



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

REPORT OF EXAMINATION OF THE
QUINCY MUTUAL FIRE INSURANCE COMPANY

Quincy, Massachusetts

As of December 31, 2014

NAIC GROUP CODE 1275

NAIC COMPANY CODE 15067

EMPLOYER ID NUMBER 04-1752900

QUINCY MUTUAL FIRE INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
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April 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, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

QUINCY MUTUAL FIRE INSURANCE COMPANY

at its home office located at 57 Washington Street, Quincy, Massachusetts 02169. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Quincy Mutual Fire Insurance Company ("Company") 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 PricewaterhouseCoopers LLP ("PWC"), 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' work papers was made to the extent deemed appropriate and effective. Representatives from the firm of Actuarial Group, Inc. were retained by the Division to assist in the examination by performing certain examination procedures at the direction and under the overall management of the Division's examination staff. The assistance included a review of accounting records, information systems, investments and actuarially determined loss and loss adjustment expense reserves.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings identified during the examination.

COMPANY HISTORY

General

The Company was organized under the laws of the Commonwealth of Massachusetts on March 22, 1851 and commenced business on May 1, 1851. As a licensed property and casualty insurance company, the Company writes personal and commercial insurance through a network of independent agents. During the five-year period under examination, the Company formed various non-insurance subsidiaries including Quincy Mutual Group, Inc., an administrative services company 95% owned by the Company and 5% owned by New England Mutual Insurance Company. In addition, various limited liability companies (LLC'S) were formed during the five-year period and contain various real estate holdings. All of these new LLC'S are listed on the organization chart within this report of examination.

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board of Directors and its Committees for the period under examination were read 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 of Directors.

Board of Directors

According to the bylaws, the Company's business shall be managed by a Board of Directors which may exercise all of the powers of the Company, except as otherwise provided by the articles of incorporation, by law, or the bylaws. The Board of Directors shall consist of not fewer than seven or not more than sixteen Directors. The Company's Board of Directors consisted of the following individuals:

<u>Name of Director</u>	<u>Title</u>
James Dudley Asher	Director
Karl Douglas Briggs	President
Alexander Gordon Clark	Director
Katherine Anne Hesse	Director

Quincy Mutual Fire Insurance Company

James Walter MacAllen	Director
Kevin Michael Meskell	Executive Vice President
John Michael Sheskey	Director

Officers

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

<u>Name of Officers</u>	<u>Title</u>
Karl Douglas Briggs	President
James Joseph Moran, Jr.	Secretary
Thomas Arthur Harris	Treasurer
Kevin Michael Meskell	Executive Vice President
Steven Harvey Briggs	Senior Vice President
John Paul Tierney	Senior Vice President
Harold Eugene Gerbis, Jr.	Vice President
Mark Anthony Giuliani	Vice President
Brian Thomas Hayes	Vice President
Lu-Ann Robin Smith	Vice President
Lisa Marie Schooley	Controller

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 Massachusetts General Laws ("M.G.L."), Chapter 175, Section 206C and 211 CMR 7.00. The Company is the ultimate controlling party of the group consisting of twenty-six entities, including three insurance and twenty three non-insurance entities.

Organizational Chart

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

Quincy Mutual Fire Insurance Company (MA)
New England Mutual Insurance Company (MA) – Affiliated Insurer, Controlled by Quincy Mutual Fire Insurance Company
Patrons Oxford Insurance Company (ME)
Quincy Mutual Group, Inc. (MA) – (5% owned by New England Mutual Insurance Company)
Quincy Investment Holdings, LLC (MA)
Burgin, Platner, Hurley Insurance Agency, LLC (MA)
Gardiner, Whiteley, Boardman Insurance Agency, LLC (MA)
Commercial Solutions Alliance Insurance Agency, LLC (MA)
SIA, LLC (MA)

Quincy Mutual Fire Insurance Company

Quincy Lincoln, LLC (MA)
Quincy Foxboro, LLC (MA)
Quincy Medford, LLC (MA)
Quincy Woburn, LLC (MA)
Wollaston Investments, LLC (MA)
Walkers Brook Crossing, LLC (MA)
Two Walkers Brook Crossing, LLC (MA)
Quincy Chestnut Street, LLC (MA)
Summer Street Marketplace, LLC (MA)
13.5 Pond Newburyport, LLC (MA)
Morse Bay, LLC (MA)
Brickstone Sharon, LLC (MA)
Brickstone Sharon 2, LLC (MA)
Pine Valley Mill, LLC (MA)
Beal Investors I, LLC (MA)
Chestnut Development, LLC (MA)
Merchants's Row Quincy, LLC (MA)
Hancock Adams Associates II, LLC (MA)

Transactions and Agreements with Subsidiaries and Affiliates

Administration and Management Services Agreements

The Company provides certain accounting, management and other services to its subsidiary, Patrons Oxford Insurance Company ("POIC"), and to its affiliate, New England Mutual Insurance Company ("NEMIC"). In consideration of such services, POIC and NEMIC agreed to pay the costs and expenses of such services.

