

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

REPORT OF EXAMINATION OF
ARROW MUTUAL LIABILITY INSURANCE COMPANY

Chestnut Hill, Massachusetts

As of December 31, 2022

NAIC GROUP CODE 0000

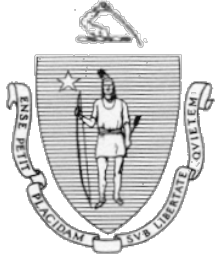
NAIC COMPANY CODE 13374

EMPLOYER ID NUMBER 04-1043485

Arrow Mutual Liability Insurance Company

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COMMONWEALTH OF MASSACHUSETTS
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MAURA T. HEALEY
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RACHEL M. DAVISON
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LIEUTENANT GOVERNOR

May 23, 2024

The Honorable Rachel M. Davison
Acting Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Acting Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, and other applicable statutes, an examination has been made of the financial condition and affairs of

ARROW MUTUAL LIABILITY INSURANCE COMPANY

At its home office located at 23 Commonwealth Avenue, Chestnut Hill, Massachusetts, 02467.
The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Arrow Mutual Liability Insurance Company (“Arrow” or “Company”) was last examined as of December 31, 2017, 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, 2018, through December 31, 2022, 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 Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify current and 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 PricewaterhouseCoopers LLP (“PwC”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for calendar years 2018 through 2022. A review of and use of the Certified Public Accountants’ work papers were made to the extent deemed appropriate and effective.

Representatives from the firm of Lewis & Ellis, Inc. (“Lewis & Ellis”), were retained by the Division to evaluate the information systems and assess the adequacy of the Company’s loss and loss adjustment expense reserves as of December 31, 2022.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings identified during the examination. The prior examination noted no significant recommendations for improvements in process, activities and/or controls.

Arrow Mutual Liability Insurance Company

COMPANY HISTORY

The Company was incorporated on June 20, 1920, under the laws of the Commonwealth of Massachusetts and commenced business on August 1, 1920. Arrow writes workers compensation insurance only.

Arrow was organized by interests identified with Hood Rubber Company located in Watertown, Massachusetts, primarily to insure its interest under the provisions of the Workers' Compensation Act. In 1927 Arrow became a group captive and in 1939 it became a mutual company. The Company is authorized to write liability other than auto; however, none has been written since 1969. They are also authorized to transact group accident and health insurance.

Dividends to Policyholders

During the exam period Arrow has paid the following dividends to its policyholders:

2018	\$567,524
2019	782,034
2020	959,136
2021	800,877
2022	612,990

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board of Directors ("Board") and its committees for the period under examination were read and they indicated that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts. The activities of the Committees were ratified at meetings of the Board.

Articles of Organization and Bylaws

The articles of organization and bylaws of the Company were reviewed. There were no changes to either the articles of organization or the bylaws during the exam period.

Arrow Mutual Liability Insurance Company

Board of Directors

In accordance with the bylaws, the affairs of the Company shall be managed by the Directors who shall have and may exercise all the powers of the Company. The Board of the Company shall be comprised of between seven and fifteen individuals. Directors shall be divided into three classes and are elected for a three-year term; with the terms of the Directors being staggered.

On December 31, 2022, the Company's Board consisted of the following:

<u>Name of Director</u>	<u>Business Affiliation</u>
James R. Flanagan	J.R. Flanagan Insurance Agency
Peter Gray####	Arrow Mutual Liability Insurance Company
Jack A. Green#	Wentworth Institute of Technology
George Hughes##	Hughes & Associates
Michael Matthews	Seven Hills Foundation
Dieter B. Morlock##	Retired
Dennis A. Paren	Retired
Joseph Tosches	Seven Hills Foundation

#Jack Green died in November 2023. Joseph Tosches was elected Chairman at the November 2023 Board meeting.

Dieter Morlock and George Hughes retired after the August 2023 Board meeting. William Donovan was elected as Director to replace Director Morlock.

####Peter Gray died in February 2023.

Officers

According to the Company's bylaws, the Board shall elect officers of the Company. The officers of the Company shall be the President, the Treasurer, and the Secretary.

