

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

***REPORT OF EXAMINATION OF THE***  
**DORCHESTER MUTUAL INSURANCE COMPANY**

**Dedham, Massachusetts**

**As of December 31, 2014**

**NAIC GROUP CODE 0144**

**NAIC COMPANY CODE 13706**

**EMPLOYER ID NUMBER 04-1255040**

# **DORCHESTER MUTUAL INSURANCE COMPANY**

## **TABLE OF CONTENTS**

	<b><u>Page</u></b>
Salutation	1
Scope of Examination	2
Summary of Significant Findings	2
Company History	3
General	3
Dividends to Policyholders	4
Management and Control	4
Board of Directors Minutes	4
Articles of Organization and Bylaws	4
Board of Directors	4
Officers	5
Affiliated Companies	5
Organization Chart	5
Transactions and Agreements with Subsidiaries and Affiliates	5
Territory and Plan of Operation	6
Treatment of Policyholders – Market Conduct	6
Reinsurance	7
Pooling Agreement	7
Assumed Reinsurance	7
Ceded Reinsurance	7
Financial Statements	8
Statement of Assets, Liabilities, Surplus and Other Funds	9
Statement of Assets, Liabilities, Surplus and Other Funds (continued)	10
Statement of Income	11
Reconciliation of Capital and Surplus	12
Analysis of Changes in Financial Statements Resulting from the Examination	13
Comments on Financial Statement Items	13
Subsequent Events	13
Summary of Recommendations	13
Signature Page	14



**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 25, 2016

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 ("M.G.L."), Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

**DORCHESTER MUTUAL INSURANCE COMPANY**

at its home office located at 222 Ames Street, Dedham, MA 02026-1850. The following report thereon is respectfully submitted.

### **Scope of Examination**

The Dorchester Mutual Insurance Company (“Company” or “Dorchester”) was last examined as of December 31, 2009 by the Massachusetts Division of Insurance (“Division”). The current examination was also 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.

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 Marcum, 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.

Representatives from the firm Risk & Regulatory Consulting, LLC (“RRC”) were retained 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. The assistance included a review of accounting records, information systems, investment and actuarially determined loss and loss adjustment expense reserves, as well as other significant actuarial estimates.

### **Summary of Significant Findings**

The results of this examination disclosed no material adverse findings, significant non-compliance findings, or material changes to the financial statements.

## **Company History**

### **General**

The Company was incorporated on March 1, 1855 under the laws of the Commonwealth of Massachusetts as the Dorchester Mutual Fire Insurance Company and commenced business on July 1, 1855. The Company purchased the Guaranty Capital of Groveland Mutual Insurance Company ("Groveland") on May 30, 1974 and assumed management of that company. The members voted to adopt the Company's current name on July 27, 1988.

Effective January 1, 1995, the Company and Groveland became affiliated with the Norfolk and Dedham Mutual Fire Insurance Company ("Norfolk") and its affiliate, the West Newbury Mutual Fire Insurance Company ("West Newbury"). On October 20, 1999, the Company purchased 100 shares of Newbury Corporation ("Newbury") stock from Norfolk giving it 1% interest in the subsidiary. Effective June 14, 2001, the Fitchburg Mutual Insurance Company ("Fitchburg") became affiliated with the Company.

Effective January 1, 2003, the Company entered into an inter-company pooling arrangement with Norfolk and Fitchburg. Under the current agreement, the Company and Fitchburg cede 100% of net written premiums (after other third party cessions), losses, loss adjustment expenses and underwriting expenses to Norfolk, which retains 66% of the consolidated results and retro cedes 14% back to the Company and 20% back to Fitchburg.

Effective December 23, 2003, the West Newbury Mutual Fire Insurance Company merged into the Dorchester Mutual Insurance Company. Effective November 29, 2004, the Groveland Mutual Insurance Company was dissolved.

In March of 2009, Dorchester purchased 1,406 additional shares of Newbury stock, as authorized by the Board of Directors ("Board") which gave them 13% interest in the subsidiary. This brought their ownership of Newbury in agreement with the pooling agreement percentages with Dorchester at 14%, Fitchburg at 19%, and Norfolk at 67%

As of January 1, 2010, the N&D Group of Companies ("Group") formed an alliance with Rockingham Mutual Insurance Company ("Rockingham") and Rockingham Casualty Company ("Rockingham Casualty"), both Virginia domiciled companies. As part of the alliance, Rockingham entered into an inter-company pooling agreement, management services agreement and a Class "A" shareholders agreement. Effective December 31, 2010, the alliance was terminated and all agreements were cancelled.

As of the examination date, the Company was authorized to write property and casualty business in Massachusetts, Connecticut, New Hampshire and Rhode Island.

## Dorchester Mutual Insurance Company

### Dividends to Policyholders

The Company did not pay any dividends to policyholders during the examination period. The Company received no policyholder dividends from any of its subsidiaries during the examination period.

## **Management and Control**

### Board of Directors Minutes

The minutes of meetings of the Board and its Committees for the period under examination were reviewed, and they indicated that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board.

### Articles of Organization and Bylaws

The articles of organization and the bylaws were read and reviewed, and there were no amendments made during the examination period.

### Board of Directors

The bylaws of the Company provide that the Directors may exercise all powers of the Company except as otherwise provided by law or the bylaws of the Company. The Board shall consist of not less than seven Directors, and shall be fixed at the Annual Meeting or a special meeting called for that purpose. The Board is divided into no more than four classes of Directors. The term of office for one class will expire in each year. Directors shall be elected at the Annual Meeting of the members and shall serve for three years or until their successors are elected and qualified. At December 31, 2014, the Board was comprised of nine Directors, which is in compliance with the Company's bylaws.

At December 31, 2014, the Company's Board consisted of the following Directors:

<u>Name of Director</u>	<u>Title</u>
F. Timothy Hegarty, Jr.	Chairman, President and CEO, Dorchester Mutual Insurance Company
Stephen A. Fine	President, Biltrite Corporation
James F. Gerrity, III	President, Gerrity Company, Inc.
Joseph A. Giovino	President, Giocon, Inc.
Carol C. McMullen	Independent Director
Glenn E. Niinimaki	Insurance Agent, Choice Insurance Group
Gregory L. Petrini	CEO, Petrini Corporation
Michael T. Rivard	CFO and Acting President, Fitchburg State University, Retired
Michael J. Shea	Independent Director

## Dorchester Mutual Insurance Company

### Officers

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

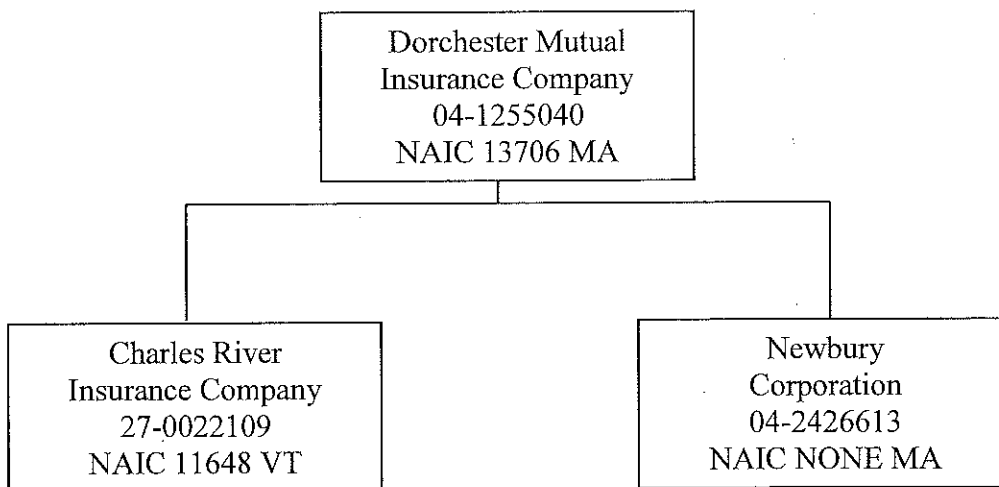
<u>Name of Officer</u>	<u>Title</u>
F. Timothy Hegarty, Jr.	President and CEO
Thomas F. Alighieri	Treasurer
David N. Cote	Secretary

### Affiliated Companies

As stated in the Insurance Holding Company System Form B as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L. 175, Section 206C and 211 CMR 7.00.

### Organization Chart

A summary of ownership and relationship of the Company and its affiliated companies as of December 31, 2014 is illustrated below:



### Transactions and Agreements with Subsidiaries and Affiliates

#### *Pooling Agreement*

The majority of all inter-company transactions is governed by the inter-company reinsurance pooling agreement covering all underwriting and claim operations of the Company. The respective participation ratios are based on each individual Company's direct written premium contribution into the pool and levels of surplus. The pooling agreement among the three legal entities that comprise the Group is detailed further in the reinsurance section of this report.

## Dorchester Mutual Insurance Company

### *Management Agreement with Newbury Corporation*

The Company has a 14% interest in Newbury. Newbury provides managerial, technical and clerical services to the Company and charges the Company a fee based on a percentage of net premiums written.

### *Investment Management Agreements*

Effective June 11, 2011, the Company entered into an Investment Management Agreement with Eaton Vance Investment Counsel ("EVIC") whereby EVIC provides investment management services and advice. Effective September 18, 2012, the Company entered into an Investment Management Agreement with Prime Advisors, Inc. ("Prime") whereby Prime provides investment management services and advice. Effective May 3, 2013, the Company entered into an Investment Management Agreement with UBS Financial Services, Inc. ("UBS") whereby UBS provides investment management services and advice.

## **Territory and Plan of Operation**

The Company is currently licensed to write various property and casualty lines of business in five states including Connecticut, Maine, Massachusetts, New Hampshire and Rhode Island. The license for Maine was voluntarily surrendered to, and accepted by, the Maine Division of Insurance, effective June 2, 2014. The Company has written direct premium in only Massachusetts, New Hampshire and Maine during the examination period. However, the Company has not written any direct premium in Maine after year-end 2013. The Company uses independent agents to sell fire, allied lines, homeowners multiple peril, inland marine, earthquake, other liability-occurrence and other liability-claims made insurance in these states. The Company's primary line of business sold is homeowners multiple peril. The Company reported \$32,400,444 of 2014 direct premium written, of which, \$32,007,764 was written in Massachusetts. All direct premiums, net of third party reinsurance, are ceded to the inter-company reinsurance pool, and a percentage of the total post-pooled business is assumed by the Company.

### 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 as of December 31, 2014. The market conduct examination was called pursuant to authority in M.G.L. 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



## Dorchester Mutual Insurance Company

Licensing; Policyholder Services; Underwriting and Rating and Claims. Each business area reviewed includes the identification and evaluation of the insurer's internal controls.

### **Reinsurance**

#### Pooling Agreement

The company participates in an inter-company reinsurance pooling agreement with Norfolk and Fitchburg. Under the terms of the agreement, 100% of the Company net premiums, losses and underwriting expenses are pooled. The Company may cede business on an excess of loss, quota share or facultative basis prior to pooling. As of December 31, 2014 the pooling percentages are Norfolk 67%, Fitchburg 19% and Dorchester 14%.

#### Assumed Reinsurance

In addition to its participation in the inter-company pool whereby it assumes 14% of the pool total, the Company participates in the Workers' Compensation Underwriting Association and Associated Inland Marine. The Assumed Reinsurance Program is subject to the intercompany pooling agreement.

#### Ceded Reinsurance

As noted previously, the Company may reinsure risks prior to pooling, and as a member of the Group, the Company participates as a named insured in the reinsurance program managed and administered by the Group. Each treaty/contract reviewed contained an insolvency clause in accordance with M.G.L. Chapter 175, Section 20A.

Dorchester Mutual Insurance Company

**Financial Statements**

The following financial statements 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

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2014

# Dorchester Mutual Insurance Company

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

ASSETS	Per Annual <u>Statement</u>
Bonds	\$ 38,253,202
Common stocks	23,057,152
Cash and short-term investments	1,422,521
Other Invested assets	<u>452,133</u>
Subtotals, cash and invested assets	<u>63,185,009</u>
 Investment income due and accrued	 428,330
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	 48,317
Deferred premiums, agents' balances and installments booked but deferred and not yet due	 3,827,008
Reinsurance:	
Amounts recoverable from reinsurers	881,030
Aggregate write-ins for other than invested assets	 <u>4,568,355</u>
 Total Assets	 <u>\$ 72,938,049</u>

Dorchester Mutual Insurance Company

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

	Per Annual Statement
<b>LIABILITIES</b>	
Losses	\$ 11,626,867
Reinsurance payable on paid losses and loss adjustment expenses	860,606
Loss adjustment expenses	3,068,059
Commissions payable, contingent commissions and other similar charges	1,212,201
Other expenses	285,220
Taxes, licenses and fees	300,575
Current federal and foreign income taxes	231,329
Net deferred tax liability	83,915
Unearned premiums	13,375,416
Advance premium	612,137
Ceded reinsurance premiums payable	68,988
Amounts withheld or retained by company for account of others	39,389
Drafts outstanding	23,266
Payable to parent, subsidiaries and affiliates	1,567,867
Derivatives	44,696
Payable for securities	104,264
Aggregate write-ins for liabilities	<u>117,632</u>
Total Liabilities	<u>33,622,427</u>
Unassigned funds (surplus)	<u>39,315,622</u>
Surplus as regards policyholders	<u>39,315,622</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 72,938,049</u>

# Dorchester Mutual Insurance Company

## Statement of Income As of December 31, 2014

	Per Annual Statement
Net premiums earned	\$ 24,683,172
Deductions:	
Losses incurred	14,217,587
Loss adjustment expenses incurred	2,104,793
Other underwriting expenses incurred	<u>9,635,116</u>
Total underwriting deductions	<u>25,957,496</u>
Net underwriting loss	<u>(1,274,324)</u>
Net investment income earned	1,716,025
Net realized capital gains	<u>359,304</u>
Net investment gain	<u>2,075,329</u>
Net loss from agents' premium balances charged off	(35,258)
Finance and service charges not included in premiums	131,883
Aggregate write-ins for miscellaneous income	<u>129,709</u>
Total other income	<u>226,334</u>
Net income before dividends to policyholders	1,027,340
Federal and foreign taxes incurred	<u>12,232</u>
Net income	<u>\$ 1,015,108</u>

Dorchester Mutual Insurance Company

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

	2014	2013	2012	2011	2010
Capital and surplus, December 31 prior year	\$38,059,693	\$33,927,897	\$30,825,774	\$31,179,182	\$29,404,061
Net income	1,015,108	2,938,822	1,850,331	1,127,000	703,232
Change in net unrealized capital gains or (losses)	207,643	1,195,393	1,006,133	(1,418,164)	955,999
Change in net deferred income tax	41,115	(9,584)	251,306	(58,077)	116,631
Change in nonadmitted assets	(7,936)	223	1,295	(4,167)	(741)
Change in provision for reinsurance	0	6,942	(6942)	0	0
Net change in capital and surplus for the year	<u>1,255,930</u>	<u>4,131,796</u>	<u>3,102,123</u>	<u>(353,408)</u>	<u>1,775,121</u>
Capital and surplus, December 31 current year	<u>\$39,315,622</u>	<u>\$38,059,693</u>	<u>\$33,927,897</u>	<u>\$30,825,774</u>	<u>\$31,179,182</u>

## **Analysis of Changes in Financial Statements Resulting from the Examination**

There were no changes to the financial statements resulting from the examination.

## **Comments on Financial Statement Items**

The financial statements were completed under statutory accounting standards with no issues noted. The following chart summarizes the results of the independent testing by RRC of the Company's carried Loss and LAE reserves at December 31, 2014. The amounts are in thousands of US dollars. RRC concluded that the Company's indicated loss reserves were within a reasonable range of RRC's actuarial central estimates, on both a gross and net basis.

<b>Company Net/Gross</b>	<b>Low End of Reasonable Range</b>	<b>Actuarial Central Estimate</b>	<b>High End of Reasonable Range</b>	<b>PwC Actuarial Central Estimate</b>	<b>Company Recorded</b>
Net Loss & LAE	\$ 13,385	\$ 14,089	\$ 15,498	\$ 14,404	\$ 14,695
Gross Loss & LAE	\$ 24,473	\$ 25,761	\$ 28,337	\$ 26,092	\$ 27,451

## **Subsequent Events**

Michael W. Thompson has been hired on October 5, 2015 as Chief Financial Officer. Mr. Thompson reports directly to CEO F. Timothy Hegarty while Mr. Alighieri, Treasurer, reports directly to Mr. Thompson.

## **Summary of Recommendations**

The results of this examination disclosed no material adverse findings, significant non-compliance findings, or material changes in financial statements.

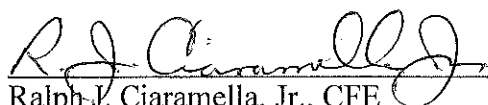
Dorchester Mutual Insurance Company

**Signature Page**

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

The assistance rendered by Risk & Regulatory Consulting, LLC and the following Division examiner who participated in this examination is hereby acknowledged.

Michael Lewandowski      Insurance Examiner II

A handwritten signature in black ink, appearing to read "R. J. Ciaramella, Jr.", written over a horizontal line.

Ralph J. Ciaramella, Jr., CFE  
Supervising Examiner  
Examiner-In-Charge  
Commonwealth of Massachusetts  
Division of Insurance