Management Services Agreement

Effective January 1, 2013 the Company, along with its affiliate (NEMIC) entered into a management services agreement with its newly-formed non-insurance subsidiary, Quincy Mutual Group, Inc. All of the Company's former employees now reside at Quincy Mutual Group, Inc. and perform services for the affiliates with the costs and expenses being reimbursed by the entities.

Tax Sharing Agreement

The Company participates in a written tax allocation agreement with its eligible subsidiaries and affiliates. The allocation method is based upon the respective tax liability of each member combined as if a separate return were filed in accordance with the Internal Revenue Code. Inter-company balances are settled annually in the fourth quarter.

TERRITORY AND PLAN OF OPERATION

The Company currently is licensed to conduct business in the following states: Massachusetts, Rhode Island, Connecticut, New York, New Hampshire, Pennsylvania, Maine and New Jersey; however it does not actively write business in these latter three jurisdictions. The Company's Certificate of Authority is current and in force.

The Company's principal lines of business are the insurance of personal and commercial risks provided 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 M.G.L. Chapter 175, Section 4. The market conduct examination was conducted at the direction of, and 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 the 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

Assumed Reinsurance

Effective January 1, 2012, POIC, the Company's wholly-owned subsidiary, executed a 100% quota-share reinsurance agreement to cede its business to the Company. Effective January 1, 2012, the Company issued to its affiliate, NEMIC, an excess of loss contract providing coverage of \$2.5 million of ultimate net loss in respect of each loss occurrence in excess of NEMIC'S retention.

Also effective January 1, 2012, the Company issued to NEMIC a 100% quota-share agreement on all Massachusetts personal umbrella policies written by NEMIC.

In addition, the Company assumes certain risks from various business partners and voluntary pools with exposure worldwide.

Quincy Mutual Fire Insurance Company

Ceded Reinsurance

Effective January 1, 2014, the Company executed a quota-share reinsurance agreement to cede Maine personal automobile insurance business to its affiliate, NEMIC.

In addition, the Company has entered into various quota-share, excess of loss, and catastrophe treaties in the ordinary course of business in order to manage their various risks.

Involuntary Pools and Associations

The Company is a participant in various mandatory pools and associations as a requirement of doing business in various states, including Commonwealth Automobile Reinsurers, and the Massachusetts, Rhode Island, and Connecticut FAIR Plans.

Quincy Mutual Fire Insurance Company

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 for the Year Ended December 31, 2014

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

Quincy Mutual Fire Insurance Company

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

	Per Annual Statement
ASSETS	
Bonds	\$ 550,390,085
Preferred Stocks	8,727,588
Common Stocks	727,722,005
Mortgage Loans on Real Estate - First Liens	9,529,715
Real Estate - Properties occupied by the company	8,895,097
Cash, cash equivalents and short-term investments	51,017,394
Other Invested Assets	59,383,615
Receivable for securities	352,390
Subtotals, cash and invested assets	<u>1,416,017,889</u>
Investment income due and accrued	5,980,152
Uncollected premiums and agents' balances	17,679,620
Deferred premiums	34,583,059
Amounts recoverable from reinsurers	3,573,238
Funds held by or deposited with reinsured companies	1,902,011
Current federal and foreign income tax recoverable and interest thereon	1,967,989
Electronic data processing equipment and software	279,904
Receivables from parent, subsidiaries and affiliates	475,957
Aggregate write-ins	28,019,150
Total Assets	<u><u>\$1,510,478,969</u></u>

Quincy Mutual Fire Insurance Company

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

	Per Annual Statement
LIABILITIES	
Losses	\$146,284,769
Reinsurance payable on paid losses and LAE	5,337,987
Loss adjustment expenses	33,411,955
Commissions payable	15,861,919
Other expenses	6,142,216
Taxes, licenses and fees	379,117
Net deferred tax liability	93,299,305
Borrowed money	46,872,503
Unearned premiums	125,296,238
Advance premium	5,061,057
Ceded reinsurance premiums payable	4,474,726
Amounts withheld for others	21,113,569
Provision for reinsurance	685,620
Aggregate write-ins for liabilities	11,546,948
Total Liabilities	<u>515,767,929</u>
Surplus notes	100,000,000
Unassigned funds (surplus)	<u>894,711,040</u>
Surplus as regards policyholders	<u>994,711,040</u>
Total Liabilities, Surplus and Other Funds	<u><u>\$1,510,478,969</u></u>