The officers of the Company as of December 31, 2022, were as follows:

<u>Name of Officer</u>	<u>Title</u>
Peter Gray*	Chief Executive Officer and President
Tanya Ucuzian	Treasurer
George Hughes**	Secretary

*Peter Gray died in February 2023 at which time Tanya Ucuzian was elected President.

**In March 2023 Joseph Tosches became Secretary. When Joseph Tosches became Chairman, Michael Matthews became Secretary in November 2023.

Arrow Mutual Liability Insurance Company

Committees of the Board of Directors

The bylaws allow that the Directors may elect or appoint from their number one or more committees. In accordance therewith, the Board appointed the following committees as of December 31, 2022:

Compensation and Pension Trust Committee

Dieter B. Morlock, Chairman	Jack A. Green
James R. Flanagan	Joseph Tosches

Investment Committee

Dennis Paren, Chairman	Jack A. Green
Peter Gray	James Flannagan
Joseph Tosches	

Audit Committee

George Hughes, Chairman	James Flannagan
Jack Green	Joseph Tosches

Nominating Committee

George Hughes, Chairman	Dennis A. Paren
Dieter Morlock	

Organization Chart

On December 31, 2022, Arrow was the lead entity with no affiliates or subsidiaries in the following organizational structure:

Arrow Mutual Liability Insurance Company (MA) <u>NAIC # 13374</u>
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TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in Massachusetts, New Hampshire, Maine, and Rhode Island. Arrow's principal line of business is workers' compensation provided to commercial risks through its direct sales force and brokers. The majority of premiums are written in Massachusetts.

Treatment of Policyholders – Market Conduct

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 policyholders and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination.

REINSURANCE

The Company writes workers' compensation insurance primarily in Massachusetts. All writers of workers' compensation insurance are members of the Massachusetts Workers' Compensation Assigned Risk Pool ("Pool").

The Pool is a state mandated insurance plan created due to the state requirement that all employers obtain workers' compensation insurance. Due to poor loss experience or high-risk classification, some employers may not be able to find insurance in the marketplace. Members share in the underwriting results of the Pool on a policy year basis based on each member's share of direct premiums written to the direct premiums written by the industry as a whole.

On July 2, 1996, the Company received approval from the Division to participate in the results of the Pool for the years 1992, 1993 and 1994. As a result, they received a distribution of \$33,682,198 in 1996. Arrow entered into a retroactive reinsurance agreement with Transatlantic Reinsurance Company ("Transatlantic") to reinsure 100% of the Company's pool participation for these years at a cost of \$16,932,198. A net gain of \$16,750,000 was reported as a component of other income in 1996. The gain, net of taxes, is reported as surplus from retroactive reinsurance in the balance sheet.

Ceded Reinsurance

Arrow currently cedes to XL Reinsurance America ("XL Re") and Transatlantic. Both provide excess of loss reinsurance. Transatlantic has two layers; 1st layer is \$1,400,000 excess \$600,000 and 2nd layer is \$3,000,000 excess \$2,000,000. XL Re provides catastrophe excess of loss of \$10,000,000 excess of \$5,000,000. This treaty includes a warranty that the maximum ultimate payout for any one life shall not exceed \$5,000,000.

Assumed Reinsurance

Arrow assumes business from the Massachusetts Assigned Risk Workers' Compensation Pool and the National Workers' Compensation Pool.

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, 2022. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital, and Surplus as of December 31, 2022

Statement of Income for the Year Ended December 31, 2022

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2022

Arrow Mutual Liability Insurance Company

Statement of Assets, Liabilities, Capital and Surplus As of December 31, 2022

	Per Annual Statement
Assets	
Bonds	\$ 28,798,195
Common stocks	8,568,261
Real estate	20,000
Cash, cash equivalents and short-term investments	1,289,770
Other invested assets	157,700
Subtotals, cash and invested assets	38,833,926
Investment income due and accrued	125,350
Premiums and considerations:	
Uncollected premiums and agents' balances	164,533
Accrued retrospective premium and contracts subject to redetermination	155,516
Reinsurance:	
Amounts recoverable from reinsurers	159,810
Current federal and foreign income tax recoverable and interest thereon	414,832
Total assets	\$ 39,853,967
Liabilities	
Losses	\$ 7,624,103
Loss adjustment expenses	1,473,463
Other expenses	2,847,092
Unearned premiums	479,670
Advance premium	135,108
Dividends declared and unpaid: Policyholders	278,640
Aggregate write-ins for other liabilities	556,129
Total liabilities	13,394,205
Aggregate write ins for special surplus funds	11,055,000
Unassigned funds (surplus)	15,404,762
Total capital and surplus	26,459,762
Total liabilities capital, and surplus	\$ 39,853,967

