



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

***REPORT OF EXAMINATION OF THE***  
**MIA PROPERTY AND CASUALTY GROUP, INC.**

**Boston, Massachusetts**

**As of June 30, 2014**

**EMPLOYER ID NUMBER 04-2925648**

# MIIA PROPERTY AND CASUALTY GROUP, INC.

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**COMMONWEALTH OF MASSACHUSETTS**  
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**DANIEL R. JUDSON**  
COMMISSIONER OF INSURANCE

March 15, 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, Chapter 40M, Section 6, an examination has been made of the financial condition and affairs of

**MIA PROPERTY AND CASUALTY GROUP, INC.**

at its home office located at One Winthrop Square, Boston, Massachusetts 02110. The following report thereon is respectfully submitted.

### **SCOPE OF EXAMINATION**

MIIA Property and Casualty Group, Inc. ("Group") was last examined as of June 30, 2010, and updated to June 30, 2011, by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the three-year period from July 1, 2011 through June 30, 2014, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of this examination.

During the examination, the transactions of the Group were reviewed and tested to the extent deemed necessary. The Group is audited annually by an independent certified public accounting firm. The firm of Grant Thornton, LLP expressed unqualified opinions on the Group's financial statements for the fiscal years ended June 30, 2012 and June 30, 2013; the firm of Saslow, Lufkin, & Buggy, LLP expressed an unqualified opinion on the Group's financial statements for the fiscal year ended June 30, 2014. Work papers of the Group's independent certified public accounting firm and an actuarial report on unpaid loss and loss adjustment expense reserves prepared by Towers Watson, the Group's independent consulting actuary, were made available to the examiners and were utilized to the extent considered appropriate.

The examination included a review of the general operations of the Group, treatment of its members and claimants, and the financial condition of the Group as of June 30, 2014. In addition, the corporate records were reviewed to ascertain compliance with Chapter 40M of Massachusetts General Laws ("MGL"). In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

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

During the course of the examination it was determined that reinsurance recoverable on paid loss and LAE was incorrectly stated and an adjustment to surplus was made. Please refer to Analysis of Change in Financial Statements Resulting from the Examination and Comments on Financial Statement Items for additional information.

### **GROUP HISTORY**

#### **General**

Under the Laws of the Commonwealth of Massachusetts, the Group was incorporated and commenced business on July 1, 1987, as a non-profit organization to provide a program of property and casualty coverage for cities, towns, and other governmental entities which were members in good standing of Massachusetts Municipal Association ("MMA"), a non-profit, non-partisan association of cities and towns in Massachusetts. The Group received a Certificate of Approval from the Commissioner of Insurance as a self-insurance group organized under and subject to MGL Chapter 40M. Section 1 of this statute stipulates that such a group shall not be

## MIIA Property and Casualty Group, Inc.

subject to the provisions of the insurance laws and regulations of the Commonwealth except as otherwise provided by this particular Chapter.

Prior to the period of this examination, the Group had merged with another public self-insurance group, MIIA Workers' Compensation Group Inc. ("MIIAWC"). MIIAWC had incorporated on February 18, 1986, and had commenced business on July 1, 1986, as a workers' compensation self-insurance group regulated pursuant to Sections 25E through 25U of MGL Chapter 152 and to Massachusetts Regulation 211 CMR 67.00. MIIAWC had been a non-profit organization providing a program of workers' compensation coverage and risk management services for the cities, towns, and other governmental entities that were members in good standing of MMA. In July of 1998, MIIAWC was merged into the Group and this latter organization, as the surviving entity, assumed MIIAWC's obligations and continued the programs of workers' compensation coverages in addition to its lines of other property and casualty coverages under the Certificate of Approval issued by the Commissioner pursuant to MGL Chapter 40M.

On December 6, 2011, the Group incorporated MIIA Reinsurance Company ("MIIA Re"), a wholly-owned subsidiary domiciled in Vermont, as a Pure Captive Insurance Company formed to reinsure a portion of the Group's risks. The Group capitalized MIIA Re with an initial \$5,000,000 contribution. On October 30, 2012, the Group entered into an unsecured and uncollateralized demand note agreement with MIIA Re for \$5,000,000; the note bore interest at an annual rate of 5% as of June 30, 2014 and 2013, and is payable on demand. On August 12, 2013, the Group increased the note by an additional \$2,750,000.

