



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

REPORT OF EXAMINATION OF
MASSACHUSETTS INSURERS INSOLVENCY FUND

Boston, Massachusetts

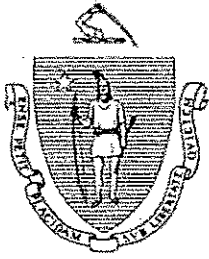
As of December 31, 2015

EMPLOYER ID NUMBER 23-7304306

MASSACHUSETTS INSURERS INSOLVENCY FUND

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COMMONWEALTH OF MASSACHUSETTS

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GARY D. ANDERSON
ACTING COMMISSIONER OF INSURANCE

March 15, 2017

The Honorable Gary D. Anderson, Esq.
Acting Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Section 10 of Massachusetts General Laws Chapter 175D, an examination has been made of the financial condition and affairs of

MASSACHUSETTS INSURERS INSOLVENCY FUND

at its principal place of business, One Bowdoin Square, Boston, Massachusetts 02114. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Massachusetts Insurers Insolvency Fund ("MIIF") was last examined as of December 31, 2010 by the Massachusetts Division of Insurance ("Division"). The current examination was 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 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 ("MGL"). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of an entity by obtaining information about the entity, including corporate governance, identifying and assessing inherent risks within the entity, and evaluating system controls and procedures used to mitigate those risks.

Accounts and activities of MIIF 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 a modified-cash basis of accounting. The examination does not attest to the fair presentation of the financial statements included herein. If, in the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the financial statements.

This examination report includes significant findings of fact, as mentioned in Section 4 of MGL Chapter 175 and general information about MIIF, its financial condition, and the compliance by MIIF and its member companies to statute and to MIIF's Plan of Operation ("Plan"). There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, *etc.*), are not included in the examination report but may be separately communicated to other regulators and/or MIIF.

MIIF is audited annually by PricewaterhouseCoopers LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on MIIF's financial statements for the years ended December 31, 2011 through 2015, in conformity with the modified-cash basis of accounting but emphasized that the modified-cash basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America in that loss and loss adjustment expenses are recognized when paid, rather than when incurred. Review and use of the certified public accountants' workpapers were made to the extent deemed appropriate and effective.

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.

HISTORY

General

MGL Chapter 175D (enacted as Chapter 261 of the 1970 Acts of the Legislature) created a non-profit, unincorporated, legal entity to be known as the Massachusetts Insurers Insolvency Fund consisting of all insurers licensed to transact certain kinds of insurance in the Commonwealth of Massachusetts. Pursuant to Section Two of said Chapter, the enabling legislation of MIIF shall apply to all kinds of direct insurance, except life, accident and health, title, surety, disability credit, mortgage guaranty, financial guaranty or other forms of insurance offering protection against investment risks, insurance warranties of any type of service contracts, and ocean marine insurance. Subsequently, Section 1, Chapter 302 of the 1988 Acts of the Legislature and Section 3, Chapter 318 of the 1992 Acts of the Legislature amended MGL Chapter 175D by extending it to apply to claims for compensation or other benefits which arise out of and are within the coverage of a workers' compensation insurance policy.

In August 1972, after nomination of its initial Board of Directors, MIIF held an organization meeting in Boston, Massachusetts, and adopted the Plan of Operation which was submitted to and approved by the Commissioner of Insurance later that same month. In November 1972, MIIF entered into an administrative service agreement with Insurance Services Office ("ISO") under which ISO undertook to perform, at cost to MIIF, such administrative, clerical, and mailing services as MIIF required to fulfill its statutory functions.

In July 1974, a member insurer, domiciled in Massachusetts, was placed in liquidation. Thereafter, in February 1975, MIIF's Board of Directors ("Board") recognized the need to have a full-time manager supervising the daily operations of MIIF. The Board, with the acquiescence of ISO, hired and placed a manager on the ISO payroll only for the purpose of overseeing MIIF's activities. The handling and disposition of covered claims was administered by willing member insurers' claim facilities until the latter part of 1976, when MIIF's Board of Directors authorized the establishment of a claims office to handle the disposition of several thousand claim files.

In November 1980, MIIF and similar organizations of each of the other five New England states (all six entities forming the New England Association of Insurance Guaranty Funds) became charter members of Guaranty Fund Management Services® ("GFMS") by adopting and subscribing to its Articles of Agreement. Two more associations later became signatories to the GFMS Articles of Agreement: the District of Columbia Insurance Guaranty Association effective January 1982, and the Virginia Property and Casualty Insurance Guaranty Association effective January 1985.

