



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, 2017

NAIC GROUP CODE 0000

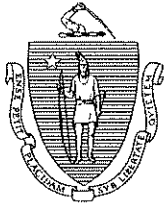
NAIC COMPANY CODE 13374

EMPLOYER ID NUMBER 04-1043485

Arrow Mutual Liability Insurance Company

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Summary of Significant Findings of Fact	3
Company History	3
Dividends to Policyholders	3
Management and Control	3
Board of Directors Minutes	3
Articles of Organization and Bylaws	3
Board of Directors	4
Officers	4
Committees of the Board of Directors	4
Organization Chart	5
Territory and Plan of Operation	5
Treatment of Policyholders –Market Conduct	5
Reinsurance	5
Ceded Reinsurance	6
Assumed Reinsurance	6
Financial Statements	7
Statement of Assets, Liabilities, Capital and Surplus	8
Statement of Income	9
Reconciliation of Capital and Surplus	10
Analysis of Changes in Financial Statements Resulting from the Examination	11
Comments of Financial Statement Items	11
Subsequent Events	11
Summary of Recommendations	11
Signature Page	12



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 30, 2019

The 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, 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, 2012 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, 2013 through December 31, 2017, 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 2013 through 2017. A review and use of the Certified Public Accountants’ work papers were made to the extent deemed appropriate and effective.

An independent actuarial firm, Lewis & Ellis, Inc. (“Lewis & Ellis”), was retained by the Division to evaluate the adequacy of the Company’s loss and loss adjustment expense reserves as of December 31, 2017.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings identified during the examination. The Company has complied with the previous examination recommendations to maintain conflict of interest statements, maintain minutes of Audit Committee meetings and include the NAIC recommended indemnity language in their custodial agreement.

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.

2013	\$410,160
2014	532,603
2015	488,800
2016	640,612
2017	708,211

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. 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.

At December 31, 2017, the Company's Board of Directors consisted of the following:

<u>Name of Director</u>	<u>Business Affiliation</u>
James R. Flanagan	Flanagan Insurance Agency
Peter Gray	President, Arrow Mutual Liability Insurance Company
Jack A. Green	Wentworth Institute of Technology
George Hughes	Hughes & Associates
Dieter B. Morlock	Retired
Dennis A. Paren	City of Raleigh, North Carolina
Charles P. Terry	Retired
Joseph Tosches	Seven Hills Foundation

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, 2017 were as follows:

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

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, 2017.

Compensation and Pension Trust Committee

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

Arrow Mutual Liability Insurance Company

Investment Committee

Charles P. Terry, Chairman
Peter Gray

Jack A. Green
Dennis A. Paren

Audit Committee

George Hughes, Chairman
Jack Green

Charles Terry
Joseph Tosches

Nominating Committee

George Hughes, Chairman
Dieter Morlock

Dennis A. Paren

Organization Chart

At December 31, 2017, Arrow was the lead entity with no affiliates or subsidiaries in the following organizational structure:

<u>Arrow Mutual Liability</u> <u>Insurance Company</u> <u>(MA)</u> <u>NAIC # 13374</u>

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 premium is 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 Maiden Re and Lloyd's; both provide excess of loss reinsurance with Lloyd's being catastrophe excess of loss. Maiden Re is three layers; 1st layer is \$500,000 excess \$500,000, 2nd layer is \$1,000,000 excess \$1,000,000 and 3rd layer is \$3,000,000 excess \$2,000,000. Lloyd's provides catastrophe excess of loss of \$10,000,000 excess of \$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, 2017. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2017

Statement of Income for the Year Ended December 31, 2017

Reconciliation of Capital and Surplus for Each Year in the Five Year Period Ended December 31, 2017

