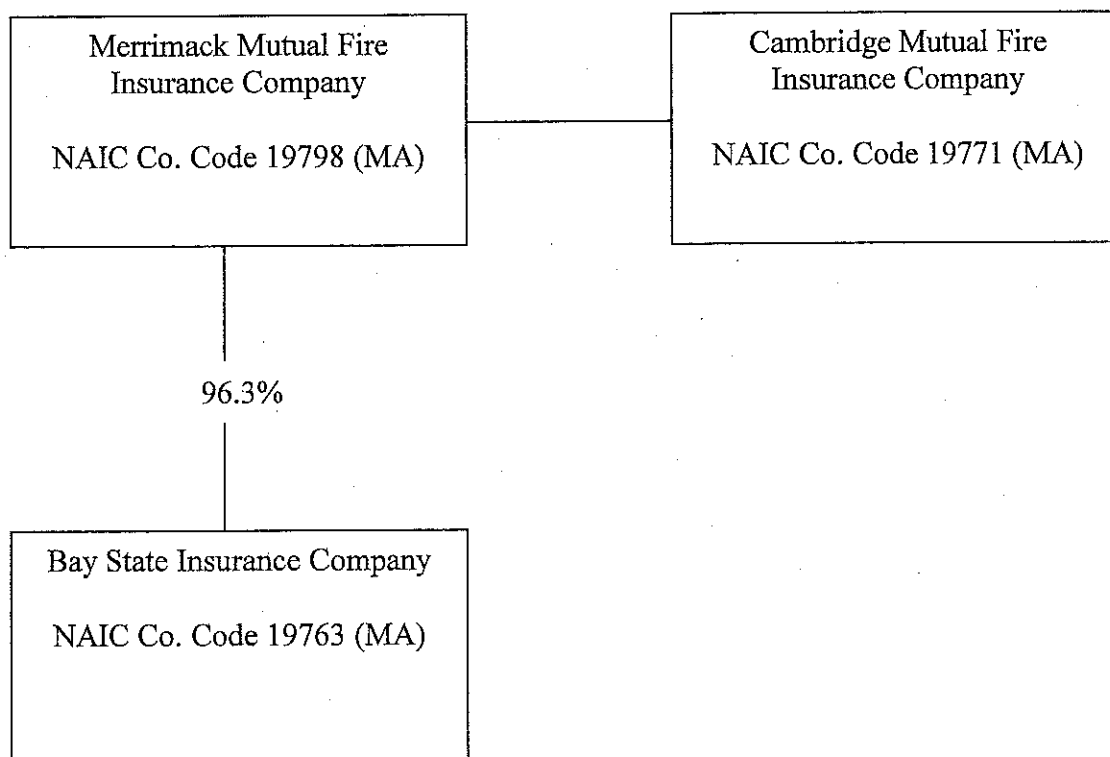
Holding Company

As stated in the Insurance Holding Company System Form B, as filed with the Massachusetts Division of Insurance, the Company is a member of a holding company system and is subject to the registration requirements of Chapter 175, Section 206C and 211 CMR 7.00 of the Massachusetts General Laws. The Company shares common management with Merrimack and Bay State.

Cambridge Mutual Fire Insurance Company

Organization Chart

At December 31, 2014, the Company is a member of the following organizational structure:



Transactions and Agreements with Subsidiaries and Affiliates

The Company has the following intercompany agreement in place with their affiliates, Merrimack Mutual Fire Insurance Company and Bay State Insurance Company:

Management and Reinsurance Agreement

The Company participates in a Management and Reinsurance Agreement with its affiliates, Merrimack and Bay State. Under this agreement all net insurance shall be pooled and distributed in the following proportions: Merrimack 50%, Cambridge 35% and Bay State 15%. Merrimack provides all employees, management and administration services for Cambridge and Bay State. Cambridge and Bay State will reimburse Merrimack for the expenses incurred in providing these services based on the percentage set forth above.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in nine states. In 2014 all of the Company's direct business was written in the New England states, New Jersey, New York and Illinois.

The Company specializes in providing homeowners, commercial multiple peril and fire coverages through its appointed independent agents.

Treatment of Policyholders – Market Conduct

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, 2014 through December 31, 2014. 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 Conduct Examiner's Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The basic business areas that are being reviewed under this market conduct examination are Company Operations/Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; Underwriting and Rating; Claims, in addition to an assessment of the Company's internal control environment.

Dividends to Policyholders

The Company issues only non-participating policies and no policyholder dividends were declared or paid during the examination period.

REINSURANCE

The Company and its affiliates operate under a pooling agreement as described in the "Management and Reinsurance Agreement" section of this report. Assumed and ceded reinsurance with unaffiliated companies is also subject to the intercompany pooling agreement.

