

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

REPORT OF EXAMINATION OF THE
ATLANTIC CHARTER INSURANCE COMPANY

Boston, Massachusetts

As of December 31, 2015

NAIC GROUP CODE 1178

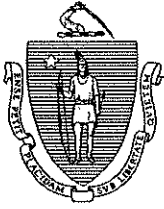
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ATLANTIC CHARTER INSURANCE COMPANY

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

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GARY D. ANDERSON
ACTING COMMISSIONER OF INSURANCE

May 25, 2017

The Honorable Gary D. Anderson
Acting 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

ATLANTIC CHARTER INSURANCE COMPANY

at its home office located at 25 New Chardon Street, Boston, MA, 02114-4721. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Atlantic Charter Insurance Company (“Company” or “ACIC”) was last examined as of December 31, 2010 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, 2011 through December 31, 2015, 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 Law. 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 Ernst & Young LLP (“EY”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2011 through 2015. A review and use of the Certified Public Accountants’ work papers was made to the extent deemed appropriate and effective. An independent consulting firm, Risk & Regulatory Consulting, LLC (“RRC”), was retained by the Division to evaluate the adequacy of the Company’s loss and loss adjustment expense reserves as of December 31, 2015. Additionally, the Division engaged RRC to review the adequacy and effectiveness of the IT systems controls to determine the level of reliance to be placed on the information generated by the data processing systems.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings noted in the Report of Examination as of December 31, 2010 and there are no significant findings of a material nature related to the current examination.

COMPANY HISTORY

General

Atlantic Charter Insurance Company was incorporated on November 19, 1990, under the laws of the Commonwealth of Massachusetts. It commenced business on January 1, 1991, and began accepting insurance risks on February 1, 1991.

ACIC is a wholly owned subsidiary of Charter Management Company, Inc. ("Charter" or "CMC"), a Massachusetts corporation. Charter Management Company is an insurance holding company owned by Linda Sallop (13.6%), Linda J. Sallop Irrevocable Trust (54.4%) and Mitchel Weisman (32%). ACIC and its two insurance affiliates, Endeavour Insurance Company ("EIC") and Independence Casualty Insurance Company ("ICIC"), are part of an insurance holding company group (collectively referred to as "the Companies" or "the Group"). The Company is also affiliated with an insurance agency (Nathan Sallop Insurance Agency, Inc. – owned 49% by Linda Sallop, 12% by Andrew Fenlon and 39% by an ESOP) and a law firm (Sallop & Weisman, P.C. – owned 50% by Linda Sallop and 50% by Mitchel Weisman).

ACIC is a licensed property and casualty insurer that writes workers' compensation insurance at a deviated rate (currently, at a 10% deviation for all classes and 20% for a limited number of specific classes) on employers in Massachusetts and New Hampshire, through a network of independent agents and brokers. The Company is licensed to conduct business in the Commonwealth of Massachusetts and the State of New Hampshire, with approximately 10% of the total written policies in NH.

Besides its direct business, the Company assumes 100% of the business written by two affiliates, EIC and ICIC. Additionally, the Company participates as a Voluntary Direct Assignment Carrier ("VDAC") in the Massachusetts Workers' Compensation Assigned Risk Pool, the residual market mechanism for workers' compensation insurance in the Commonwealth of Massachusetts.

As of December 31, 2015, ACIC had 200,000 shares of common capital stock, with no par value. ACIC has 55,000 shares issued and outstanding, all held by CMC; with a value of \$1,100,000 and contributed surplus of \$4.4 million.

Dividends

The Company issued the following dividends to stockholders during the period under examination:

2015	\$ 7,000,000
2014	6,800,000
2013	5,000,000
2012	20,000,000
2011	9,000,000

Atlantic Charter Insurance Company

The Company issued the following dividends to policyholders during the period under examination:

2015	\$ 499,406
2014	451,587
2013	825,204
2012	500,158
2011	357,803

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board of Directors ("Board") and its Committees for the period under statutory examination were read and 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 reported upon at various meetings of the Board.

Articles of Organization and Bylaws

The Articles of Organization were reviewed and there were no changes since the prior exam. The bylaws were reviewed and have been amended once since the prior exam. On September 1, 2014 at a special Board meeting, the bylaws were restated to be brought into conformity with Massachusetts General Laws, Chapter 156D and for corporate governance purposes, so that each of the three affiliated insurance companies within the Group have the same bylaws.

Board of Directors

According to the bylaws, the Company's business shall be managed by a Board which may exercise all of the powers of the Company, except as otherwise provided by the Articles of Organization, by law, or the bylaws. The Board shall consist of not fewer than five Directors. As of December 31, 2015, the Company's Board consisted of the following individuals:

<u>Name of Director</u>	<u>Title</u>
Linda J. Sallop	President
Mitchel I. Weisman	Executive Vice President and Secretary
Julianne M. Bowler	Vice President of Regulatory Affairs
David A. Bakst	Assistant Secretary of the Company, Senior Partner Morrison Mahoney, LLP
Eric D. Schlager	CEO Bulfinch Companies Inc.
William J. Kearney	Underwriting Manager, Retired, The Hartford Companies
Robert P. Medwid	CFO, Retired, Arbella Insurance Group

Atlantic Charter Insurance Company

Officers

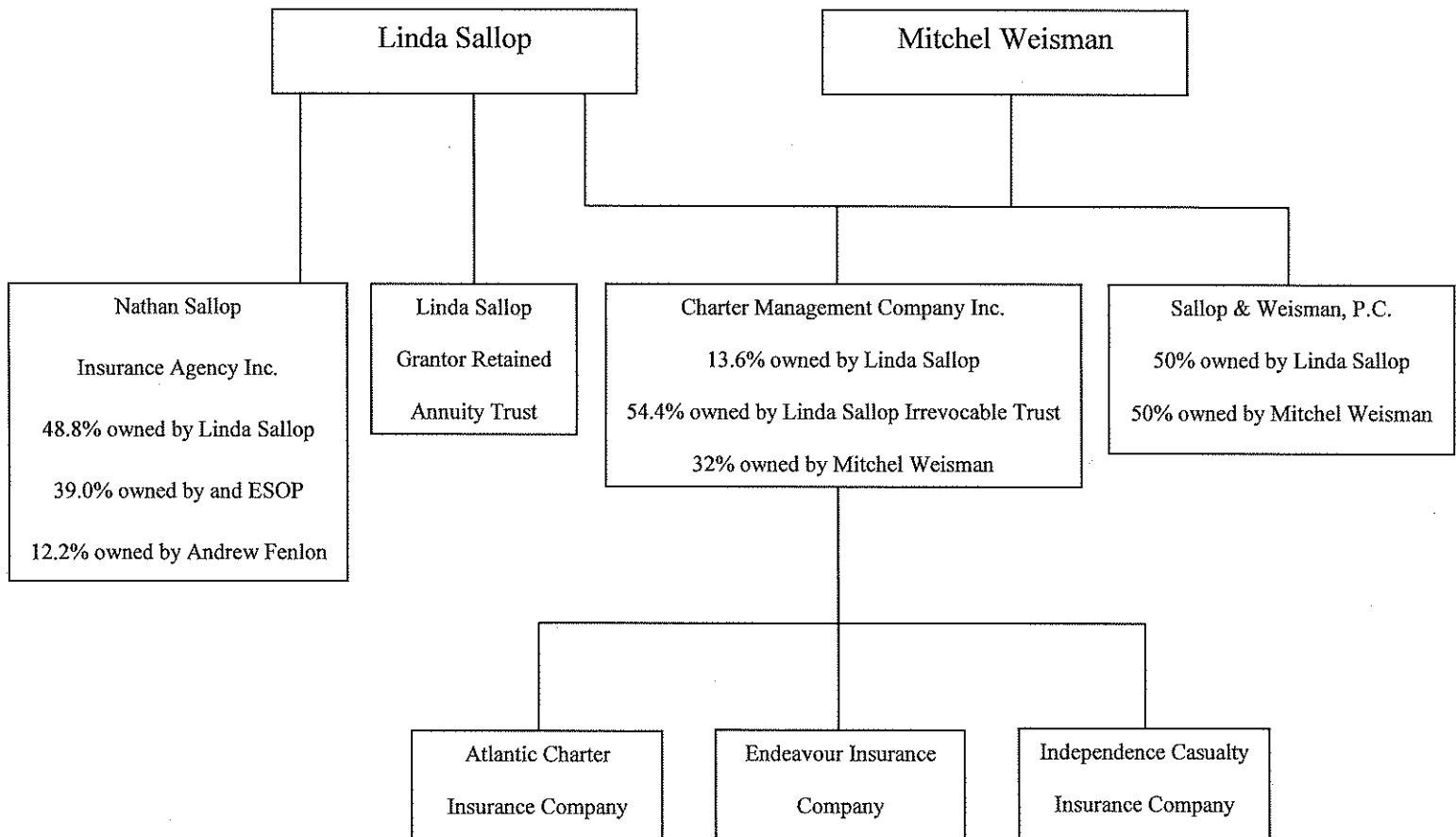
Officers and management of the Company as of December 31, 2015, were as follows:

<u>Name of Officers</u>	<u>Title</u>
Linda J. Sallop	President
Mitchel I. Weisman	Executive Vice President and Secretary
Joseph N. Russo	Chief Financial Officer, Treasurer
Faye O. Shulman	Vice President
David A. Bakst	Assistant 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 Massachusetts General Laws, Chapter 175, Section 206C and 211 CMR 7.00.

