



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

***REPORT OF EXAMINATION OF THE***  
**ATLANTIC CHARTER INSURANCE COMPANY**

**Boston, Massachusetts**

**As of December 31, 2020**

**NAIC GROUP CODE 1178**

**NAIC COMPANY CODE 44326**

**EMPLOYER ID NUMBER 04-3104363**

# ATLANTIC CHARTER INSURANCE COMPANY

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

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**GARY D. ANDERSON**  
COMMISSIONER OF INSURANCE

May 19, 2022

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, an examination has been made of the financial condition and affairs of

**ATLANTIC CHARTER INSURANCE COMPANY**

at its home office located at 25 New Chardon Street, Boston, MA 02114-4721. The examination was conducted remotely . The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

Atlantic Charter Insurance Company (“Company” or “ACIC”) was last examined as of December 31, 2015 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, 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.

Concurrent with this examination, the following insurance affiliates in the Atlantic Charter Group (“Group”) were also examined and separate Reports of Examination have been issued:

Endeavour Insurance Company (“EIC”)  
Independence Casualty Insurance Company (“ICIC”)

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* (“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 Ernst & Young LLP (“EY”), 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’ work papers was made to the extent deemed appropriate and effective.

Representatives from the firm of Examination Resources, LLC were engaged 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 a review of accounting records, information systems, investments 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 on November 19, 1990, under the laws of the Commonwealth of Massachusetts. It commenced business on January 1, 1991, and began accepting insurance risks on February 1, 1991. As a licensed property and casualty insurer, the Company is subject to the provisions of Massachusetts General Law ("M.G.L.") Chapter 175, Section 4 and other Massachusetts Insurance Laws.

ACIC is a wholly owned subsidiary of Charter Management Company, Inc. ("Charter" or "CMC"), a Massachusetts corporation. Charter Management Company is an insurance holding company owned by Linda J. Sallop (13.6%), Linda J. Sallop Irrevocable Trust (54.4%) and Mitchel I. Weisman (32.0%). ACIC and its two insurance affiliates, Endeavour Insurance Company ("EIC") and Independence Casualty Insurance Company ("ICIC"), are part of an insurance holding company group (collectively referred to as "the Companies" or "the Group"). The Company is also affiliated with an insurance agency (Sallop Insurance Agency, Inc. - owned 48.8% by Linda Sallop and 51.2% by an ESOP) and a law firm (Sallop & Weisman, P.C. - owned 50% by Linda Sallop and 50% by Mitchel Weisman).

ACIC is a licensed property and casualty insurer that writes workers' compensation insurance at a deviated rate (currently, at a 10% deviation for all classes) on employers in Connecticut, Massachusetts and New Hampshire, through a network of independent agents and brokers. The Company is licensed to conduct business in the Commonwealth of Massachusetts and the State of Connecticut, and the State of New Hampshire, with approximately 11% and 8% of direct written premiums in Connecticut and New Hampshire, respectively.

In addition to its direct business, the Company assumes 100% of the business written by its two affiliates, EIC and ICIC. The Company also participates as a Voluntary Direct Assignment Carrier ("VDAC") in the Massachusetts Workers' Compensation Assigned Risk Pool, the residual market mechanism for workers' compensation insurance in the Commonwealth of Massachusetts, and the National Workers' Compensation Reinsurance Pool.

As of December 31, 2020, ACIC had 200,000 shares of common capital stock, with no par value. ACIC has 55,000 shares issued and outstanding, all held by CMC; with a value of \$1,100,000, and contributed surplus of \$4,400,000.

## Atlantic Charter Insurance Company

### Dividends

The Company issued the following dividends to stockholders during the period under examination:

2020	\$12,000,000
2019	15,000,000
2018	10,000,000
2017	18,500,000
2016	5,000,000

The Company issued the following dividends to policyholders during the period under examination:

2020	\$653,619
2019	910,767
2018	584,468
2017	373,110
2016	419,179

## **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 reviewed and 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 were reviewed and there were no changes since the prior exam.

