

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

***REPORT OF EXAMINATION OF***  
**ARBELLA MUTUAL INSURANCE COMPANY**

**Quincy, Massachusetts**

**As of December 31, 2020**

**NAIC GROUP CODE 0586**

**NAIC COMPANY CODE 17000**

**EMPLOYERS ID NO. 04-3022050**

# ARBELLA MUTUAL INSURANCE COMPANY

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

1000 Washington Street, Suite 810 • Boston, MA 02118-6200  
(617) 521-7794 • Toll-free (877) 563-4467  
<http://www.mass.gov/doi>

**CHARLES D. BAKER**  
GOVERNOR

**KARYN E. POLITO**  
LIEUTENANT GOVERNOR

**MIKE KENNEALY**  
SECRETARY OF HOUSING AND  
ECONOMIC DEVELOPMENT

**EDWARD A. PALLESCHI**  
UNDERSECRETARY OF CONSUMER AFFAIRS  
AND BUSINESS REGULATION

**GARY D. ANDERSON**  
COMMISSIONER OF INSURANCE

May 4, 2022

Honorable Gary D. Anderson  
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 the

**ARBELLA MUTUAL INSURANCE COMPANY**

at its home office located at 1100 Crown Colony Drive, Quincy, MA, 02269-9103. The examination was conducted remotely. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

The Arbella Mutual Insurance Company (“Company”) was last examined as of December 31, 2015 by the Massachusetts Division of Insurance (“Division”). The current examination was conducted by the Division and covers the five-year period from January 1, 2016 through December 31, 2020, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

A separate examination of Covenant Insurance Company, which is a member of the Arbella Insurance Group, was conducted by the Connecticut Insurance Department. Concurrent with this examination, the following insurance affiliates in the Arbella Insurance Group were also examined and separate reports of examination have been issued by the Division:

Arbella Indemnity Insurance Company (“Indemnity”)  
Arbella Protection Insurance Company (“Protection”)

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 Ernst & Young LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2016 through 2020. A review and use of the Certified Public Accountants’ workpapers were made to the extent deemed appropriate and effective.

Representatives from the firm of Baker Tilly US, LLP (“Baker Tilly”) 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

## Arbella Mutual Insurance Company

a review of accounting records, information systems, investment and actuarially determined loss and loss adjustment expense reserves.

### **SUMMARY OF SIGNIFICANT FINDINGS OF FACT**

There were no significant findings during the previous examination and there are no significant findings related to the current examination.

### **COMPANY HISTORY**

#### **General**

The Company was formed as a mutual insurance company pursuant to Chapter 189 of the Acts of 1988. The Company was incorporated under the laws of the Commonwealth of Massachusetts on August 26, 1988 and began business on October 1, 1988. The Company was created as part of an agreement between the Division and the Kemper Group (“Kemper”), which permitted Kemper to cease writing its personal auto insurance lines in Massachusetts. The Company has no ownership or management ties to any Kemper Company and is not a member of the Kemper Group.

#### **Capital Contributions**

The Company received \$119 million in cash for guaranty fund certificates issued during 1988. The certificates were subordinated to claims for losses, expenses and all other obligations of the Company. Any payment of interest or principal is subject to the prior approval of the Commissioner of the Division of Insurance. The Company has a payment schedule that started in 1998 with payments based on the financial performance of the Company. The certificates have a 48 year repayment term with the payments scheduled to end in 2045.

In 2003 the Company issued \$20 million and \$15 million in Surplus Notes to special purpose business trusts that mature in 2033. In 2014, the \$15 million Note was redeemed. In 2006 the Company issued an additional \$20 million in Surplus Notes to special purpose business trusts and these Notes mature in 2036.

### **MANAGEMENT AND CONTROL**

#### **Annual Meeting of Members**

In accordance with the bylaws, the annual meeting of the members of the Company is to be held on the third Tuesday in June of each year at the home office of the Company unless a different, date, or place within the Commonwealth of Massachusetts was fixed by the Board of Directors. At any meeting of the members, not less than one-half of one percent of all members, whether present in person or by valid exercisable proxy shall constitute a quorum. The minutes indicate that a quorum was obtained at each annual meeting held during the examination period.

## Arbella Mutual Insurance Company

### Board of Directors

The Company is managed by the Board of Directors, the Chairman of which presides at member meetings and meetings of the Board of Directors. The Board of Directors shall annually set the number of directors which shall be no less than seven, but not less than the minimum required by Massachusetts Insurance Laws, Massachusetts Business Corporation Laws and/or the Articles of Organization. Each director shall serve a term of office to expire at the fourth succeeding annual meeting of the members following election and until their successor shall have been elected and qualified.

At December 31, 2020 the Board of Directors was comprised of twelve directors which is in compliance with the Company's bylaws. The director's names and business affiliation were as follows:

<u>Director</u>	<u>Business Affiliation</u>
Francis X. Bellotti	Consultant
Thomas S. Carpenter	TS Carpenter Associates
Anne M. DeFrancesco	DeFrancesco Consulting
John F. Donohue	President and Chief Executive Officer Arbella Mutual Insurance Company
John R. Dowling	Dowling Insurance Agency
William H. DuMouchel	Oracle
Andrea W. Gargiulo	Retired
David W. Hattman	TCS Holdings, Inc.
Thomas R. Kiley	CEK Boston, P.C.
Joseph G. Murphy	Coverys
Jeannette M. Orsino	Orsino Consulting
Brian J. O'Dwyer	O'Dwyer & Bernstein LLP

### Officers

The bylaws of the Company provide that the officers of the Company shall be a President, a Treasurer, a Secretary and other officers as deemed necessary. Pursuant to the bylaws, the officers of the Company are elected by the Board of Directors at the first meeting of the Board held after the annual meeting.

The elected officers and their respective titles at December 31, 2020 follow:

## Arbella Mutual Insurance Company

<u>Name</u>	<u>Title</u>
John F. Donohue	Chairman, Board of Directors, President, Chief Executive Officer and Assistant Secretary
Francis X. Bellotti	Vice Chairman, Board of Directors
Christopher E. Hall	Treasurer, Chief Financial Officer and Executive Vice President
Gail Eagan	Senior Vice President and General Counsel
James S. Hyatt	Senior Vice President, Personal Lines
Lynellen M. Ramirez	Senior Vice President, Research Analytics and Chief Actuary
Beverly J. Tangvik	Secretary

### Committees of the Board

The bylaws state that the Board of Directors may elect an Executive Committee and may form an Audit Committee and shall elect other committees as may be required from time to time. As of the date of this examination, the Company operated with designated Audit, Compensation, Executive and Corporate Governance, Investment, Planning, and Technology and Data Analytics Committees. The minutes of all committee meetings for the period covered by this examination were reviewed.

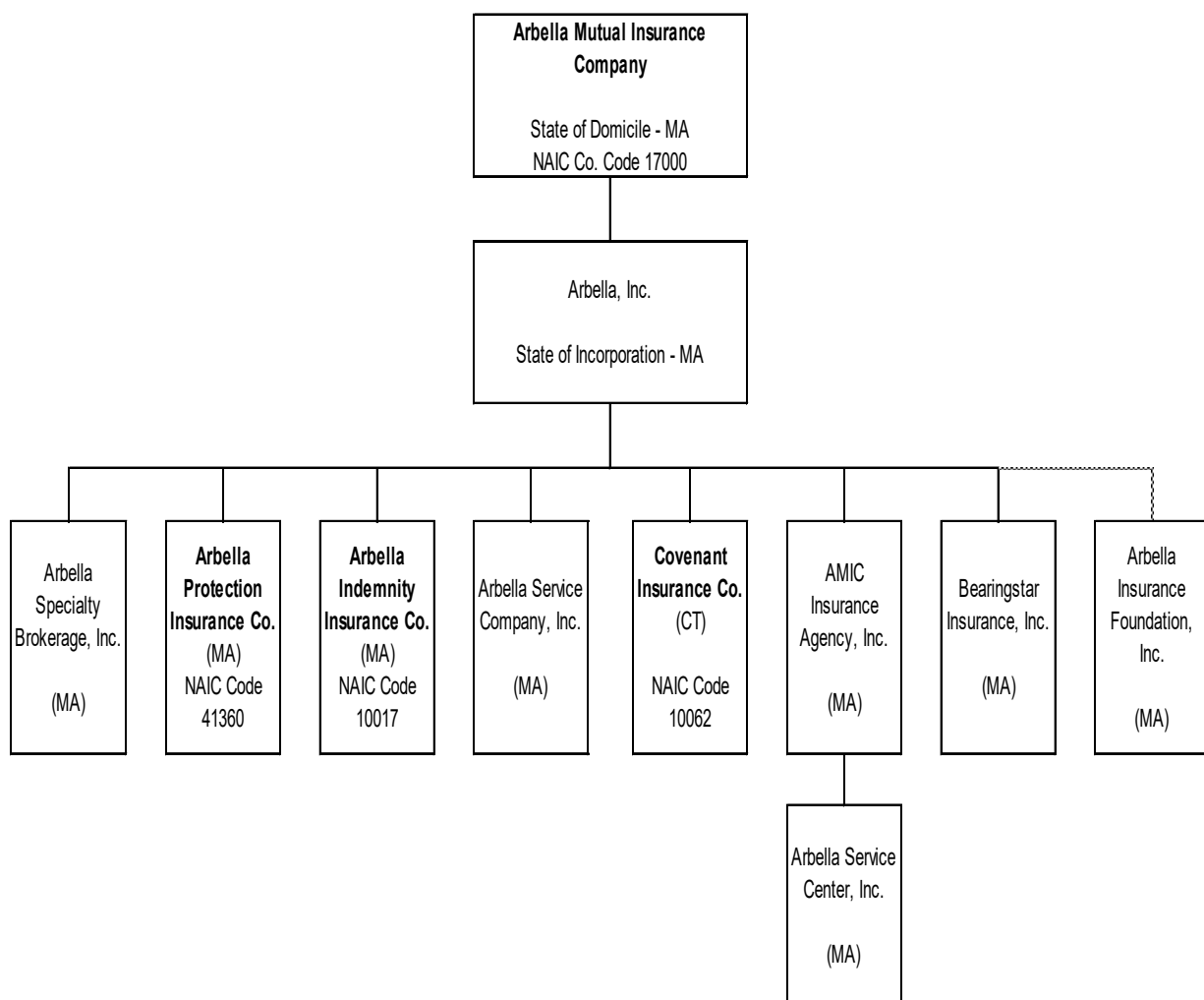
### Holding Company

As stated in the Insurance Holding Company System Form B, as filed with the Massachusetts Division of Insurance, the Company is a member of a holding company system and is subject to the registration requirements of Chapter 175, Section 206C and 211 CMR 7.00 of the Massachusetts General Laws. The Company is defined as the “ultimate controlling person”.

### Organization Chart

The Company’s insurance subsidiaries are shown on the organization chart below and the Company’s other holdings including various insurance agencies are not shown. At December 31, 2020, the Company is a member of the following organizational structure:

## Arbella Mutual Insurance Company



### Transactions and Agreements with Subsidiaries and Affiliates

The Company owns 100% of Arbella, Inc., an insurance holding company. Arbella, Inc. directly owns the three insurance companies shown on the organization chart above. In addition, Arbella Inc. owns 100% of Arbella Specialty Brokerage, Inc., Arbella Service Company, Inc., Bearingstar Insurance, Inc., AMIC Insurance Agency, Inc. and its subsidiary Arbella Service Center, and is the sole member of the Arbella Insurance Group Charitable Foundation, Inc.

### Intercompany Pooling Agreement

The Company participates in an intercompany pooling arrangement (“Pool”) with Arbella Protection, Arbella Indemnity and Covenant Insurance Company in which it shares in the Pool’s combined underwriting results and related balance sheet accounts. After processing its external reinsurance, each affiliated pooled company cedes its remaining net underwriting activity to the Company, which subsequently retrocedes the pooled results to the participants based on their



## Arbella Mutual Insurance Company

percentage share of the Pool. Refer to the following chart for the percentages of the Pool participants as of the examination date.

<u>Company</u>	<u>Pool Percent</u>
Arbella Mutual Insurance Company	76%
Arbella Protection Insurance Company	16%
Covenant Insurance Company	5%
Arbella Indemnity Insurance Company	3%

### Management Agreement

The Company and its affiliates (“Participants”) are members in a Services Agreement pursuant to which Arbella Service Company, Inc. provides administrative, operational and managerial services to all the individual companies. The Participants have agreed to a method to allocate the costs of the services which is based on generally accepted accounting principles. The settlement terms among the companies are in accordance with statutory accounting guidance.

### Tax Sharing Agreement

The Company files a consolidated tax return with all its subsidiaries. Since 1996, the Company and its affiliates have been members to a Tax Allocation Agreement (“Agreement”) for the purpose of establishing a method for allocating the consolidated tax liability of the Participants and for reimbursing the Company for the payment of such tax liability. The Agreement provides that all subsidiaries of the Company shall be subject to the Agreement.

## **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2020, the Company is only licensed in Massachusetts and primarily provides insurance coverage for homeowners and personal automobile.

### Treatment of Policyholders – Market Conduct

During the financial examination of the Company, the Division’s Market Conduct Department called pursuant to authority in Massachusetts General Laws Chapter 175, Section 4, a market conduct examination. The examination is conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the INS Companies have been 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 are 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**

The Company and its affiliates participate in the intercompany pooling agreement described above. Assumed and ceded reinsurance with unaffiliated companies is also subject to the inter-company pooling agreement, as described below.

### **Ceded Reinsurance**

The Company and its insurance affiliates utilize and share the cost of a common reinsurance program to reduce loss exposures from catastrophic and individual risks. The Company has catastrophe excess of loss contracts that provide coverage in excess of the Company's retention of \$25 million up to \$700 million. The Company has an aggregate catastrophe treaty providing coverage in excess of \$7.5 million up to \$22.5 million per occurrence excess and otherwise recoverable deductible of \$15 million. There are contracts for property, liability and workers compensation excess of loss contracts providing coverage up to \$10 million in excess of \$1.5 million. In addition, the Group purchased facultative reinsurance and catastrophic workers compensation protection for risk in excess of its property and liability excess of loss treaty limits. Lastly, the Group purchases various reinsurance to reduce insurance risk from its umbrella, boiler and machinery and other product offerings.

### **Assumed Reinsurance**

The Company assumes business from the Massachusetts FAIR Plan and the Massachusetts Automobile Insurance Plan. The Company also serves as the lead company of the Group to assume commercial automobile results from Commonwealth Automobile Reinsurers, which it then internally cedes to Arbella Protection.

Arbella Mutual 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, 2020. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2020

Statement of Income as of December 31, 2020

Reconciliation of Capital and Surplus for the Five-Year Period Ended December 31, 2020

Arbella Mutual Insurance Company  
Statement of Assets, Liabilities, Surplus and Other Funds  
As of December 31, 2020

Assets	<u>As Reported by the Company</u>
Bonds	\$ 998,575,949
Common stocks	404,465,250
Cash and short-term investments	23,640,056
Other invested assets	<u>1,959,900</u>
Subtotals, cash and invested assets	1,428,641,155
Investment income due and accrued	6,359,137
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	18,484,119
Deferred premiums, agents' balances and installments booked but deferred and not yet due	166,071,815
Amounts recoverable from reinsurers	27,181,265
Current federal income tax recoverable	7,963,135
Aggregate write-ins for other-than-invested assets	<u>33,029,878</u>
Total Assets	<u><u>\$ 1,687,730,504</u></u>

Arbella Mutual Insurance Company  
Statement of Assets, Liabilities, Surplus and Other Funds (Continued)  
As of December 31, 2020

Liabilities	<u>As Reported by the Company</u>
Losses	\$ 272,350,942
Reinsurance payable on paid loss and LAE	34,496,970
Loss adjustment expenses	59,874,101
Commissions payable	25,901,182
Other expenses	50,460,715
Net deferred tax liability	2,539,016
Unearned premiums	327,200,443
Advance premiums	10,398,388
Ceded reinsurance premiums payable	31,908,578
Drafts outstanding	15,182,961
Payable to parent, subsidiaries and affiliates	18,250,345
Aggregate write-ins for liabilities	<u>2,660,950</u>
Total Liabilities	<u>851,224,591</u>
Surplus notes	140,999,884
Unassigned funds (surplus)	<u>695,506,029</u>
Surplus as regards policyholders	<u>836,505,913</u>
Total Liabilities, Capital and Surplus	<u><u>\$ 1,687,730,504</u></u>