Organizational Chart



Atlantic Charter Insurance Company

Transactions and Agreements with Subsidiaries and Affiliates

Administrative Services Agreements

Per the terms of a written services agreement effective January 1, 2002, the Company receives management, general administrative, underwriting, claims, financial accounting and other services from its parent company, Charter. Under terms of the agreement, the Company shall pay to Charter 100% of the actual costs and expenses incurred by Charter on behalf of the Company.

Tax Sharing Agreement

The Company participates in a written tax allocation agreement entered into as of May 4, 2004, with three affiliates; Charter, EIC and ICIC. Per such agreement, Charter collects from or refunds to its participating subsidiaries the amount of taxes or benefits by an allocation method based upon the respective tax liability of each member computed as if a separate return were filed in accordance with the Internal Revenue Code.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in Massachusetts and New Hampshire, with the largest number of insurance risks written in Massachusetts. The Company uses independent brokers and agents to sell workers' compensation insurance in these states. In 2015, the Company reported \$34.2 million of direct written premium in Massachusetts and \$5.0 million in New Hampshire.

Treatment of Policyholders

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to members and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination.

REINSURANCE

Assumed Reinsurance

Effective August 9, 1996, the Company began to participate in a 100% quota share reinsurance agreement with EIC whereby EIC cedes to the Company the premiums, losses, loss adjustment expenses and underwriting expenses of all insurance risks underwritten or assumed by EIC on or after such effective date. The Company agreed to be solely responsible for the servicing and administration of such business and bears all of the costs associated with performing such servicing. The agreement is prospective in nature.

Effective June 15, 2004, the Company executed and began to participate in a similar 100% quota share reinsurance agreement with ICIC whereby ICIC cedes all of the premiums, losses, loss

Atlantic Charter Insurance Company

adjustment expenses and underwriting expenses of its insurance risks underwritten or assumed on or after such effective date. Likewise, under this agreement, the Company assumes ICIC's business and similarly is responsible for servicing and administering the business.

All workers' compensation insurance underwriters within Massachusetts are members of the Massachusetts Workers' Compensation Assigned Risk Pool ("the Pool"). Participants share the underwriting results of the Pool on a policy year basis based on each member's share of premiums written to the premiums written by the industry as a whole. The Pool underwrites employers unable to find insurance through the marketplace due to poor loss experience or high-risk classification.

In 1999, the Group elected to be a Voluntary Direct Assignment Carrier in lieu of participating directly in the Pool's operating results. Voluntary Direct Assignment Carriers retain the underwriting risk associated with this business and are also responsible for loss adjustment expenses and underwriting expenses incurred.

As ACIC writes workers' compensation insurance in New Hampshire, it is required to participate in the involuntary market by becoming a member in the National Workers Compensation Reinsurance Association ("NWCRA"). NWCRA members share in the operating results for the involuntary market through a quota share reinsurance arrangement.

Ceded Reinsurance

The Company has an excess of loss reinsurance treaty with Swiss Reinsurance America Corporation. The retentions and limits are as follows:

<u>Layer</u>	<u>Retention</u>	<u>Limit</u>
1 st	\$ 500,000	\$ 1,000,000
2 nd	1,000,000	5,000,000
3 rd	5,000,000	10,000,000
4 th	10,000,000	20,000,000

Atlantic Charter 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, 2015. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2015.

Statement of Income for the Year Ended December 31, 2015.

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2015.

Atlantic Charter Insurance Company

**Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2015**

	Per Annual Statement
ASSETS	
Bonds	\$ 97,989,674
Preferred stocks	1,318,809
Common stocks	39,125,004
Cash, cash equivalents and short-term investments	19,718,689
Derivatives	1,127
Receivable for securities	425,640
Subtotals, cash and invested assets	<u>158,578,943</u>
Investment income due and accrued	1,167,326
Uncollected premiums and agents' balances in the course of collection	1,990,025
Deferred premiums, agents' balances and installments booked but deferred and not yet due	8,926,077
Amounts recoverable from reinsurers	10,680
Current federal and foreign income tax recoverable and interest thereon	195,606
Net deferred tax asset	2,386,569
Total Assets	<u>\$ 173,255,226</u>

Atlantic Charter Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2015

	Per Annual Statement
LIABILITIES	
Losses	\$ 89,858,018
Loss adjustment expenses	13,632,345
Commissions payable, contingent commissions and other similar charges	295,758
Other expenses	10,769
Unearned premiums	18,538,315
Advance premium	978,140
Ceded reinsurance premiums payable	139,490
Amounts withheld or retained by company for account of others	503,317
Total Liabilities	<u>123,956,152</u>
 Common capital stock	 1,100,000
Gross paid in and contributed surplus	4,400,000
Unassigned funds (surplus)	43,799,075
Surplus as regards policyholders	49,299,075
Total Liabilities, Surplus and Other Funds	<u><u>\$ 173,255,227</u></u>

Atlantic Charter Insurance Company

Statement of Income
For the Year Ended December 31, 2015

	Per Annual Statement
Premiums Earned	\$ 60,744,609
Deductions:	
Losses Incurred	25,271,091
Loss adjustment expenses incurred	12,463,191
Other underwriting expenses incurred	15,585,226
Total underwriting deductions	53,319,508
Net underwriting gain (loss)	7,425,101
Net investment income earned	3,784,043
Net realized capital gains (losses) less capital gains tax	424,381
Net investment gain (loss)	4,208,424
Net gain (loss) from agents' or premium balances charged off	(103,413)
Total other income	(103,413)
Net income before dividends to policyholders, after capital gains tax and before other federal and foreign income taxes	11,530,112
Dividends to policyholders	499,406
Net income after dividends to policyholders, after capital gains tax and before other federal and foreign income taxes	11,030,706
Federal and foreign income taxes incurred	2,427,799
Net income	\$ 8,602,907

Atlantic Charter Insurance Company

Reconciliation of Capital and Surplus For Each Year in the Five-Year Period Ended December 31, 2015

	2015	2014	2013	2012	2011
Surplus as regards policyholders, December 31, prior year	\$ 49,094,109	\$ 46,754,829	\$ 41,741,716	\$ 54,070,106	\$ 57,769,681
Net income	8,602,907	9,740,519	6,817,807	5,001,561	5,979,513
Change in net unrealized capital gains or (losses) less capital gains tax	(944,013)	238,354	3,653,968	1,070,276	(1,193,682)
Change in net unrealized foreign exchange capital gain (loss)	12,242	(56,121)	33,289	65,561	(105,942)
Change in net deferred income tax	(337,891)	(694,185)	(1,394,452)	(346,684)	214,127
Change in non-admitted assets	(128,279)	(89,287)	902,501	1,880,896	406,409
Paid in surplus				2,200,000	
Transferred from capital				(2,200,000)	
Dividends to stockholders	(7,000,000)	(6,800,000)	(5,000,000)	(20,000,000)	(9,000,000)
Change in surplus as regards policyholders for the year	204,966	2,339,280	5,013,113	(12,328,390)	(3,699,575)
Surplus as regards policyholders, December 31, current year	\$ 49,299,075	\$ 49,094,109	\$ 46,754,829	\$ 41,741,716	\$ 54,070,106

ANALYSIS OF CHANGE IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

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

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 Company has appointed Ashurst Beacon, LLC ("Ashurst Beacon") as their Appointed Actuary. Ashurst Beacon performed an analysis of the Loss and LAE reserves as of December 31, 2015. They utilized both Company and industry development to determine the reserve estimates. A greater emphasis was given to industry development in determining the reserve estimate. The Company held net Loss and LAE reserves of \$103.5 million as of December 31, 2015; which was above the \$98.6 million central estimate of Ashurst Beacon by \$4.9 million but remained below the high end of Ashurst Beacon's range of \$106.7 million by \$3.2 million. Ashurst Beacon determined that the Company held net Loss and LAE reserves within the Appointed Actuary's range of reasonable reserve estimates.

The Division engaged RRC to review the reasonableness of the Loss and LAE reserves of the Company as of December 31, 2015. 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 Standard Board.

RRC performed an analysis of the Loss and LAE reserves as of December 31, 2015. RRC also used Company and industry development to determine their reserve estimate. RRC placed a greater emphasis than Ashurst Beacon on the Company development in determining their estimate. RRC's results of their review resulted in a central estimate for net Loss and LAE reserves of \$77.5 million, which is lower than the Company's booked reserves of \$103.5 million by \$26.0 million, or 25.2% of reserves. The net booked reserves are higher than RRC's range of reasonable estimates which has a low point of \$67.1 million and a high point of \$87.8 million.

RRC's central reserve estimate is also substantially lower than both Ashurst Beacon's, the Company's appointed independent actuary and Ernst and Young, the Company's independent auditor's central reserve estimate. The net booked reserves are within the Company's appointed actuary's range of reasonable estimates and reflect the Company's reserving practices since its inception.

SUBSEQUENT EVENTS

There were no subsequent events through the date of this report.

SUMMARY OF RECOMMENDATIONS

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

Atlantic Charter 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 the following examiner participating in this examination is acknowledged.

Michael J. Lewandowski, Financial Examiner II



Carla Mallqui, CFE
Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance



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