



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF
ARBELLA PROTECTION INSURANCE COMPANY

Quincy, Massachusetts

As of December 31, 2020

NAIC GROUP CODE 0586

NAIC COMPANY CODE 41360

EMPLOYERS ID NO. 04-3170665

ARBELLA PROTECTION INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
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DIVISION OF INSURANCE

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

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 Protection 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 incorporated under the laws of Massachusetts on November 17, 1992 and commenced business on January 1, 1993. The start-up of the Company was part of an agreement with the Division to take over part of the business of Attleboro Mutual Insurance Company, which was in receivership.

Capital Stock

The Company has 97,500 common shares authorized of \$28 par value and 92,674 shares are issued and outstanding, all owned by Arbella, Inc.

Dividends to Stockholder

The Company did not pay any stockholder dividends during the five-year examination period to their sole stockholder, Arbella, Inc.

MANAGEMENT AND CONTROL

Annual Meeting of Stockholders

In accordance with the bylaws, the Annual Meeting of the Stockholders shall be held on a date to be determined by the Board of Directors and is to be within six months after the end of year.

Board of Directors

The bylaws of the Company provide that the business and affairs of the Company shall be managed by the Board of Directors except as otherwise provided by the law, Articles of Organization, or the bylaws. The Board of Directors shall consist of not fewer than five members and shall hold office until the next annual meeting of stockholders and until his or her successors shall have been elected and qualified.

Arbella Protection Insurance Company

At December 31, 2020 the Board was comprised of five directors which are 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
Janet R. Corcoran	Chief Operating Officer and Executive Vice President – Arbella Service Company
John F. Donohue	President and Chief Executive Officer Arbella Mutual Insurance Company
Gail Eagan	Senior Vice President and General Counsel Arbella Mutual Insurance Company
Christopher E. Hall	Treasurer, Chief Financial Officer and Executive Vice President - Arbella Mutual Insurance Company

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 of Directors held after the Annual Meeting.

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

<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	Executive Vice President, Chief Financial Officer and Treasurer
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
William S. Hughes	Vice President, Commercial Lines
Beverly J. Tangvik	Secretary

Arbella Protection Insurance Company

Committees of the Board

The bylaws state that the Board of Directors (“Board”) may elect an Executive Committee and may form an Audit Committee and shall elect other committees as may be required from time to time. The Company has shared Board committees with Arbella Mutual. 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 the committee meetings for the period covered by the examination were reviewed.

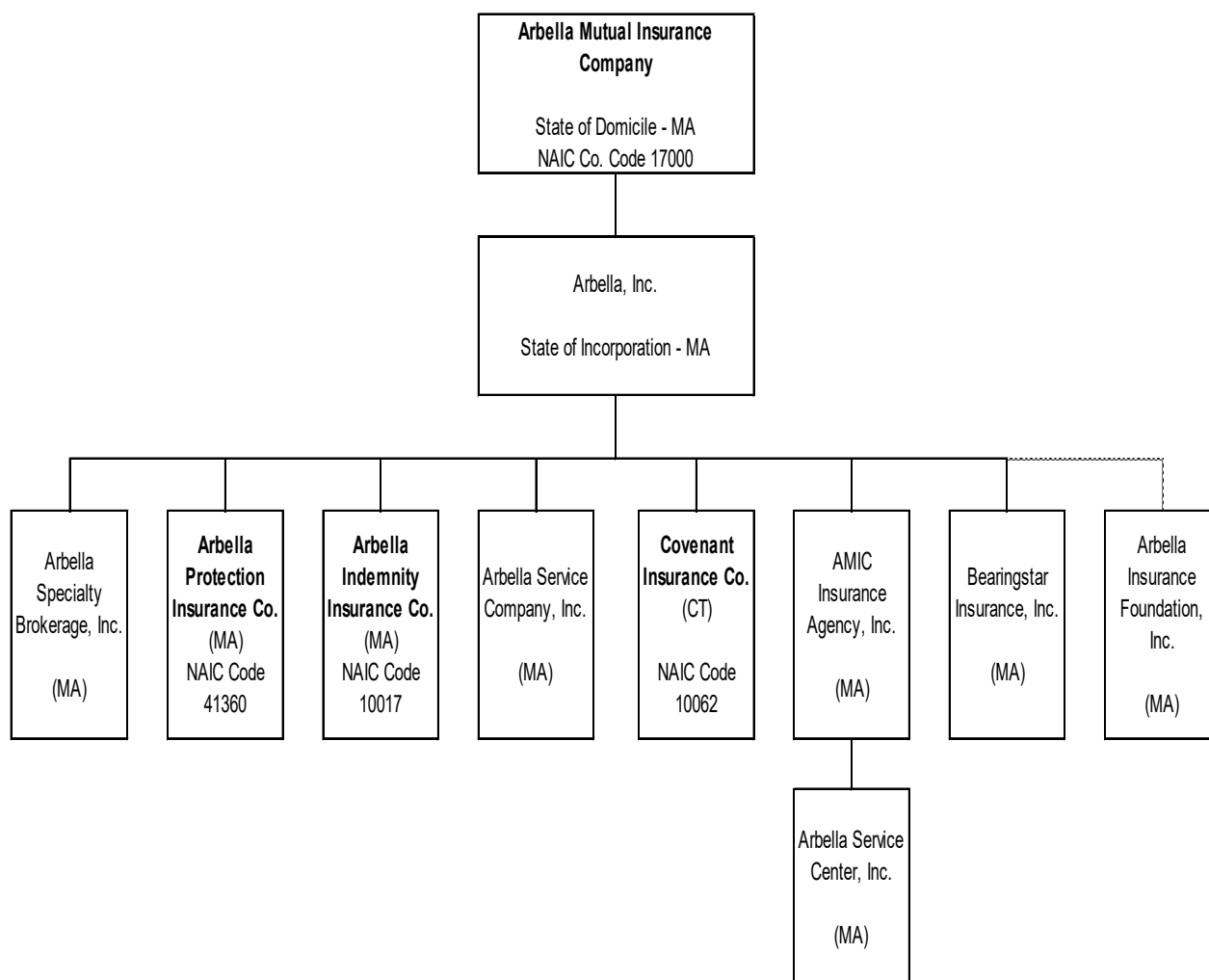
Holding Company

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. Arbella Mutual Insurance 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 Protection Insurance Company