Quincy Mutual Fire Insurance Company

Statement of Income For the Year Ended December 31, 2014

	Per Annual Statement
Net Premiums Earned	\$ 276,072,888
Deductions:	
Net Losses Incurred	100,289,258
Net Loss adjustment expenses incurred	24,355,708
Net Other underwriting expenses incurred	102,956,542
Total net underwriting deductions	227,601,508
Net underwriting gain/(loss)	48,471,380
 Net investment income earned	 24,911,040
Net realized capital gains or (losses) less capital gains tax	23,125,141
Net investment gain/(loss)	48,036,181
 Net loss from agents' or premium balances charged off	 (173,472)
Finance and service charges	1,747,023
Aggregate write-ins for miscellaneous income	(280,994)
Total other income	1,292,557
 Net income after dividends to policyholders, after capital gains tax and before other federal and foreign income taxes	 97,800,118
Federal and foreign income taxes incurred	20,843,889
Net income/(loss)	\$ 76,956,229

Quincy 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	\$ 927,134,985	\$ 796,683,303	\$ 729,059,765	\$ 776,821,841	\$709,064,953
Net income/(loss)	76,956,229	49,832,163	47,813,459	(12,891,011)	38,990,458
Change in net unrealized capital gains or (losses) less capital gains tax	(7,586,417)	76,833,502	26,186,934	(26,560,856)	32,552,297
Change in net deferred income tax	839,727	2,211,911	(5,217,858)	3,172,101	89,988
Change in non-admitted assets	(7,960,221)	5,579,273	8,875	(7,284,992)	(3,742,855)
Change in provision for reinsurance	250,550	1,429,030	(1,442,380)	(412,820)	(133,000)
Cumulative effect of changes in accounting principles		(14,731,443)			
Aggregate write-ins for gains and losses in surplus	5,076,187	9,297,245	274,508	(3,784,498)	
Change in surplus for the year	<u>67,576,055</u>	<u>130,451,681</u>	<u>67,623,538</u>	<u>(47,762,076)</u>	<u>67,756,888</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 994,711,040</u>	<u>\$ 927,134,985</u>	<u>\$ 796,683,303</u>	<u>\$ 729,059,765</u>	<u>\$776,821,841</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There have been no changes to the amounts reported in the Annual Statement.

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 engaged Actuarial Group, Inc. ("AGI") to review the reasonableness of the loss and LAE reserves of the Company as of December 31, 2014. The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the Standard of Practice adopted by the Actuarial Standards Board.

AGI performed an analysis of the loss and LAE reserves evaluated as of December 31, 2014. With regard to comparisons to the estimates derived by the Company's Appointed Actuary ("AA"), AGI noted that as of December 31, 2014, the Company held net loss and LAE reserves slightly higher than the AA's central estimate. The Company held net loss and LAE reserves of \$179.7M as of December 31, 2014 while the AA had a central estimate of \$173.9M.

The consulting actuary, AGI, noted the central estimate of the net loss and LAE reserves of \$171.5M, which is lower than the booked reserves of \$179.7M. The net booked reserves is within the AGI range of reasonable estimates from \$159M to \$184M. In the opinion of AGI, the net loss and loss adjustment expense reserves carried by the Company as of December 31, 2014, make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company.

The table below summarizes a comparison of AGI's range of reasonable estimates for loss and LAE reserves to the Company's net carried loss and LAE reserves as of December 31, 2014.

	AGI Central Estimate	Company Carried	Position ("+" means redundant)	AGI Range
Net	171.5 million	179.7 million	8.2 (+4.8%)	159 to 184 mil

SUBSEQUENT EVENTS

Subsequent to December 31, 2014, there were no material items that came to our attention for inclusion in the report of examination.

SUMMARY OF RECOMMENDATIONS

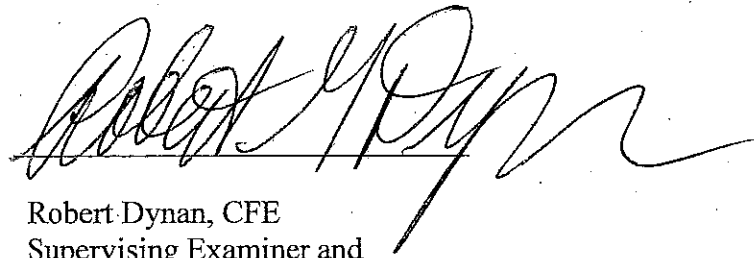
There are no recommendations being made as part of this examination report.

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 Actuarial Group, Inc. and by the following Division Examiner who participated in this examination is hereby acknowledged.

Steven Tsimitsos, CFE, Financial Examiner II

A handwritten signature in black ink, appearing to read "Robert Dynan", written over a horizontal line.

Robert Dynan, CFE
Supervising Examiner and
Examiner in Charge
Commonwealth of Massachusetts
Division of Insurance