

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

REPORT OF EXAMINATION OF THE
INDEPENDENCE CASUALTY INSURANCE COMPANY

Boston, Massachusetts

As of December 31, 2015

NAIC GROUP CODE 1178

NAIC COMPANY CODE 11984

EMPLOYER ID NUMBER 201135209

INDEPENDENCE CASUALTY INSURANCE COMPANY

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

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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

INDEPENDENCE CASUALTY 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

Independence Casualty Insurance Company ("Company" or "ICIC") 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, 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

Independence Casualty Insurance Company was incorporated on May 7, 2004 under the laws of the Commonwealth of Massachusetts. It commenced business that same date.

ICIC 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%). ICIC and its two insurance affiliates, Atlantic Charter Insurance Company ("ACIC") and Endeavour Insurance Company ("EIC"), are part of the 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).

The Company is currently licensed in Massachusetts and New Hampshire and writes workers' compensation insurance through a network of independent agents and brokers. ICIC writes workers' compensation insurance at deviated rates (currently at a 5% deviation for all classes but deviates 15%, 20% and 25% for a limited number of specific classes) on employers in Massachusetts. Currently, ICIC does not write business in New Hampshire.

ICIC maintains a quota share reinsurance agreement to cede 100% of its direct written premiums to ACIC. 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, ICIC had 200,000 shares of common capital stock, with no par value. ICIC has 50,000 shares issued and outstanding with a value of \$600,000, all held by CMC, and contributed surplus of \$2.4 million.

Dividends

The Company did not issue dividends during the exam period.

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.

Independence Casualty Insurance Company

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 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 Bullfinch Companies, Inc.
William J. Kearney	Underwriting Manager, Retired, The Harford Companies
Robert P. Medwid	CFO, Retired, Arbella Insurance Group

Officers

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

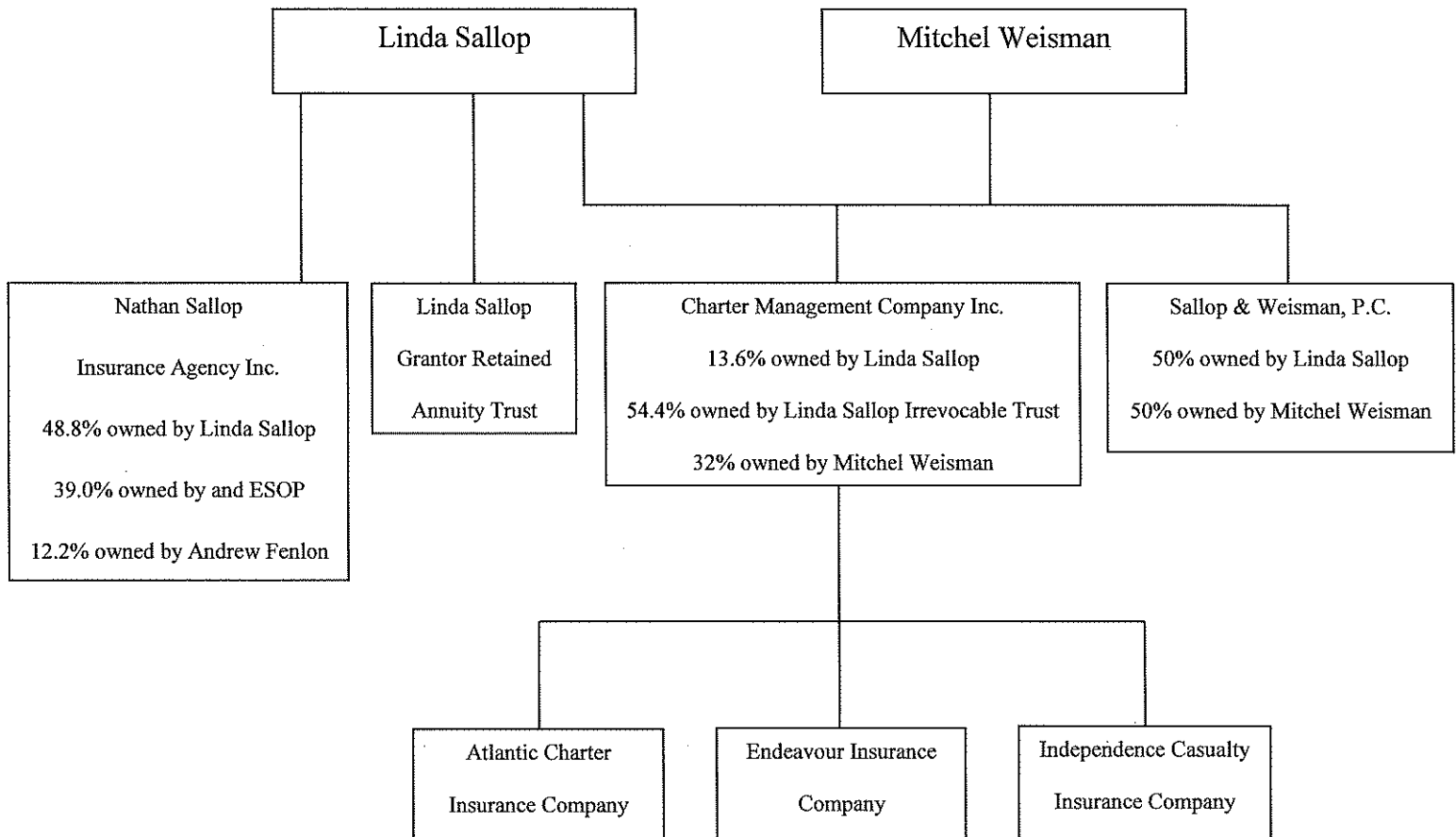
<u>Name of Officers</u>	<u>Title</u>
Linda J. Sallop	President
Mitchel I. Weisman	Executive Vice President and Secretary
Joseph N. Russo	Chief Financial Officer, Treasurer
Faye O. Shulman	Vice President
David A. Bakst	Assistant Secretary

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.

Independence Casualty Insurance Company

Organizational Chart



Transactions and Agreements with Subsidiaries and Affiliates

Administrative Services Agreements

Per the terms of a written services agreement effective June 15, 2004, 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, ACIC and EIC. 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. After 2012, no premiums were written in NH. The Company uses independent brokers and agents to sell workers' compensation insurance. The Company reported \$19.8 million of 2015 direct premium written in Massachusetts.

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

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.

ICIC 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.

Ceded Reinsurance

Effective June 15, 2004, the Company began to participate in a 100% quota share reinsurance agreement with ACIC whereby the Company cedes to ACIC all of its premiums, losses, loss adjustment expenses and underwriting expenses of all insurance risks underwritten or assumed on or after such effective date. By such agreement, ACIC 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.

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 Four-Year Period Ended December 31, 2015.

Independence Casualty Insurance Company

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

	Per Annual Statement
ASSETS	
Bonds	\$ 3,838,960
Cash, cash equivalents and short-term investments	610,711
Subtotals, cash and invested assets	<u>4,449,671</u>
Investment income due and accrued	61,103
Total Assets	<u>\$ 4,510,774</u>
 LIABILITIES	
Taxes, licenses and fees	\$ 1,350
Current federal and foreign income taxes	11,920
Total Liabilities	<u>13,270</u>
Common capital stock	600,000
Gross paid in and contributed surplus	2,400,000
Unassigned funds (surplus)	1,497,504
Surplus as regards policyholders	<u>4,497,504</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 4,510,774</u>

Independence Casualty Insurance Company

Statement of Income
For the Year Ended December 31, 2015

	Per Annual Statement
Net investment income earned	<u>\$ 133,573</u>
Net investment gain/(loss)	<u>133,573</u>
Federal and foreign income taxes incurred	<u>11,920</u>
Net income	<u><u>\$ 121,653</u></u>

Independence Casualty 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	\$ 4,375,851	\$ 4,251,744	\$ 4,116,851	\$ 3,968,257	\$ 3,843,821
Net income/(loss)	121,653	124,107	134,893	148,594	124,436
Paid in capital				(400,000)	
Paid in surplus				400,000	
Change in surplus as regards policyholders for the year	121,653	124,107	134,893	148,594	124,436
Surplus as regards policyholders, December 31, current year	<u>\$ 4,497,504</u>	<u>\$ 4,375,851</u>	<u>\$ 4,251,744</u>	<u>\$ 4,116,851</u>	<u>\$ 3,968,257</u>

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 gross Loss and LAE reserves of \$29.8 million as of December 31, 2015; which was above the \$29.3 million central estimate of Ashurst Beacon by \$0.5 million but remained below the high end of Ashurst Beacon's range of \$30.8 million by \$1.5 million. Ashurst Beacon determined that the Company held gross 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 evaluated as of December 31, 2015. RRC also used Company and industry development to determine their reserve estimate. A greater emphasis was placed on the Company development in determining their estimate. RRC's results of their review gave a central estimate for gross Loss and LAE reserves of \$24.8 million, which is lower than the Company's booked reserves of \$29.8 million by \$5.0 million, or 16.8% of reserves. The gross booked reserves are higher than RRC's range of reasonable estimates which has a low point of \$21.6 million and a high point of \$28.1 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.

Independence Casualty Insurance Company

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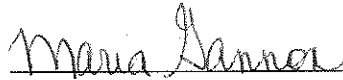
Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

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



Maria Gannon, CFE
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