Arrow Mutual Liability Insurance Company

Statement of Assets, Liabilities, Capital and Surplus As of December 31, 2017

	Per Annual Statement
Assets	
Bonds	\$ 33,174,279
Common stocks	10,213,832
Real estate	20,000
Cash, cash equivalents and short-term investments	1,803,403
Other invested assets	157,700
Subtotals, cash and invested assets	45,369,214
Investment income due and accrued	194,661
Premiums and considerations:	
Uncollected premiums and agents' balances	76,295
Accrued retrospective premium and contracts subject to redetermination	111,994
Reinsurance:	
Amounts recoverable from reinsurers	14,770
Current federal and foreign income tax recoverable and interest thereon	15,000
Net deferred tax asset	99,020
Total assets	\$ 45,880,954
Liabilities	
Losses	\$ 9,810,671
Loss adjustment expenses	1,549,583
Other expenses	1,912,845
Unearned premiums	462,414
Advance premium	120,166
Dividends declared and unpaid: Policyholders	332,800
Amounts withheld or retained by company for account of others	32
Aggregate write-ins for other liabilities	1,264,749
Total liabilities	15,453,260
Aggregate write ins for special surplus funds	11,055,000
Unassigned funds (surplus)	19,372,694
Total capital and surplus	30,427,694
Total liabilities capital, and surplus	\$ 45,880,954

Arrow Mutual Liability Insurance Company

Statement of Income For the Year Ended December 31, 2017

	Per Annual Statement
Premium earned	\$ 6,832,453
Deductions:	
Losses incurred	3,713,890
Loss adjustment expenses	2,863,266
Other underwriting expenses incurred	1,191,680
Total underwriting deductions	7,768,836
Net underwriting gain (loss)	(936,383)
Net investment income earned	653,604
Net realized capital gains	829,459
Net investment gain (loss)	1,483,063
Aggregate write ins for miscellaneous income	453
Total other income	453
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	547,133
Dividends to policyholders	708,211
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(161,078)
Net Income	\$ (161,078)

Arrow Mutual Liability Insurance Company

Reconciliation of Capital and Surplus For Each Year in the Five-Year Period Ended December 31, 2017

	2017	2016	2015	2014	2013
Surplus as regards policyholders, December 31 prior year	\$29,785,858	\$30,216,019	\$30,949,724	\$30,543,100	\$28,992,327
Net income (loss)	(161,078)	97,340	(368,370)	318,374	103,948
Change in net unrealized capital gains	754,726	(468,427)	(515,880)	104,477	1,323,596
Change in net deferred income tax	(224,055)	251,847	248,202	(81,431)	278,356
Change in nonadmitted assets	272,243	(310,921)	(97,657)	65,204	(2,902)
Aggregate write-ins for gains or (losses) in surplus					(152,225)
Change in surplus as regards policyholders for the year	641,836	(430,161)	(733,705)	406,624	1,550,773
Surplus as regards policyholders, December 31 current year	<u>\$30,427,694</u>	<u>\$29,785,858</u>	<u>\$30,216,019</u>	<u>\$30,949,724</u>	<u>\$30,543,100</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, 2017. 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, 2017. They noted the net loss and LAE reserves carried by Arrow are \$121,000 or approximately 1.1% lower than their actuarial central estimate. The gross loss and LAE reserves carried by Arrow are \$84,000 or 0.6% lower than their actuarial central estimate. However, the carried reserves are within their range of reasonable estimates and immaterially different from their central or point estimates.

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, 2017.

Summary of Indicated Reserves (\$000s)

	Lewis & Ellis Estimate			Arrow Carried	Difference		
	Low	Central	High		Low	Central	High
Net	10,342	11,481	12,692	11,360	1,018	(121)	(1,332)
Gross	13,025	14,608	16,104	14,524	1,499	(84)	(1,580)

SUBSEQUENT EVENTS

There were no subsequent events through the date of this report.

SUMMARY OF RECOMMENDATIONS

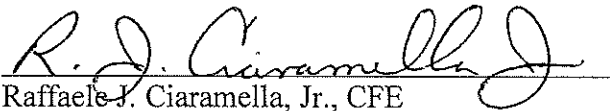
There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report.

Arrow Mutual Liability Insurance Company

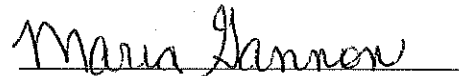
SIGNATURE PAGE

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