Arbella Mutual Insurance Company  
Statement of Income  
For the Year Ended December 31, 2020

	<u>As Reported by the Company</u>
Premiums earned	\$ 590,250,898
Deductions:	
Losses incurred	264,020,448
Loss adjustment expenses incurred	47,669,307
Other underwriting expenses incurred	228,982,495
Total underwriting deductions	<u>540,672,250</u>
Net underwriting gain (loss)	<u>49,578,647</u>
 Net investment income earned	 29,597,865
Net realized capital gains; less capital gains tax of \$660,592	<u>2,485,086</u>
Net investment gain	<u>32,082,951</u>
 Net gain (loss) from agents' balances or premium balances charged off	  (3,546,036)
Finance and service charges not included in premiums	 8,170,141
Aggregate write-ins for miscellaneous income	<u>202,000</u>
Total other income	<u>4,826,105</u>
 Net income before dividends to policyholders and before federal and foreign income taxes	  86,487,704
Federal and foreign income taxes incurred	<u>17,571,173</u>
 Net Income	 <u><u>\$ 68,916,531</u></u>

Arbella Mutual Insurance Company  
Reconciliation of Capital and Surplus  
For the Five Year Period Ended December 31, 2020

	2020	2019	2018	2017	2016
Capital and surplus, December 31, prior year	\$ 734,824,680	\$ 649,494,276	\$ 621,071,062	\$ 557,634,643	\$ 510,494,681
Net income	68,916,531	50,212,613	28,056,774	49,229,692	41,641,705
Change in net unrealized capital gains or (losses)	34,658,263	37,244,095	(576,165)	34,478,881	12,778,823
Change in net deferred income tax	1,035,284	743,915	721,300	(18,252,367)	(6,503,129)
Change in nonadmitted assets	1,276,074	(136,619)	(331,494)	265,395	(73,467)
Change in surplus notes	(1,492,394)	(1,394,760)	(1,303,399)	(1,218,238)	(1,138,540)
Aggregate write-ins for gains and losses in surplus	(2,712,525)	(1,338,840)	1,856,198	(1,066,944)	434,570
Net change in capital and surplus for the year	101,681,233	85,330,404	28,423,214	63,436,419	47,139,962
Capital and surplus, December 31, current year	\$ 836,505,913	\$ 734,824,680	\$ 649,494,276	\$ 621,071,062	\$ 557,634,643

**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.

The Division requested that Baker Tilly review the reasonableness of the Loss and Loss Adjustment Expense Reserves (the “Reserves”) of the Company as of December 31, 2020. The review was conducted in a manner consistent with the Code of Professional Conduct and Qualification Standards of the American Academy of Actuaries and the Standards of Practice adopted by the Actuarial Standards Board.

Baker Tilly’s actuarial review utilized year-end paid and incurred loss data developed through December 31, 2020. The table below summarizes a comparison of Baker Tilly’s range of reasonable net estimates for the Reserves to the Company’s carried net Reserves as of December 31, 2020.

COMPARISON OF INDICATED NET RESERVES  
TO CARRIED RESERVES as of 12/31/20

	Low Point of Range	Selected Estimate	High Point of Range
Baker Tilly Total Net Loss & Loss Adjustment Expense Reserves	\$274,207,999	\$296,399,999	\$333,487,999
Total Company Carried Net Loss & LAE Reserves	\$332,225,043	\$332,225,043	\$332,225,043
Difference	(\$58,017,043)	(\$35,825,043)	\$1,262,957

The Company’s total net carried reserves are above Baker Tilly’s selected estimate and below their high point. Therefore, the Division concludes the Company’s reserves are a reasonable estimate of their ultimate liability.

**SUBSEQUENT EVENTS**

No subsequent events or transactions that occurred after the December 31, 2020 examination date were noted that would have had a material effect on the Company’s financial statements.



**SUMMARY OF RECOMMENDATIONS**

There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this 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 representatives from Baker Tilly, who participated in this examination is hereby acknowledged.

Kenneth Plumb  
Kenneth R. Plumb, CPA, CFE  
Supervising Examiner and Examiner in Charge  
Commonwealth of Massachusetts  
Division of Insurance