### Board of Directors

According to the bylaws, the Company's business shall be managed by a Board which may exercise all of the powers of the Company, except as otherwise provided by the Articles of Organization, by law, or the bylaws. The Board shall consist of not fewer than five Directors. As of December 31, 2020, the Company's Board consisted of the following individuals:

## Atlantic Charter Insurance Company

<u>Name of Directors</u>	<u>Title</u>
Linda J. Sallop	President
Mitchel I. Weisman	Executive Vice President and Secretary
David A. Bakst	Assistant Secretary of the Company, Senior Partner Morrison Mahoney, LLP
Eric D. Schlager *	Chief Executive Officer, Bulfinch Companies Inc.
William J. Kearney	Underwriting Manager, Retired, The Hartford Companies
Robert P. Medwid	Chief Financial Officer, Retired, Arbella Insurance Group
Julianne M. Bowler	Vice President of Regulatory Affairs

\* Resigned during January 2021 and was replaced by John C Riley, a retired insurance producer.

### Officers

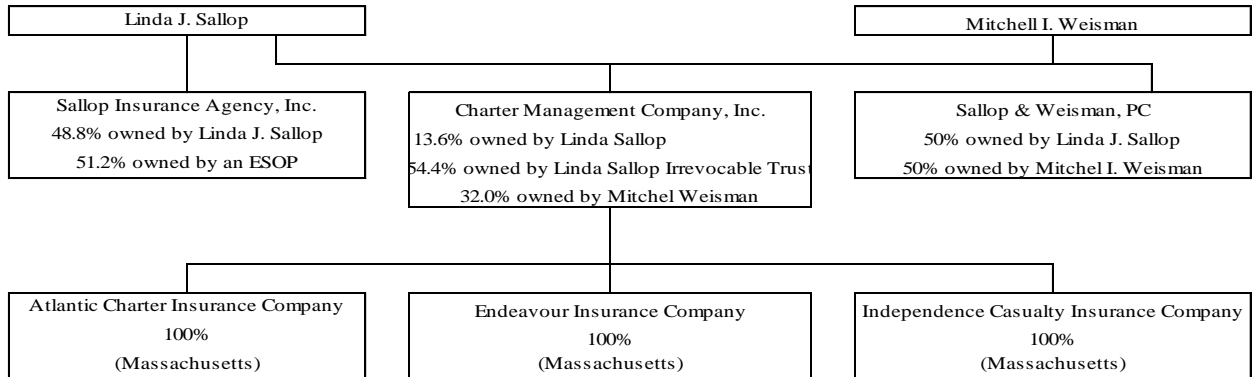
According to the Company's bylaws, the Board shall elect the officers of the Company. The officers of the Company shall be a President, a Treasurer, a Secretary and such other officers, including one or more vice presidents, assistant treasurers and assistant secretaries, a chairman of the board and a chief executive officer, as the Board may determine. The officers of the Company as of December 31, 2020, were as follows:

<u>Name of Officers</u>	<u>Title</u>
Linda J. Sallop	President
Mitchel I. Weisman	Executive Vice President and Secretary
Joseph N. Russo	Chief Financial Officer and Treasurer
Julianne M. Bowler	Vice President
David A. Bakst	Assistant Secretary

### Organizational Chart

At December 31, 2020, the Company is a member of the following organizational structure in this abbreviated organizational chart:

## Atlantic Charter Insurance Company



### Affiliated Companies

As stated in the Insurance Holding Company System Form B and Form C as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L., Chapter 175, Section 206C and 211 CMR 7.00.

### Transactions and Agreements with Subsidiaries and Affiliates

#### *Administrative Services Agreement*

Pursuant to the terms of a written services agreement effective January 1, 2002, the Company receives management, general administrative, underwriting, claims, financial accounting and other services from its parent company, Charter. Under the terms of the agreement, the Company shall pay to Charter 100% of the actual costs and expenses incurred by Charter on behalf of the Company.

#### *Tax Sharing Agreement*

The Company participates in a written tax allocation agreement entered into as of May 4, 2004, with three affiliates: Charter, EIC and ICIC. Pursuant to the agreement, Charter collects or refunds to its participating subsidiaries the amount of taxes or benefits by an allocation method based upon the respective tax liability of each member computed as if a separate return were filed in accordance with the Internal Revenue Code.

## **TERRITORY AND PLAN OF OPERATION**

The Company currently is licensed to write business in the following three states: Connecticut, Massachusetts, and New Hampshire. The largest number of insurance risks are written in Massachusetts. The Company uses independent brokers and agents to market workers' compensation insurance in these states. During 2020, the Company reported \$32.2 million of direct



written premium in Massachusetts, and \$4.3 million and \$3.1 million in Connecticut and New Hampshire, respectively.