Arrow Mutual Liability Insurance Company

Statement of Income For the Year Ended December 31, 2022

	Per Annual Statement
Premium earned	\$ 6,379,966
Deductions:	
Losses incurred	3,834,253
Loss adjustment expenses	2,123,991
Other underwriting expenses incurred	1,170,126
Total underwriting deductions	<u>7,128,370</u>
Net underwriting gain (loss)	<u>(748,404)</u>
Net investment income earned	694,551
Net realized capital gains	(1,282,117)
Net investment gain (loss)	<u>(587,566)</u>
Aggregate write ins for miscellaneous income	<u>(28,320)</u>
Total other income	<u>(28,320)</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(1,364,290)
Dividends to policyholders	612,990
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>(1,977,280)</u>
Federal and foreign income taxes incurred	<u>(400,291)</u>
Net Income	<u>\$ (1,576,989)</u>

Arrow Mutual Liability Insurance Company

Reconciliation of Capital and Surplus For Each Year in the Five-Year Period Ended December 31, 2022

	2022	2021	2020	2019	2018
Surplus as regards policyholders, December 31 prior year	\$30,814,238	\$31,599,193	\$32,090,786	\$30,528,319	\$30,427,694
Net income (loss)	(1,576,989)	(567,127)	(1,529,777)	3,328,621	1,140,089
Change in net unrealized capital gains	(2,192,648)	(174,333)	991,620	(1,596,109)	(899,432)
Change in net deferred income tax	(582,856)	(46,342)	(460,359)	74,983	44,498
Change in nonadmitted assets	(1,983)	2,847	506,923	(245,028)	(184,530)
Change in surplus as regards policyholders for the year	(4,354,476)	(784,955)	(491,593)	1,562,467	100,625
Surplus as regards policyholders, December 31 current year	<u>\$26,459,762</u>	<u>\$30,814,238</u>	<u>\$31,599,193</u>	<u>\$32,090,786</u>	<u>\$30,528,319</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

The Division engaged Lewis & Ellis to review the reasonableness of the loss and LAE reserves of the Company as of December 31, 2022. 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 Standards Board.

Lewis and Ellis performed an analysis of the loss and LAE reserves evaluated as of December 31, 2022. Based on the results of their analysis the carried loss and LAE reserves as of 12/31/22 are reasonable based on data through 12/31/22.

The table below summarizes a comparison of Lewis & Ellis's range of reasonable estimates for loss and LAE reserves to the Company's net carried loss and LAE reserves as of December 31, 2022.

Summary of Indicated Reserves (\$000s)

	Lewis & Ellis Estimate			Arrow Carried	Difference		
	Low	Central	High		Low	Central	High
Total Net Loss and LAE Reserves	8,676	9,251	9,826	9,098	422	(153)	(728)
Total Gross Loss and LAE Reserves	11,702	12,657	14,510	12,547	845	(110)	(1,963)

SUBSEQUENT EVENTS

During 2023, a certain reinsurer has disputed coverage on a 2014 accident year claim. Given the uncertainty of collection, the Company has fully reserved for the unpaid reinsurance recoverable balance on this claim, resulting in a charge to operations approximating \$2,290,000 during the year ended December 31, 2023.

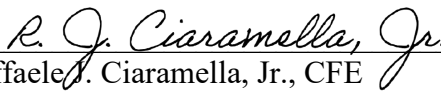
SUMMARY OF RECOMMENDATIONS

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 Lewis & Ellis who participated in this examination is hereby acknowledged.



Raffaele J. Ciaramella, Jr., CFE
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance



Maria Gannon, CFE
Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance