



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

REPORT OF EXAMINATION OF THE
FITCHBURG MUTUAL INSURANCE COMPANY

Dedham, Massachusetts

As of December 31, 2014

NAIC GROUP CODE 0144

NAIC COMPANY CODE 13943

EMPLOYER ID NUMBER 04-1328790

Fitchburg Mutual Insurance Company

FITCHBURG MUTUAL INSURANCE COMPANY

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Fitchburg Mutual Insurance Company



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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

FITCHBURG 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 Fitchburg Mutual Insurance Company ("Company" or "Fitchburg") 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, 1847 under the laws of the Commonwealth of Massachusetts and commenced business on September 1, 1847. Since that time, only minor changes have been made to its bylaws and articles of incorporation, all of which were approved and voted upon by the Board of Directors ("Board").

Effective June 14, 2001, the Company affiliated with The Norfolk & Dedham Group comprised of the Norfolk & Dedham Mutual Fire Insurance Company ("Norfolk"), West Newbury Mutual Fire Insurance Company ("West Newbury"), Dorchester Mutual Insurance Company ("Dorchester") and Groveland Mutual Insurance Company ("Groveland"). On August 1, 2001, Norfolk sold 100 shares of Newbury Corporation to Fitchburg.

Effective January 1, 2003, the Company entered into an inter-company pooling arrangement with Norfolk and Dorchester. Under the current agreement, the Company and Dorchester 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 retrocedes 20% back to the Company and 14% back to Dorchester.

Effective December 23, 2003, West Newbury merged into Dorchester. Effective November 29, 2004, Groveland was dissolved.

In March of 2009, Fitchburg purchased 2,247 additional shares of Newbury stock, as authorized by the Board of Directors ("Board") which gave them 19% interest in the subsidiary. This brought their ownership of Newbury in agreement with the pooling agreement percentages with Fitchburg at 19%, Dorchester at 14%, and Norfolk at 67%.

As of January 1, 2010, the Norfolk & Dedham Group ("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.

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, Fitchburg 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

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Officers

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

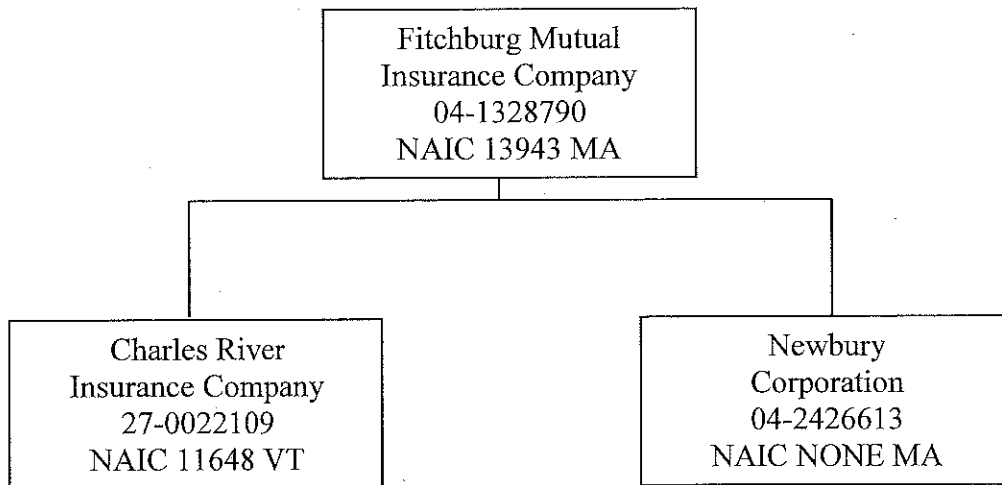
<u>Name of Officer</u>	<u>Title</u>
F. Timothy Hegarty, Jr.	President and CEO
Thomas F. Alighieri	Treasurer
David N. Cote	Secretary

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 are 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.

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Management Agreement with Newbury Corporation

The Company has a 19% 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 currently is licensed to write various property and casualty lines of business in seven states including Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, Rhode Island and Vermont. 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 and New Jersey during the examination period. The Company uses independent agents to sell fire, allied lines, homeowners multiple peril, commercial multiple peril, inland marine, workers compensation, other liability-occurrence, private passenger auto liability, commercial auto liability and auto physical damage insurance in these states. The Company's principal lines of business are homeowners, commercial multiple peril, private passenger auto liability and auto physical damage. 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

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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 Dorchester. 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 19% 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.

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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

Fitchburg Mutual Insurance Company

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

	Per Annual Statement
ASSETS	
Bonds	\$ 55,450,234
Common stocks	31,937,433
Cash and short-term investments	1,950,186
Other Invested assets	<u>571,469</u>
Subtotals, cash and invested assets	<u>89,909,322</u>
Investment income due and accrued	594,806
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	44,351
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,674,137
Reinsurance:	
Amounts recoverable from reinsurers	403,420
Net deferred tax asset	199,483
Receivables from parent, subsidiaries and affiliates	1,191,483
Aggregate write-ins for other than invested assets	<u>2,043,685</u>
Total Assets	<u>\$ 99,060,687</u>

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

	Per Annual Statement
LIABILITIES	
Losses	\$ 15,908,200
Reinsurance payable on paid losses and loss adjustment expenses	1,171,832
Loss adjustment expenses	4,185,830
Commissions payable, contingent commissions and other similar charges	1,645,138
Other expenses	389,135
Taxes, licenses and fees	407,938
Current federal and foreign income taxes	249,103
Unearned premiums	18,152,343
Advance premium	450,048
Ceded reinsurance premiums payable	64,822
Amounts withheld or retained by company for account of others	64,936
Drafts outstanding	19,268
Derivatives	61,226
Payable for securities	153,152
Aggregate write-ins for liabilities	<u>930,364</u>
Total Liabilities	<u>43,853,335</u>
Unassigned funds (surplus)	<u>55,207,352</u>
Surplus as regards to policyholders	<u>55,207,352</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 99,060,687</u>

Fitchburg Mutual Insurance Company

Summary of Income As of December 31, 2014

	Per Annual Statement
Net premiums earned	\$ 33,498,512
Deductions:	
Losses incurred	19,353,478
Loss adjustment expenses incurred	2,854,091
Other underwriting expenses incurred	<u>13,079,230</u>
Total underwriting deductions	<u>35,286,799</u>
Net underwriting loss	<u>(1,788,287)</u>
Net investment income earned	2,500,248
Net realized capital gains	<u>399,968</u>
Net investment gain	<u>2,900,216</u>
Net loss from agents' premium balances charged off	(39,290)
Finance and service charges not included in premiums	134,983
Aggregate write-ins for miscellaneous income	<u>16,727</u>
Total other income	<u>112,420</u>
Net income before dividends to policyholders	1,224,349
Federal and foreign taxes incurred	<u>(18,288)</u>
Net income	<u>\$ 1,242,638</u>

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

	2014	2013	2012	2011	2010
Surplus as regards policyholders, December 31 prior year	\$53,301,040	\$47,063,730	\$43,615,386	\$43,813,287	\$41,604,278
Net income	1,242,638	4,360,448	2,383,218	1,165,070	928,352
Change in net unrealized capital gains or (losses)	305,472	1,577,089	1,395,841	(1,287,570)	1,140,346
Change in net deferred income tax	67,350	14,579	259,998	(98,530)	88,357
Change in nonadmitted assets	(14,842)	1,230	(1,860)	17,893	57,996
Change in provision for reinsurance	305,695	283,964	(588,853)	5,236	(6,042)
Net change in capital and surplus for the year	<u>1,906,313</u>	<u>6,237,310</u>	<u>3,448,344</u>	<u>(197,901)</u>	<u>2,209,009</u>
Surplus as regards policyholders, December 31 current year	<u>\$55,207,352</u>	<u>\$53,301,040</u>	<u>\$47,063,730</u>	<u>\$43,615,386</u>	<u>\$43,813,287</u>

Analysis of Changes in Financial Statements Resulting from the Examination

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

Comments of 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.

Company Net/Gross	Low End of Reasonable Range	Actuarial Central Estimate	High End of Reasonable Range	PwC Actuarial Central Estimate	Company Recorded
Net Loss & LAE	\$18,165	\$19,121	\$21,033	\$19,652	\$20,094
Gross Loss & LAE	\$37,525	\$39,500	\$43,450	\$40,361	\$38,513

Subsequent Events

Michael W. Thompson was 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.

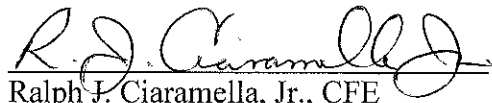
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Signature Page

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 dark 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