In January 1981, GFMS officially began operations as a voluntary, non-profit, unincorporated association. GFMS furnishes a mechanism for assuring the maintenance of management and claims supervisory services to insurance guaranty associations and insolvency funds created by statute. It manages member funds in the discharge of their statutory responsibility to handle promptly and efficiently the valid, covered claims against insolvent insurers.

Massachusetts Insurers Insolvency Fund

As of December 31, 2015, GFMS was composed of and provided services to the following eight member funds and associations: Connecticut Insurance Guaranty Association, District of Columbia Insurance Guaranty Association, Maine Insurance Guaranty Association, Massachusetts Insurers Insolvency Fund, New Hampshire Insurance Guaranty Association, Rhode Island Property and Casualty Insurance Guaranty Association, Vermont Property and Casualty Insurance Guaranty Association, and Virginia Property and Casualty Insurance Guaranty Association.

From its inception through December 31, 2015, MIIF or GFMS on behalf of MIIF has been involved in handling the insolvencies of 73 companies, 45 of which are considered to be closed as of December 31, 2015, and the following 28 still are being processed:

Name of Company	Declared Insolvent	State of Domicile
Ideal Mutual Fire Insurance Company	1985	New York
Integrity Insurance Company	1987	New Jersey
American Mutual Liability Insurance Company	1989	Massachusetts
American Mutual Insurance Company of Boston	1989	Massachusetts
American Universal Insurance Company	1991	Rhode Island
Western Employers Insurance Company	1991	California
Employers Casualty Company	1994	Texas
United Community Insurance Company	1995	New York
Credit General Insurance Company	2001	Ohio
Reliance Insurance Company	2001	Pennsylvania
Home Insurance Company	2003	New Hampshire
Fremont Indemnity Company	2003	California
Legion Insurance Company	2003	Pennsylvania
Villanova Insurance Company	2003	Pennsylvania
Casualty Reciprocal Exchange	2004	Missouri
Shelby Insurance Company	2006	Texas
MIIX Insurance Company	2008	New Jersey
Eastern Casualty Insurance Company	2010	Massachusetts
Atlantic Mutual Insurance Company	2011	New York
Centennial Insurance Company	2011	New York
Frontier Insurance Company	2012	New York
Ullico Casualty Company	2013	Delaware
American Manufacturers Mutual Insurance Company	2013	Illinois
American Motorists Insurance Company	2013	Illinois
Lumbermens Mutual Casualty Company	2013	Illinois
Freestone Insurance Company	2014	Delaware
Lincoln General Insurance Company	2015	Pennsylvania
Regis Insurance Company	2015	Pennsylvania

Massachusetts Insurers Insolvency Fund

Assessment and Refunds to Members

Section 5 of MGL Chapter 175D specifies that MIIF shall assess insurers the amounts necessary to pay its obligations and the expenses of handling covered claims and to pay other permissible expenses. By Section 12 of that statute, MIIF Board may at the end of any calendar year order that the amount by which MIIF's assets exceed liabilities be returned to the insurers in proportion to their respective contributions as assessment refunds. For the years under examination, the aggregate amounts of assessments and refunds authorized by the Board were the following:

<u>Year</u>	<u>Assessment</u>	<u>Refund</u>	<u>Net Assessment</u>
2011	\$ 14,750,000	\$ 8,131,136	\$ 6,618,864
2012	-	-	-
2013	\$ 20,000,000	-	\$ 20,000,000
2014	-	-	-
2015	-	-	-

MANAGEMENT AND CONTROL

Annual Meeting

In accordance with Article 2(C) of MIIF's Plan, the Annual Meeting of the Board shall be held at the office of the Commissioner in October, unless the Board upon proper notice designates some other date or place. The minutes of meetings of the Board documented that annual meetings were held at places of mutual convenience in October of each year throughout the examination period.

Board of Directors

By Section 3 of MGL Chapter 175D, MIIF is to perform its functions under a plan of operation and is to exercise its powers through a Board of Directors. Section 4 of the enabling legislation specifies that the Board shall consist of not less than five nor more than nine persons and that the members of the Board shall be nominated by members of MIIF subject to the approval of the Commissioner of Insurance, provided that at least one member of the Board shall be appointed by the Commissioner as a representative of insurance producers. In accord therewith, Article 2(A) of MIIF's Plan specifies that the Board shall consist of nine members – eight member insurers nominated by member insurers subject to the approval of the Commissioner and one member appointed from time to time by the Commissioner as a representative of insurance producers. The following lists member insurers and their respective designated representatives with corporate titles who were serving on MIIF's Board as of December 31, 2015:

Massachusetts Insurers Insolvency Fund

Member Insurer	Representative	Company Position
The Hanover Insurance Company	William J. Cahill, Jr., Esq., Chair	Vice President and General Counsel
Liberty Mutual Insurance Company	Joanne M. Locke, Esq., Vice Chair	Vice President, Senior Corporate Counsel, and Manager of Coverage Group
Arbella Mutual Insurance Company	Eileen Currie	Senior Vice President of Commercial Lines
Holyoke Mutual Insurance Company in Salem	Jonathan S. Herron *	Vice President – Auto- Operations-Casualty-Litigation
Metropolitan Property and Casualty Insurance Co.	Maura C. Travers, Esq.	Assistant General Counsel and Secretary
Quincy Mutual Fire Insurance Company	Lisa M. Schooley *	Vice President and Treasurer
Safety Insurance Company	William J. Begley, Jr.	Vice President, Treasurer, and Chief Financial Officer
The Premier Insurance Company of Massachusetts	David D. Sutera *	Second Vice President
Producer Representative	Vacant **	

* Representative newly appointed since prior examination.

** Mr. Douglas C. Ryder retired from the Board in 2015.

Subsequent to the date of examination, Mr. Thomas F. Skelly, Jr., Vice President of Sales and Operations at Deland, Gibson Insurance Associates, Inc., was appointed to succeed Mr. Ryder as the Producer Representative. The term of office of Holyoke Mutual Insurance Company in Salem expired in October 2016 and the Commissioner approved the election of MEMIC Indemnity Company to the Board of Directors, with Ms. Eileen Moran Fongemie, Vice President of Finance and Assistant Treasurer, as its designated Representative.

Committees

Audit Committee

By Article 4(C) of MIIF's Plan, the Board annually shall appoint an Audit Committee, composed of three member insurers, which shall see to the proper auditing of all books and records of MIIF and shall report its findings to the Board. At the Board's Annual Meeting in October 2015, Chairman of the Board William Cahill appointed Safety Insurance Company, Providence Mutual

Massachusetts Insurers Insolvency Fund

Fire Insurance Company, and Quincy Mutual Fire insurance Company to serve for the ensuing year as members of the Audit Committee.

Other Committees

Duties and functions customarily delegated to and performed by other committees within an insurance company were performed by the various committees of GFMS, including its Audit Committee, Claims Committee, Information Technology Committee, and Investment Committee.

Officers

By Article 2(A)(5) of MIIF's Plan, the Board shall elect a Chairman and such other officers as it may deem appropriate. At the Board's Annual Meeting in October 2015, the following people were elected to serve as officers of MIIF in the designated capacities:

<u>Name of Officer</u>	<u>Title</u>
William J. Cahill, Jr., Esq.	Chair
Joanne M. Locke, Esq.	Vice Chair
Paul M. Gulko, Esq.	Manager
Dawne M. Mills	Claims Manager
Kathleen M. Lavin	Treasurer

Holding Company

MIIF is not a member of a holding company system and it has no parent company or subsidiaries. As such, it is not subject to the registration requirements of Section 206C of MGL Chapter 175 or 211 CMR 7.00; it does not file an Insurance Holding Company System Form B with the Division.

TERRITORY AND PLAN OF OPERATION

MIIF operates according to its Plan with powers and duties as set forth in statute and approved by the Commissioner of Insurance. Some of MIIF's powers and duties include the following:

- MIIF shall be obligated to the extent of covered claims against an insolvent insurer, but only up to \$300,000 on each covered claim unless it is a claim for compensation or other benefits under a workers' compensation policy which has no limit. A covered claim is an unpaid claim, including one for unearned premiums, which is within the coverage of an insurance policy to which MGL Chapter 175D applies, issued by an insurer, if the insurer becomes insolvent and either (a) the claimant or insured is a Massachusetts resident, or (b) the property from which the claim arises is permanently located in Massachusetts. MIIF shall have all rights, duties, and obligations of an insolvent insurer to the extent of its obligation on covered claims.
- MIIF shall assess insurers, which are licensed in Massachusetts to transact any kind of insurance to which MGL Chapter 175D applies, the amounts necessary to pay the obligations of MIIF and the expenses of handling covered claims subsequent to an insolvency and certain permissible expenses.
- MIIF shall investigate claims brought against MIIF and adjust, compromise, settle, and pay covered claims to the extent of MIIF's obligations and shall deny all other claims. It shall pay

Massachusetts Insurers Insolvency Fund

- claims in any order which it may deem reasonable, including the payment of claims as such are received from claimants or in groups or categories of claims.
- MIIF shall handle claims through its employees or through one or more insurers designated as servicing facilities. It shall reimburse each servicing facility for obligations of MIIF paid by the facility and for expenses incurred by the facility while handling claims on behalf of MIIF and shall pay the other expenses of MIIF incurred under MGL Chapter 175D.
 - MIIF may employ such personnel as are necessary to handle claims and perform the duties of MIIF.
 - MIIF may appear in, defend, and appeal any action on a claim brought against MIIF.
 - MIIF may sue or be sued.
 - MIIF may borrow monies necessary to carry out the purposes of MGL Chapter 175D.
 - MIIF may request the Commissioner to order an examination of any insurer when a majority of the Board in good faith believes the insurer to be in a financial condition hazardous to the policyholders or the public.
 - MIIF may make recommendations for the detection and prevention of insurer insolvencies. It may also make reports and recommendations to the Commissioner upon any matter germane to the solvency, liquidation, rehabilitation, or conservation of any insurer.

MIIF raises money via assessments and recoveries to the extent needed to fulfill its obligations. It operates on a post-insolvency basis. Upon declaration by a court of competent jurisdiction that a covered company has become insolvent, MIIF assesses its member insurers an initial estimated amount to cover the anticipated claim expenses of that insolvency. Any subsequent recoveries from the insolvent company, such as early access recoveries or dividend distributions, are recognized in later assessments or refunds to MIIF's member insurers.

Item c of Paragraph 1, Section 5 of MGL Chapter 175D stipulates the assessments of each insurer shall be in the proportion that each insurer's net direct premiums written in Massachusetts for the calendar year preceding the assessment bears to all insurers' net direct premiums written in Massachusetts for the calendar year preceding the assessment. No insurer may be assessed in any year an amount greater than 2% of that insurer's net direct written premiums for the calendar year preceding the assessment. MIIF may exempt or defer, in whole or in part, the assessment of any insurer if the assessment would cause the insurer's financial statement to reflect amounts of capital and surplus less than the minimum amounts required for a certificate of authority by any jurisdiction in which the insurer is authorized to transact insurance, provided that during the period of deferment, no dividends shall be paid to shareholders or to policyholders. Deferred assessments shall be paid when the payment will not reduce capital or surplus below required minimums.

The Massachusetts statute creating MIIF was patterned after the model adopted in 1969 by the NAIC. The Massachusetts law differs from that enacted by other states in two significant respects:

1. All claims are grouped in a single account with assessments levied against member insurers based on their percentage share of writings for all covered lines. Other state funds sort claims into three distinct accounts (one for automobile liability, one for workers' compensation benefits, and one for all other covered lines) and levy assessments among their member insurers based on proportionate writings within each of these three categories.
2. Claims were not subject to a deductible.

Massachusetts Insurers Insolvency Fund

In summary, MIIF operates as a not-for-profit, unincorporated association of insurance companies organized in accordance with statute and acting in accordance with the provisions of its Plan which establishes the framework by which MIIF will conduct its affairs.

REINSURANCE

MIIF does not write premium and it does not participate in a reinsurance program. As a processor of claims, however, MIIF reports claim amounts it pays on behalf of each insolvency to the respective court appointed liquidators who then seek to recover from reinsurance companies the amounts owed by the respective reinsurers to the particular insolvent insurance companies. MIIF thus becomes a creditor to the various liquidators to the extent of such recovered amounts.

FINANCIAL STATEMENTS

The following financial exhibits, based on the financial statements prepared by management of MIIF on a modified-cash basis, present the financial condition of MIIF for the period ending December 31, 2015. Financial statements are the responsibility of MIIF's management.

Statement of Assets, Liabilities, and Fund Balance as of December 31, 2015

Statement of Activities for the Year Ended December 31, 2015

Statements of Changes in Fund Balance for the Five-Year Period Ended December 31, 2015

Massachusetts Insurers Insolvency Fund
Statement of Assets, Liabilities, and Fund Balance
as of December 31, 2015

	<u>2 0 1 5</u>
Assets	
Cash and cash equivalents	\$ 3,627,512
Assessments receivable	43,043
Investments at market value	185,489,804
Accrued interest	491,420
Other assets	840,000
Total Assets	<u>\$ 190,491,779</u>
 Liabilities and Fund Balance	
Accounts payable	\$ 226,943
Refunds payable	1,958
Total Liabilities	<u>228,901</u>
 Fund balance	 <u>190,262,878</u>
Total Liabilities and Fund Balance	 <u>\$ 190,491,779</u>

Massachusetts Insurers Insolvency Fund
Statement of Activities
Year Ended December 31, 2015

	<u>2 0 1 5</u>
<i>Revenues</i>	
Members' insolvency assessments	\$ 37,871
Investment income	1,848,828
Net realized gains on sales and calls of investments	116,062
Insolvency recoveries	7,193,958
Total revenues	<u>9,196,719</u>
<i>Expenses</i>	
Loss and loss adjustment expense	12,624,228
Member refunds	3
Administrative expenses	2,438,979
Total expenses	<u>15,063,210</u>
Excess of expenses over revenues	(5,866,491)
Change in net unrealized gains on investments	(667,242)
Deficit	<u>\$ (6,533,733)</u>

Massachusetts Insurers Insolvency Fund
Statements of Changes in Fund Balance
for the Five Year Period Ended December 31, 2015

	<u>Fund Balance</u>
Balance December 31, 2010	\$ 133,878,926
Excess of revenues over expenses	22,551,445
Decrease in net unrealized gain on investments	(601,351)
Change during the year	<u>21,950,094</u>
Balance December 31, 2011	<u>\$ 155,829,020</u>
Excess of revenues over expenses	1,113,994
Decrease in net unrealized gain on investments	(796,647)
Change during the year	<u>317,347</u>
Balance December 31, 2012	<u>\$ 156,146,367</u>
Excess of revenues over expenses	8,649,285
Decrease in net unrealized gain on investments	(1,143,685)
Change during the year	<u>7,505,600</u>
Balance December 31, 2013	<u>\$ 163,651,967</u>
Excess of revenues over expenses	33,881,009
Decrease in net unrealized gain on investments	(736,365)
Change during the year	<u>33,144,644</u>
Balance December 31, 2014	<u>\$ 196,796,611</u>
Excess of expenses over revenues	(5,866,491)
Decrease in net unrealized gain on investments	(667,242)
Change during the year	<u>(6,533,733)</u>
Balance December 31, 2015	<u>\$ 190,262,878</u>

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

There have been no changes made to the financial statements as a result of 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.

SUBSEQUENT EVENTS

The examination noted the following significant events which occurred subsequent to the date of examination.

Two additional insolvencies were reported to MIIF. In Illinois, a court order for the liquidation of Affirmative Insurance Company was declared on March 24, 2016. In Missouri, a court order for the insolvency of Lumbermen's Underwriting Alliance was declared on May 23, 2016.

As noted previously, in October 2016 the Commissioner approved the election of MEMIC Indemnity Company as a Member of MIIF's Board following the expiration of the term of office held by Holyoke Mutual Insurance Company in Salem. The person representing MEMIC Indemnity Company on the Board is Ms. Eileen M. Fongemie.

Also in 2016, the Commissioner appointed Mr. Thomas F. Skelly, Jr., as Producer Representative on the Board of MIIF to fill the vacancy created by the retirement of Mr. Douglas C. Ryder.

In January 2016, the newly created Claims Committee held its first meeting and continued to hold other meetings throughout the year as deemed necessary. The purpose of this five member Committee is to interact on complex claim matters and provide input regarding reserving and settlement authority on high exposure claims.

SUMMARY OF RECOMMENDATIONS

The examination is making no recommendations as part of this report.

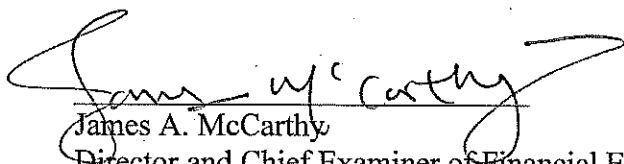
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Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of GFMS during the examination.

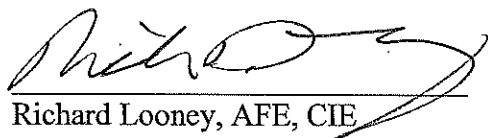
The assistance rendered by the following Division Examiner who participated in this examination is hereby acknowledged.

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