Ceded Reinsurance

On behalf of Cambridge and Bay State, Merrimack has entered into various reinsurance agreements to protect their exposure.

The Company has property facultative agreements for personal and commercial lines. Depending upon protection class, within Personal Lines the Company retains either \$100,000 (class 10), \$600,000 (class 9), or \$900,000 (class 1 – 8) and cedes up to \$1,250,000 (of coverage

Cambridge Mutual Fire Insurance Company

A building limit) on any one risk. Commercial property is covered with a semi-automatic surplus share treaty whereby the Company retains a portion of the policy limits based on certain risk factors and cedes up to \$9,000,000.

The Company's property catastrophe reinsurance provides coverage up to \$650 million in excess of \$50 million per occurrence.

Each treaty reviewed contained an insolvency clause in accordance with Massachusetts General Law, Chapter.175 Section 20A.

Assumed Reinsurance

Merrimack assumes business from seven quota share agreements with the participation percentage varying by treaty. Coverage is primarily property catastrophe quota share on excess of loss coverage.

On July 1, 2008 the Company and its affiliated companies, Merrimack and Bay State, collectively known as The Andover Companies, entered into an agreement with Quincy Mutual Fire Insurance Company and its affiliated insurance companies known as the Quincy Mutual Group ("Quincy"). The agreement is named the Andover Quincy Underwriting Alliance ("AQUA"), pursuant to which Quincy auto policies will be marketed and written through independent agents of Andover. The AQUA agreement applies only to Massachusetts private passenger automobile insurance business.

Concurrent with the AQUA agreement, the Andover Companies and Quincy entered into a quota share reinsurance contract applicable to the business subject to the AQUA agreement. Under the terms of the quota share contract, Quincy ceded 12.5% of the business to Andover for the 2014 underwriting year.

Pools

The Company participates in the Associated Inland Marine ("AIM") pool which was established as a means for insurers to underwrite larger policies and spread the risk among the members. The AIM pool is for inland marine personal line policies and membership is composed of New England Mutual Companies. Additionally, the Company participates in various state mandated pools and various FAIR plans.

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, 2014. The financial statements are the responsibility of Company management.

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

Statement of Income As of December 31, 2014

Statement of Capital and Surplus For the Year Ended December 31, 2014

Reconciliation of Capital and Surplus For the Five-Year Period Ended December 31, 2014

Cambridge Mutual Fire Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2014

Assets	<u>As Reported by the Company</u>
Bonds	\$ 149,570,752
Common stocks	438,170,261
Cash and short-term investments	<u>124,258,985</u>
Subtotals, cash and invested assets	711,999,998
Investment income due and accrued	3,832,431
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	79,067,735
Deferred premiums, agents' balances and installments booked but deferred and not yet due	18,960,014
Amounts recoverable from reinsurers	6,689,319
Funds held by reinsured companies	821,281
Guaranty funds receivable or on deposit	209,300
Electronic data processing equipment	369,377
Aggregate write-ins for other-than-invested assets	<u>8,257,900</u>
Total Assets	<u><u>\$ 830,207,355</u></u>

Cambridge Mutual Fire Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2014

Liabilities	As Reported by the Company
Losses	\$ 85,397,529
Reinsurance payable on paid loss and LAE	51,848,286
Loss adjustment expenses	15,498,000
Commissions payable	8,156,400
Other expenses	33,917,450
Taxes, licenses and fees	949,900
Current federal and foreign income taxes	9,855,669
Net deferred tax liability	23,270,344
Unearned premiums	84,387,675
Advance premiums	3,348,800
Ceded reinsurance premiums payable	11,995,916
Amounts withheld	8,367
Drafts outstanding	3,649,075
Payable to parent, subsidiaries and affiliates	4,026,293
Aggregate write-ins for liabilities	14,921,900
Total Liabilities	<u>351,231,605</u>
Guaranty fund	500,000
Unassigned funds (surplus)	478,475,750
Surplus as regards policyholders	<u>478,975,750</u>
Total Liabilities, Capital and Surplus	<u>\$ 830,207,355</u>

Cambridge Mutual Fire Insurance Company
Statement of Income
For the Year Ended December 31, 2014

	As Reported by the Company
Premiums earned	\$ 178,519,201
Deductions:	
Losses incurred	66,400,289
Loss expenses incurred	11,095,661
Other underwriting expenses incurred	72,005,780
Total underwriting deductions	149,501,730
Net underwriting gain (loss)	29,017,471
Net investment income earned	19,296,283
Net realized capital gains	(6,042,219)
Net investment gain	13,254,064
Net gain (loss) from agents' balances or premium balances charged off	(29,545)
Finance and service charges not included in premiums	332,037
Aggregate write-ins for miscellaneous income	(745,019)
Total other income	(442,527)
Net income before dividends to policyholders and before federal and foreign income taxes	41,829,009
Federal and foreign income taxes incurred	11,708,232
Net Income	\$ 30,120,777

Cambridge Mutual Fire Insurance Company
Statement of Capital and Surplus
For the Year Ended December 31, 2014

	<u>As Reported by the Company</u>
Surplus as regards policyholders, December 31, 2013	\$ 421,923,641
Net income	30,120,777
Change in net unrealized capital gains or (losses)	32,888,435
Change in net deferred tax	6,703,864
Change in nonadmitted assets	3,205,583
Aggregate write-ins for gains and losses in surplus	<u>(15,866,550)</u>
Change in surplus as regards policyholders for the year	<u>57,052,109</u>
Surplus as regards policyholders, December 31, 2014	<u><u>\$ 478,975,750</u></u>

Cambridge Mutual Fire Insurance Company
Reconciliation of Capital and Surplus
For the Five Year Period Ended December 31, 2014

	2014	2013	2012	2011	2010
Capital and surplus, December 31, prior year	\$ 421,923,641	\$ 352,642,510	\$ 331,596,364	\$ 335,364,601	\$ 314,593,440
Net income	30,120,777	51,317,144	11,897,809	(22,648,139)	19,903,213
Change in net unrealized capital gains or (losses)	32,888,435	33,794,489	13,153,792	6,650,083	4,070,208
Change in net deferred income tax	6,703,864	(10,158,529)	658,617	11,969,389	1,115,909
Change in nonadmitted assets	3,205,583	(8,634,372)	(4,102,322)	525,730	(4,212,469)
Aggregate write-ins for gains and losses in surplus	(15,866,550)	2,962,400	(561,750)	(265,300)	(105,700)
Net change in capital and surplus for the year	57,052,109	69,281,131	21,046,146	(3,768,237)	20,771,161
Capital and surplus, December 31, current year	<u>\$ 478,975,750</u>	<u>\$ 421,923,641</u>	<u>\$ 352,642,510</u>	<u>\$ 331,596,364</u>	<u>\$ 335,364,601</u>

ANALYSIS OF CHANGES 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

As a result of the examination, no issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

The Division requested that AGI Services, Inc. review the reasonableness of the Loss and Loss Adjustment Expense Reserves (the "Reserves") of the Company as of December 31, 2014. The review was conducted in a manner consistent with the Code of Professional Conduct and Qualification Standards of the American Academy of Actuaries and the Standards of Practice adopted by the Actuarial Standards Board.

AGI's actuarial review utilized year-end paid and incurred loss data developed through December 31, 2014. The tables below summarize a comparison of AGI's range of reasonable gross and net estimates for the Reserves to the Company's carried gross and net Reserves as of December 31, 2014.

**COMPARISON OF INDICATED DIRECT & ASSUMED RESERVES
TO CARRIED DIRECT & ASSUMED RESERVES as of 12/31/14**

	Low Point of Range	Selected <i>Estimate</i>	High Point of Range
AGI Total Direct & Assumed Loss and LAE Reserves	\$89,900,000	\$97,200,000	\$104,500,000
Total Company Carried Direct & Assumed Loss and LAE Reserves	102,200,000	102,200,000	102,200,000
Difference	(12,300,000)	(5,000,000)	2,300,000

Cambridge Mutual Fire Insurance Company

COMPARISON OF INDICATED NET RESERVES
TO CARRIED RESERVES as of 12/31/14

	Low Point of Range	Selected <i>Estimate</i>	High Point of Range
AGI Total Net Loss & Loss Adjustment Expense Reserves	\$88,700,000	\$95,900,000	\$103,100,000
Total Company Carried Net Loss & LAE Reserves	100,900,000	100,900,000	100,900,000
Difference	(12,200,000)	(5,000,000)	2,200,000

The Company's total net carried reserves are above AGI's selected estimate and below their high point. Therefore the Division concludes the Company's reserves are a reasonable estimate of their ultimate liability.

SUBSEQUENT EVENTS

There were no subsequent events noted by the examination.

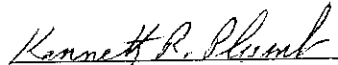
SUMMARY OF RECOMMENDATIONS

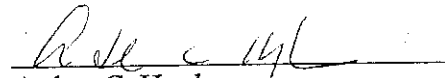
There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report. Recommendations of a lesser degree will be communicated to the Board of Directors in the Company's Management Letter.

Cambridge Mutual Fire Insurance Company

SIGNATURE PAGE

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


Kenneth R. Plumb, CPA, CFE
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance


Arthur C. Hughes
Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance