



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

***REPORT OF EXAMINATION OF THE***  
**NORFOLK AND DEDHAM MUTUAL FIRE INSURANCE COMPANY**

**Dedham, Massachusetts**

**As of December 31, 2014**

**NAIC GROUP CODE 0144**

**NAIC COMPANY CODE 23965**

**EMPLOYER ID NUMBER 04-1675920**

# NORFOLK AND DEDHAM MUTUAL FIRE INSURANCE COMPANY

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

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**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

**NORFOLK AND DEDHAM MUTUAL FIRE 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 Norfolk and Dedham Mutual Fire Insurance Company ("Company" or "Norfolk") 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 February 12, 1825 under the laws of the Commonwealth of Massachusetts as Norfolk Mutual Fire Insurance Company and commenced business on July 1, 1825. The present title was adopted on July 1, 1837.

Effective August 6, 1953, the Company assumed the management of the affairs and business of the West Newbury Mutual Fire Insurance Company ("West Newbury"). In 1982, the Company capitalized the Newbury Corporation ("Newbury"), which was incorporated under Massachusetts's laws on July 14, 1967. Effective January 1, 1995, the Dorchester Mutual Insurance Company ("Dorchester") and the Groveland Mutual Insurance Company ("Groveland") became affiliated with the Company. On October 20, 1999, the Company sold 100 shares of Newbury to West Newbury and 100 shares to Dorchester.

Effective June 14, 2001, the Fitchburg Mutual Insurance Company ("Fitchburg") became affiliated with the Company. On August 1, 2001, the Company sold 100 shares of Newbury to Fitchburg, leaving it with a 97% interest.

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

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 acquired an additional 1,406 shares of Newbury and Fitchburg acquired 2,247 shares, as authorized by their respective Board of Directors ("Board"). This brought their ownership of Newbury in agreement with the pooling agreement percentages with Norfolk at 67%, Fitchburg at 19% and Dorchester at 14%.

As of January 1, 2010, the N&D Group 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

## Norfolk and Dedham Mutual Fire Insurance Company

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, Norfolk and Dedham Mutual Fire 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

## Norfolk and Dedham Mutual Fire Insurance Company

<u>Name of Director</u>	<u>Title</u>
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

### Officers

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

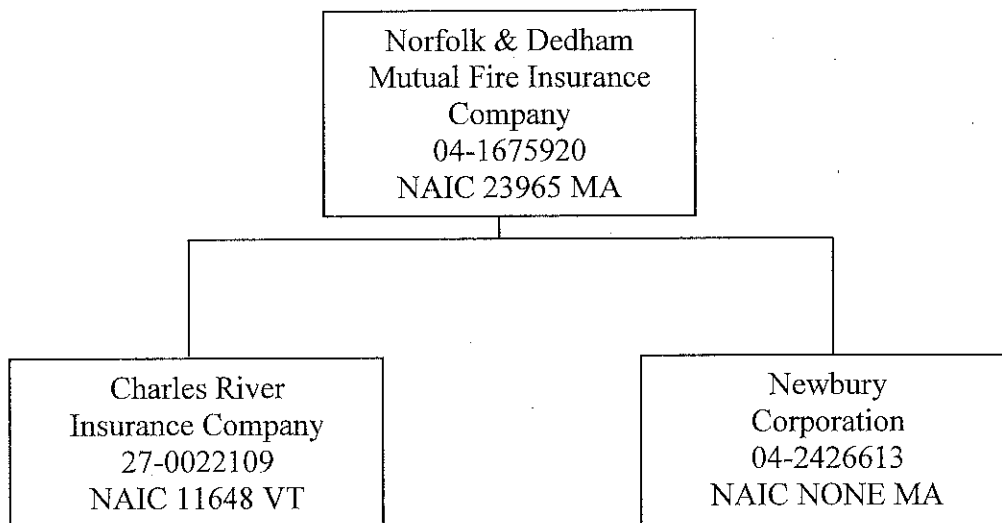
<u>Name of Officer</u>	<u>Title</u>
F. Timothy Hegarty, Jr.	President and CEO
Thomas F. Alighieri	Treasurer
David N. Cote	Secretary

### 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.

*Management Agreement with Newbury Corporation*

The Company has a 68% 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 nine states: Massachusetts, Maine, New Hampshire, Connecticut, Rhode Island, Vermont, New York, Arkansas, and New Jersey. In Virginia, the Company is recognized as an Accredited or Qualified Reinsurer. The license for Maine was voluntarily surrendered to, and accepted by, the Maine Division of Insurance, effective June 2, 2014. The Company had written direct premium in only Arkansas, Maine, Massachusetts, New Hampshire, New York and Rhode Island during the examination period. The Company uses independent agents to sell fire, allied lines, farmowners multiple peril, homeowners multiple peril, commercial multiple peril, inland marine, workers' compensation, other liability-occurrence, private passenger auto liability, commercial auto liability and auto physical damage in these states. The Company's principal lines of business are homeowners, commercial multiple peril, private passenger auto liability and auto physical damage. The Company reported \$124,875,485 of direct premium written in 2014, with \$118,727,868 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.



## Norfolk and Dedham Mutual Fire Insurance 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 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 Fitchburg and Dorchester. Under the terms of the agreement, 100% of the Company's 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 67% of the pool total, the Company participates in the Commonwealth Automobile Reinsurers, Workers' Compensation Underwriting Association and Associated Inland Marine. The Company also began its Assumed Reinsurance Program in 2010 which generated \$13,595,853 in premium as of year-end 2014. The assumed reinsurance program is subject the inter-company 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.

Norfolk and Dedham Mutual Fire 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

Norfolk and Dedham Mutual Fire Insurance Company

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

	Per Annual Statement
<b>ASSETS</b>	
Bonds	\$ 198,998,481
Common stocks	103,415,751
Properties occupied by the Company	1,607,784
Cash and short-term investments	11,030,842
Other Invested assets	<u>2,161,410</u>
Subtotals, cash and invested assets	<u>317,214,268</u>
Investment income due and accrued	2,326,964
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	103,722
Deferred premiums, agents' balances and installments booked but deferred and not yet due	27,275,954
Reinsurance:	
Amounts recoverable from reinsurers	2,229,069
Other amounts receivable under reinsurance contracts	2,824,609
Receivables from parent, subsidiaries and affiliates	632,316
Aggregate write-ins for other than invested assets	<u>7,300,152</u>
Total Assets	<u>\$ 359,907,054</u>

Norfolk and Dedham Mutual Fire Insurance Company

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

	Per Annual Statement
<b>LIABILITIES</b>	
Losses	\$ 56,084,176
Reinsurance payable on paid losses and loss adjustment expenses	1,065,843
Loss adjustment expenses	14,756,034
Commissions payable, contingent commissions and other similar charges	5,801,318
Other expenses	1468,100
Taxes, licenses and fees	1,473,851
Current federal and foreign income taxes	1,166,118
Net deferred tax liability	206,161
Borrowed money	22,476,890
Unearned premiums	64,014,747
Advance premium	3,085,515
Ceded reinsurance premiums payable	307,409
Amounts withheld or retained by company for account of others	38,525
Drafts outstanding	35,548
Payable to parent, subsidiaries and affiliates	4,513,917
Derivatives	230,433
Payable for securities	525,855
Aggregate write-ins for liabilities	651,174
Total Liabilities	<u>177,901,614</u>
Surplus notes	4,250,000
Unassigned funds (surplus)	<u>177,755,440</u>
Surplus as regards policyholders	<u>182,005,440</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 359,907,054</u>

# Norfolk and Dedham Mutual Fire Insurance Company

## Statement of Income As of December 31, 2014

	Per Annual Statement
Net Premiums earned	\$ 118,125,276
Deductions:	
Losses incurred	68,270,109
Loss adjustment expenses incurred	10,119,232
Other underwriting expenses incurred	46,302,911
Total underwriting deductions	124,692,252
Net underwriting loss	(6,566,976)
Net investment income earned	7,867,652
Net realized capital gains	2,508,038
Net investment gain	10,375,690
Net gain from agents' premium balances charged off	7,683
Finance and service charges not included in premiums	1,204,187
Aggregate write-ins for miscellaneous income	245,229
Total other income	1,457,099
Net income before dividends to policyholders	5,265,813
Federal and foreign taxes incurred	(44,805)
Net income	\$ 5,310,618

Norfolk and Dedham Mutual Fire Insurance Company

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	\$ 178,628,160	\$ 160,974,976	\$ 148,140,380	\$ 150,090,304	\$ 43,213,500
Net income	5,310,618	15,039,100	9,367,720	7,033,300	2,933,838
Change in net unrealized capital gains or (losses)	(27,986)	4,623,434	4,411,655	(7,569,672)	4,638,566
Change in net unrealized foreign exchange capital gains	0	0	0	3,039	0
Change in net deferred income tax	85,103	(78,449)	868,264	(379,185)	276,560
Change in nonadmitted assets	(7,909)	12,351	11,159	(37,405)	27,840
Change in provision for reinsurance	17,454	56,748	(74,202)	0	0
Change in surplus notes	(2,000,000)	(2,000,000)	(1,750,000)	(1,000,000)	(1,000,000)
Change in surplus as regards policyholders for the year	<u>3,377,280</u>	<u>17,653,184</u>	<u>12,834,596</u>	<u>(1,949,924)</u>	<u>6,876,804</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 182,005,440</u>	<u>\$ 178,628,160</u>	<u>\$ 160,974,976</u>	<u>\$ 148,140,380</u>	<u>\$ 150,090,304</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	\$ 64,057	\$ 67,428	\$ 74,170	\$ 69,310	\$ 70,840
Gross Loss & LAE	\$101,154	\$106,478	\$117,125	\$107,800	\$110,226

## **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**

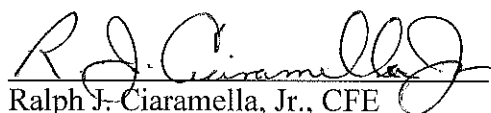
The results of this examination disclosed no material adverse findings, significant non-compliance findings, or material changes in financial statements.

**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, reading "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