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

### **REINSURANCE**

#### Assumed Reinsurance

Effective August 9, 1996, the Company began to participate in a 100% quota share reinsurance agreement with EIC whereby EIC cedes to the Company the premiums, losses, loss adjustment expenses and underwriting expenses of all insurance risks underwritten or assumed by EIC on or after such effective date. The Company agreed to be solely responsible for the servicing and administration of such business and bears all of the costs associated with performing such servicing. The agreement is prospective in nature.

Effective June 15, 2004, the Company executed and began to participate in a similar 100% quota share reinsurance agreement with ICIC whereby ICIC cedes all of the premiums, losses, loss adjustment expenses and underwriting expenses of its insurance risks underwritten or assumed on or after such effective date. Likewise, under this agreement, the Company assumes ICIC's business and similarly is responsible for servicing and administering the business.

All workers' compensation insurance underwriters within Massachusetts are members of the Massachusetts Workers' Compensation Assigned Risk Pool ("the Pool"). Participants share the underwriting results of the Pool on a policy year basis based on each member's share of premiums written to the premiums written by the industry as a whole. The Pool underwrites employers unable to find insurance through the marketplace due to poor loss experience or high-risk classification.

During 1999, the Group elected to be a Voluntary Direct Assignment Carrier in lieu of participating directly in the Pool's operating results. Voluntary Direct Assignment Carriers retain the underwriting risk associated with this business and are also responsible for loss adjustment expenses and underwriting expenses incurred.

As ACIC writes workers' compensation insurance in New Hampshire, it is required to participate in the involuntary market by becoming a member in the National Workers Compensation Reinsurance Association ("NWCRA"). NWCRA members share in the operating results for the involuntary market through a quota share reinsurance arrangement.

## Atlantic Charter Insurance Company

### Ceded Reinsurance

The Company has an excess of loss reinsurance treaty with Swiss Reinsurance America Corporation. The retentions and limits are as follows:

<u>Layer</u>	<u>Retention</u>	<u>Limit</u>
1 <sup>st</sup>	\$500,000	\$1,000,000
2 <sup>nd</sup>	1,000,000	5,000,000
3 <sup>rd</sup>	5,000,000	10,000,000
4 <sup>th</sup>	10,000,000	20,000,000
5 <sup>th</sup>	20,000,000	30,000,000
6 <sup>th</sup>	30,000,000	100,000,000

The sixth layer identified above is facultative coverage for the top ten concentrated accounts. This facultative coverage was purchased through Strategic Underwriters International, and is a syndicate transaction with QBE Reinsurance Corp. being the lead reinsurer. All members of the syndicate have at least an A rating. Additional coverage is provided by the Terrorism Risk Insurance Act that provides coverage for any acts of terror in excess of \$200,000,000 industry wide.

Atlantic Charter 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 for the Year Ended December 31, 2020

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

# Atlantic Charter Insurance Company

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

	Per Annual Statement
<b>ASSETS</b>	
Bonds	\$ 94,218,263
Common Stocks	43,191,406
Cash, cash equivalents and short-term investments	23,865,534
Subtotals, cash and invested assets	<u>161,275,203</u>
Investment income due and accrued	992,457
Uncollected premiums and agents' balances in the course of collection	1,569,975
Deferred premiums, agents' balances and installments booked but deferred and not yet due	9,197,250
Amounts recoverable from reinsurers	2,117
Other amounts receivable under reinsurance contracts	146,740
Current federal and foreign income tax recoverable and interest thereon	2,507,538
Receivables from parent, subsidiaries and affiliates	336,774
Total Assets	<u><u>\$ 176,028,054</u></u>

# Atlantic Charter Insurance Company

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

	Per Annual Statement
<b>LIABILITIES</b>	
Losses	\$ 65,787,032
Loss adjustment expenses	16,367,864
Commissions payable, continent commissions and other similar charges	536,695
Other expenses	50,183
Taxes, licenses and fees	180,129
Net deferred tax liability	991,627
Unearned premiums	17,955,832
Advance premium	1,882,627
Amounts withheld or retained by company for account of others	372,908
<b>Total Liabilities</b>	<b>\$ 104,124,897</b>
 Common capital stock	 \$ 1,100,000
Gross paid in and contributed surplus	4,400,000
Unassigned funds (surplus)	66,403,157
Surplus as regards policyholders	\$ 71,903,157
<b>Total Liabilities, Surplus and Other Funds</b>	<b>\$ 176,028,054</b>