Transactions and Agreements with Subsidiaries and Affiliates

Arbella Mutual Insurance Company owns 100% of Arbella, Inc., an insurance holding company. Arbella, Inc. directly owns the three insurance companies including the Company shown on the organization chart above.

The Company's affiliate, Arbella Service Company ("Arbella Service") provides underwriting, billing, claim, data processing, actuarial, investment, accounting, and legal services to the Company.

All affiliates (the Group) as illustrated in the organization chart above participate in a shared services agreement which is funded under an expense sharing arrangement between all the members. Additionally, Arbella Service provides all members of the Group with property rental and related property management services.

Arbella Protection Insurance Company

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 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

The Company is licensed to write business in six Northeastern states: Connecticut, Massachusetts, New Hampshire, New York, Rhode Island and Vermont, but is only actively writing business in Connecticut, Massachusetts, New Hampshire, and Rhode Island. The Company primarily writes insurance coverage for workers’ compensation, commercial automobile lines, other commercial business including commercial package, business owners’ policies, and commercial umbrella, and homeowners.

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.

In addition, the Company serves as a servicing carrier on behalf of Commonwealth Automobile Reinsurers (CAR). Pursuant to the contract, the Company underwrites business from assigned agents and cedes 100% of the insurance risk to CAR.

Assumed Reinsurance

The Company assumes business from the Massachusetts FAIR Plan and the Massachusetts Workers Compensation Assigned Risk Pool. The Company also assumes CAR's commercial automobile results via Arbella Mutual Insurance Company, who serves as the lead company of the Group with CAR.

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

Assets	<u>As Reported by the Company</u>
Bonds	\$ 202,387,342
Cash and short-term investments	12,886,147
Other invested assets	<u>564,700</u>
Subtotals, cash and invested assets	215,838,189
Investment income due and accrued	1,346,166
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	9,082,758
Deferred premiums, agents' balances and installments booked but deferred and not yet due	87,413,506
Amounts recoverable from reinsurers	32,412,932
Net deferred tax asset	3,524,417
Receivables from parent, subsidiaries and affiliates	4,671,556
Aggregate write-ins for other-than-invested assets	<u>11,970,704</u>
Total Assets	<u><u>\$ 366,260,228</u></u>

Arbella Protection 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	\$ 57,337,041
Reinsurance payable on paid loss and LAE	19,102,024
Loss adjustment expenses	12,605,074
Commissions payable	11,430,253
Other expenses	6,274,912
Current federal income taxes	3,338,076
Unearned premiums	68,884,304
Advance premiums	1,651,641
Ceded reinsurance premiums payable	46,943,324
Drafts outstanding	5,043,262
Aggregate write-ins for liabilities	1,095,345
Total Liabilities	<u>233,705,256</u>
Common capital stock	2,594,872
Gross paid in and contributed surplus	55,863,191
Unassigned funds (surplus)	74,096,909
Surplus as regards policyholders	<u>132,554,972</u>
Total Liabilities, Capital and Surplus	<u><u>\$ 366,260,228</u></u>

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

	As Reported by the Company
Premiums earned	\$ 124,263,347
Deductions:	
Losses incurred	55,583,252
Loss adjustment expenses incurred	10,035,644
Other underwriting expenses incurred	48,206,841
Total underwriting deductions	113,825,737
Net underwriting gain (loss)	10,437,610
Net investment income earned	5,706,706
Net realized capital gains; less capital gains tax of \$103,624	389,822
Net investment gain	6,096,528
Net gain (loss) from agents' balances or premium balances charged off	(746,534)
Finance and service charges not included in premiums	1,720,030
Aggregate write-ins for miscellaneous income	(824,456)
Total other income	149,040
Net income before dividends to policyholders and before federal and foreign income taxes	16,683,178
Dividends to policyholders	
Net income, after dividends to policyholders and before federal and foreign income taxes	16,683,178
Federal and foreign income taxes incurred	3,267,624
Net Income	\$ 13,415,554

Arbella Protection 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	\$ 118,484,365	\$ 109,454,248	\$ 104,579,201	\$ 97,862,602	\$ 90,440,330
Net income	13,415,554	9,277,261	4,680,041	10,386,553	8,218,416
Change in net unrealized capital gains or (losses)				187,073	
Change in net deferred income tax	(100,770)	74,263	31,929	(3,974,380)	(1,411,240)
Change in nonadmitted assets	755,823	(321,407)	163,077	117,353	615,096
Net change in capital and surplus for the year	14,070,607	9,030,117	4,875,047	6,716,599	7,422,272
Capital and surplus, December 31, current year	<u>\$ 132,554,972</u>	<u>\$ 118,484,365</u>	<u>\$ 109,454,248</u>	<u>\$ 104,579,201</u>	<u>\$ 97,862,602</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.

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	\$57,728,000	\$62,400,001	\$70,208,001
Total Company Carried Net Loss & LAE Reserves	\$69,942,115	\$69,942,115	\$69,942,115
Difference	(\$12,214,115)	(\$7,542,114)	\$265,886

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