### Dividends

The Board authorized dividends to be paid to the workers' compensation members during the period of examination. The Group paid the following dividends during the three-year period of the examination:

- The Group paid dividends of \$554,544 to workers' compensation members in 2012.
- The Group paid dividends of \$469,174 to workers' compensation members in 2013.
- The Group paid dividends of \$464,772 to workers' compensation members in 2014.

### Participation Credits

The Board authorized participation credits available to both property & casualty and workers' compensation members upon renewal of their policies in the next fiscal year. The participation credits in practice are recognized and applied against the premium amount receivable by the Group from each renewing member. In the Group's Annual Statements, the provision for participation credits not yet applied was reported as an aggregate write-in liability for amounts payable to policyholders. The Group's unapplied participation credits during the three-year period of the examination are as following:

- The Group's unapplied participation credits of \$2,840,898 to members in 2012.
- The Group's unapplied participation credits of \$2,614,582 to members in 2013.
- The Group's unapplied participation credits of \$3,023,695 to members in 2014.

## MANAGEMENT AND CONTROL

### Board of Trustees Minutes

The minutes of meetings of the Board of Trustees and its Committees 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. Activities of the Committees were ratified at meetings of the Board of Trustees.

### Articles 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 articles of organization and bylaws.

### Board of Trustees

According to the bylaws, the Group's business shall be managed by a Board of Trustees which may exercise all the powers of the Group, except as otherwise provided by law, the Articles of Organization, or the bylaws. The bylaws require that at each annual meeting, three voting delegates of Class W, which is composed of cities and towns, shall be elected for a two-year term and shall serve until his or her successor is elected. At June 30, 2014, the Group's Board consisted of the following individuals:

<u>Name of Director</u>	<u>Title</u>
*Ira S. Singer	Town Administrator, Town of Middleton
Geoffrey C. Beckwith	President and Executive Director of MMA
Stanley J. Corcoran	Treasurer and Executive Vice President of MIIA
Rocco Longo	Town Administrator, Town of Marshfield
Kenneth E. Walto	Town Manager, Town of Dalton
Mary Patricia Flynn	Falmouth Board of Selectmen

\*Ira S. Singer retired in October 2015. Paul Cohen, Town Manager of Chelmsford, was appointed to the Board at the Annual Meeting held on January 24, 2015; and William Keegan, Town Manager of Foxborough, was appointed to the Board at the Annual Meeting held on January 23, 2016.

### Officers

Officers and management of the Group as of June 30, 2014, were as follows:

<u>Name of Officers</u>	<u>Title</u>
Geoffrey C. Beckwith	President and Executive Director
*Ann Ludlow	Secretary
Stanley J. Corcoran	Treasurer and Executive Vice President

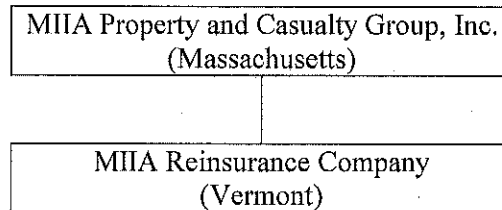
## MIIA Property and Casualty Group, Inc.

\*Ann Ludlow retired on August 25, 2015. She was succeeded by Christopher Bailey, MMA Health Trust manager, effective on January 21, 2016. During the interim period Martin Willis-Jackson, the accounting and finance manager of the Group, was the acting Secretary.

### Affiliated Companies

The Group is not required to file an Insurance Holding Group System Form B with the Division and it is not subject to the registration requirements of MGL Chapter 175, Section 206C and 211 CMR 7.00. However, MIIA Reinsurance Company is a wholly-owned captive subsidiary of the Group; it was formed and incorporated in Vermont in December 2011 and provides reinsurance for the Group's property, automobile liability, general liability and umbrella lines of business.

### Organizational Chart



### Transactions and Agreements with Affiliates

The Group reinsures a portion of certain coverages being property, general liability, automobile liability and umbrella with its wholly owned captive subsidiary, MIIA Reinsurance Company.

### Administrator

Since its formation, the Group has retained Massachusetts Interlocal Insurance Association, Inc. ("MIIA, Inc.") as its designated administrator to handle day-to-day activities on behalf of the Group in accordance with the terms of a written administrative services agreement. By such agreement, MIIA, Inc. is obligated to provide, or arrange for the provision of, appropriate office space, equipment, and supplies subject to the approval of the Group, qualified staff to operate the Group, and such specialized services as may be required from time to time by the Group. MIIA, Inc. also prepares periodic reports for the Group's Board of Trustees regarding claims, payments made by the Group, investments of the Group's assets, loss history, and such other reports as the Board of Trustees may reasonably request. In addition, MIIA, Inc. arranges for research and development activities and other insurance services such as loss control and claims administration services for the self-insurance entities. MIIA, Inc. has no employees and it contracts with MMA to provide the administrative staff and facilities in order for MIIA, Inc. to fulfill its contractual obligations with the Group.

MIIA, Inc. outsources investment advice and services for investment of the Group's assets. It also outsources underwriting of coverages, risk management analysis, surveys, and processing of the Group's claims to other third-party administrators relative to specific functions. In the period

## MIIA Property and Casualty Group, Inc.

of examination, Aon Risk Services of Massachusetts, Inc., was being used to manage the Group's workers' compensation claims while Cabot Risk Strategies, LLC. was being used for the Group's property and liability lines and marketing of the workers' compensation line. Both service organizations are engaged by contract and are subject to regular reporting and review by the Group or its designated professional performance evaluators.

### **TERRITORY AND PLAN OF OPERATION**

The Group is licensed only in Massachusetts. It is a self-insurance group that provides programs of property and casualty coverages including workers' compensation coverage for Massachusetts cities, towns, and other governmental entities which are members in good standing of MMA. In addition to insurance coverages, the Group provides risk management services with an emphasis on loss control and loss management.

### **REINSURANCE**

The Group does not assume any reinsurance. The Group uses ceded reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Group as direct insurer of the risks reinsured.

To comply with the cited statute, the Group was reinsured under various reinsurance agreements. As of June 30, 2014, the Group was reinsured for property claims and motor vehicle physical damage in excess of \$150,000 up to \$300,000,000 per occurrence. The Group was also reinsured for individual automobile and general liability claims in excess of \$500,000 up to contract limits of one million dollars per occurrence, with a per Member aggregate limit of three million dollars per year, and for 100% of umbrella limits in excess of those limits. The Group also was reinsured for individual professional liability claims in excess of \$250,000 per occurrence. The Group participated in a workers' compensation excess of loss reinsurance agreement for Statutory Limits in excess of \$750,000 self-insured retention per occurrence. It also participated in an employer's liability excess of loss agreement for amounts of \$500,000 in excess of \$500,000 for a total of \$1,000,000 per occurrence. Subsequent to fiscal year 2011, on December 6, 2011, the Group formed a captive domiciled in Vermont to gain access to the property and casualty reinsurance market. The captive retains a quota share of 10% of the first property layer reinsurance; a quota share of 20% of the auto and general liabilities reinsurance; and a quota share of 40% of the umbrella liability.



**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 June 30, 2014. The financial statements are the responsibility of the Group's management. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Statement of Assets, Liabilities, Surplus and Other Funds as of June 30, 2014

Statement of Income for the Year Ended June 30, 2014

Reconciliation of Capital and Surplus for Each Year in the Three-Year Period Ended June 30 2014

MIIA Property and Casualty Group, Inc.

Statement of Assets, Liabilities, Surplus and Other Funds  
As of June 30, 2014

	Per Annual Statement
<b>ASSETS</b>	
Bonds	\$ 181,071,332
Common Stocks	39,472,784
Cash, cash equivalents and short-term investments	5,745,920
Aggregate write-in for invested asset:	
Investment in LLC	478,461
Subtotals, cash and invested assets	<u>226,768,497</u>
Investment income due and accrued	936,983
Amounts recoverable from reinsurers	7,159,452
Aggregate write-ins for other than invested assets	<u>100,008</u>
Total Assets	<u><u>\$ 234,964,940</u></u>

MIIA Property and Casualty Group, Inc.

Statement of Assets, Liabilities, Surplus and Other Funds (Continued)  
As of June 30, 2014

	Per Annual Statement
<b>LIABILITIES</b>	
Losses	\$ 97,322,713
Loss adjustment expenses	20,668,581
Other expenses	2,381,151
Dividends declared and unpaid to policyholders	813,696
Ceded reinsurance premiums payable	2,289,477
Amounts withheld for account of others	64,619
Payable to parent, subsidiaries, and affiliates	7,657,944
Aggregate write-ins for liabilities:	
Payable to policyholders	3,023,695
Overdraft payable	2,571,337
Total Liabilities	<u>136,793,213</u>
Unassigned funds (surplus)	<u>98,171,727</u>
Surplus as regards policyholders	<u>98,171,727</u>
Total Liabilities, Surplus and Other Funds	<u><u>\$ 234,964,940</u></u>

MIIA Property and Casualty Group, Inc.

Statement of Income  
For the Year Ended June 30, 2014

	Per Annual Statement
Premiums Earned	\$ 50,711,219
Deductions:	
Losses Incurred	38,254,130
Loss adjustment expenses incurred	15,372,944
Other underwriting expenses incurred	6,652,410
Total underwriting deductions	60,279,484
Net underwriting gain/(loss)	(9,568,265)
Net investment income earned	3,620,503
Net realized capital gains or (losses) less capital gains tax	1,471,230
Net investment gain/(loss)	5,091,733
Net income before dividends to policyholders, after capital gains tax, and before other federal and foreign income taxes	(4,476,532)
Dividends to policyholders	500,000
Net income, after dividends to policyholders, after capital gains tax, and before other federal and foreign income taxes	(4,976,532)
Net income/(loss)	\$ (4,976,532)

MIIA Property and Casualty Group, Inc.

Reconciliation of Capital and Surplus  
For Each Year in the Three-Year Period Ended June 30, 2014

	2014	2013	2012
Surplus as regards policyholders, June 30, prior year	\$ 96,624,946	\$ 91,606,455	\$ 88,984,067
Net income/(loss)	(4,976,532)	1,313,509	2,795,813
Change in net unrealized capital gains or (losses) less capital gains tax	6,515,210	4,607,338	(138,752)
Change in non-admitted assets	8,103	(902,356)	(34,673)
Change in surplus as regards policyholders for the year	<u>1,546,781</u>	<u>5,018,491</u>	<u>2,622,388</u>
Surplus as regards policyholders, June 30, current year	<u><u>\$ 98,171,727</u></u>	<u><u>\$ 96,624,946</u></u>	<u><u>\$ 91,606,455</u></u>

**ANALYSIS OF CHANGE IN FINANCIAL STATEMENTS RESULTING FROM THE  
EXAMINATION**

As a result of examination work performed, an adjustment to surplus was made.

<b>Analysis of Changes to Surplus</b>			
Surplus at June 30, 2014, per Annual Statement			\$98,171,727
	Increase	Decrease	
Reinsurance Recoverable		\$3,891,324	
Net increase (or decrease)			\$(3,891,324)
Surplus at June 30, 2014, after adjustment			\$94,280,403

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

The process used to calculate and record the reinsurance recoverable was not in accordance with the reinsurance agreements. This resulted in reinsurance recoverable being incorrectly calculated and recorded.

**SUBSEQUENT EVENTS**

Subsequent to the examination, MIIA hired Shores, Tagman, Butler and Company, P.A. an independent CPA firm to review the property reinsurance recoverable amounts as shown on the annual statement. In addition, MIIA has also entered into an agreement with Insurance Resolutions, Inc. to assist them in implementing an updated in-house reinsurance recoverable system.

**SUMMARY OF RECOMMENDATIONS**

The current process used to calculate and record reinsurance recoverable is not in accordance with the reinsurance agreements.

It is recommended that the process be updated to ensure that reinsurance recoverable amounts are calculated in accordance with the reinsurance agreements.

**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 Mr. Richard Looney, AFE, CIE, Examiner III, participating in this examination is acknowledged.



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