# Atlantic Charter Insurance Company

## Statement of Income As of December 31, 2020

	Per Annual Statement
Premiums earned	\$ 62,175,283
Deductions	
Losses incurred	24,275,197
Loss adjustment expenses incurred	11,079,709
Other underwriting expenses incurred	16,149,756
Total underwriting deductions	51,504,662
Net underwriting gain (loss)	10,670,621
Net investment income earned	2,788,762
Net realized capital gains (losses) less capital gains tax	1,240,851
Net investment gain (loss)	4,029,613
Net gain (loss) from agents' or premium balances charged off	(399,584)
Total other income	(399,584)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	14,300,650
Dividends to policyholders	653,619
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	13,647,031
Federal and foreign income taxes incurred	2,739,056
Net income	\$ 10,907,975

# Atlantic Charter Insurance Company

## Reconciliation of Capital and Surplus For Each Year in the Five-Year Period Ended December 31, 2020

	2020	2019	2018	2017	2016
Surplus as regards policyholders, December 31, prior year	\$ 69,043,945	\$ 57,669,463	\$ 56,565,515	\$ 53,884,177	\$ 49,299,075
Net income/(loss)	10,907,975	20,245,666	16,931,085	17,934,676	8,520,746
Change in net unrealized capital gains or (losses) less capital gains tax	4,583,762	6,080,753	(5,767,545)	4,679,663	1,992,345
Change in net deferred income tax	(594,057)	(36,615)	(116,608)	(1,305,975)	(1,201,134)
Change in non-admitted assets	(38,468)	84,678	57,016	(127,026)	273,145
Dividends to stockholders	(12,000,000)	(15,000,000)	(10,000,000)	(18,500,000)	(5,000,000)
Net change in capital and surplus for the year	<u>2,859,212</u>	<u>11,374,482</u>	<u>1,103,948</u>	<u>2,681,338</u>	<u>4,585,102</u>
Capital and surplus, December 31, current year	<u>\$ 71,903,157</u>	<u>\$ 69,043,945</u>	<u>\$ 57,669,463</u>	<u>\$ 56,565,515</u>	<u>\$ 53,884,177</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 this 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 Company has appointed Ashurst Beacon, LLC ("Ashurst Beacon") as their Appointed Actuary. Ashurst Beacon performed an analysis of the Loss and LAE reserves as of December 31, 2020. They utilized both Company and industry development to determine the reserve estimates. The Company's own development has tended to perform better than industry, so any weight to industry factors results in more conservative estimates. The Company held net Loss and LAE reserves of \$82.2 million as of December 31, 2020; which was above the \$77.3 million central estimate of Ashurst Beacon by \$4.9 million but remained below the high end of Ashurst Beacon's range of \$86.8 million by \$4.6 million. Ashurst Beacon determined that the Company held net Loss and LAE reserves within the Appointed Actuary's range of reasonable reserve estimates.

The Division engaged Taylor-Walker Consulting, LLC ("TWC") to review the reasonableness of the Loss and LAE reserves of the Company as of December 31, 2020. 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 Standard Board.

TWC performed an analysis of the Loss and LAE reserves as of December 31, 2020. TWC also used Company and industry development to determine a reserve estimate. TWC placed more reliance on Company development than industry in determining an estimate but generally erred on the side of conservatism when Company development suggested downward development by selecting flat or slightly upward factors. TWC's review resulted in a central estimate for net Loss and LAE reserves of \$77.0 million, which is lower than the Company's booked reserves by \$5.2 million, or 6.3% of reserves. The net booked reserves are within TWC's range of reasonable estimates which has a low estimate of \$69.3 million and a high estimate of \$84.9 million.

TWC's central reserve estimate was slightly lower than the EY central estimate of \$77.7 million.

**SUBSEQUENT EVENTS**

There were no material subsequent events to report.



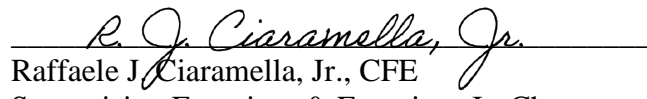
**SUMMARY OF RECOMMENDATIONS**

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.

**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 Examination Resources LLC, who participated in this examination is hereby acknowledged.

  
Raffaele J. Ciaramella, Jr., CFE  
Supervising Examiner & Examiner-In-Charge  
Commonwealth of Massachusetts  
Division of Insurance