



**THE 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, 2005**

**N.A.I.C. GROUP CODE 1178**

**N.A.I.C. 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

One South Station • Boston, MA 02110-2208

(617) 521-7794 • FAX (617) 521-7771

TTY/TDD (617) 521-7490

<http://www.mass.gov/doi>

DEVAL L. PATRICK  
GOVERNOR

TIMOTHY P. MURRAY  
LIEUTENANT GOVERNOR

DANIEL O'CONNELL  
SECRETARY OF HOUSING AND  
ECONOMIC DEVELOPMENT

DANIEL C. CRANE  
DIRECTOR

NONNIE S. BURNES  
COMMISSIONER OF INSURANCE

March 1, 2007

The Honorable Alfred W. Gross  
Chair, Financial Condition (E) Committee, NAIC  
Commissioner of Insurance  
The Commonwealth of Virginia  
State Corporation Commission  
Bureau of Insurance  
Post Office Box 1157

Richmond, Virginia 23218

The Honorable Joseph Torti, III  
Secretary, Northeastern Zone, NAIC  
Superintendent  
Rhode Island Insurance Division  
Department of Business Regulation  
233 Richmond Street, Suite 233  
Providence, Rhode Island 02903-4233

The Honorable Nonnie S. Burnes  
Commissioner of Insurance  
The Commonwealth of Massachusetts  
Office of Consumer Affairs and Business Regulation  
Division of Insurance  
One South Station  
Boston, Massachusetts 02110-2208

Honorable Commissioners and Superintendent:

Pursuant to your instructions and in accordance with Massachusetts General Law ("MGL"), 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, Massachusetts 02114-4721. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

Atlantic Charter Insurance Company ("Company") was last examined as of December 31, 2000, under the association plan of the National Association of Insurance Commissioners ("NAIC") by the Massachusetts Division of Insurance ("Division"). The current association plan examination also was conducted by the Division and it covers the period from January 1, 2001, through December 31, 2005, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of this examination.

This examination was conducted at the same time and in conjunction with the statutory financial condition examinations made by the Division on two of the Company's affiliates, Endeavour Insurance Company ("EIC") and Independence Casualty Insurance Company ("ICIC"), both of Boston, Massachusetts.

The examination was conducted in accordance with standards and procedures established by the NAIC Financial Condition (E) Committee and prescribed by the current NAIC Financial Condition Examiners Handbook, the examination standards of the Division, and Massachusetts General Laws. The principal focus of the examination was activity for the period ended December 31, 2005; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, employees' pension and benefits plans, disaster recovery plan, treatment of policyholders, and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules, and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk, and examination efforts were directed accordingly.

The Company is audited annually by Ernst & Young LLP ("E&Y"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2001 through 2005. Review and use of E&Y's workpapers were made to the extent deemed appropriate and effective.

The Division retained the independent consulting actuarial services of Milliman, Inc. ("Milliman") to evaluate the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2005. An evaluation of the adequacy and effectiveness of controls over information systems was done by the Division staff to determine the level of reliance to be placed on summary information generated by the data processing systems.

For a summary of findings contained within this Report, refer to the Comments and Recommendations Section on Page 21 of this Report.

### Status of Findings from the Prior Examination

This examination included a review to verify the current status of exception conditions commented upon in the Report of Examination as of December 31, 2000. The Report of the Examination as of December 31, 2000, did not note any exception conditions.

## **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. The Company, a licensed property and casualty insurer, writes workers compensation insurance at a deviated rate (currently, at a 12% deviation) on employers in Massachusetts through a network of independent agents. The Company is licensed, as are its affiliates, to conduct business only in the Commonwealth of Massachusetts.

The Company is a wholly owned subsidiary of Charter Management Company, Inc. ("CMC"), a Massachusetts corporation owned by Linda J. Sallop (68%) and Mitchel I. Weisman (32%). The Company's largest producer is the Nathan Sallop Insurance Agency ("NSIA").

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

### Capital Stock

The Articles of Organization for the Company authorized 200,000 shares of capital stock with no par value. In 1990, the Company initially was capitalized through the issuance of 50,000 shares of capital stock at a price of \$60.00 per share, as prescribed by Section 48 of MGL Chapter 175. The allocation of the \$3.0 million initial capitalization was specified to be \$20.00 per share (\$1.0 million) of paid-in capital and \$40.00 per share (\$2.0 million) of paid-in surplus. All shares were purchased by CMC.

In 1991, the Board of Directors voted to issue to CMC upon payment of \$0.3 million an additional 5,000 shares of no par value common capital stock at \$60.00 per share. With this subsequent infusion of funds allocated similarly to the initial capitalization of the Company, paid-in capital totaled \$1.1 million and the gross paid-in and contributed surplus became \$2.2 million.

## ATLANTIC CHARTER INSURANCE COMPANY

As of December 31, 2005, the Company in total had authorized 200,000 shares of no par value common capital stock, of which 55,000 have been issued and are outstanding. All outstanding shares are held by CMC.

### Dividends to Stockholder

In the period of examination, the Board of Directors authorized the following dividends to be paid to the Company's sole stockholder:

<u>Year:</u>	<u>2 0 0 1</u>	<u>2 0 0 2</u>	<u>2 0 0 3</u>	<u>2 0 0 4</u>	<u>2 0 0 5</u>
<u>Amount:</u>	\$ - 0 -	\$ 1,500,000	\$ 5,650,000	\$ 4,500,000	\$ 5,224,000

### Growth of the Company

The growth of the Company from the years 2001 through 2005 is indicated in the following schedule which was prepared from information in the Company's Annual Statements:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>
2005	\$ 136,560,400	\$ 78,884,760	\$ 57,675,640
2004	\$ 127,580,672	\$ 72,709,028	\$ 54,871,644
2003	\$ 119,496,840	\$ 64,086,522	\$ 55,410,318
2002	\$ 116,290,575	\$ 59,213,270	\$ 57,077,304
2001	\$ 105,341,488	\$ 49,500,975	\$ 55,840,513

### Management

#### *Annual Meeting*

In accordance with the Company's bylaws, the annual meeting of stockholders shall be held on the first Tuesday in March in each year. A majority in interest of all stock issued, outstanding, and entitled to vote at a meeting shall constitute a quorum of the stockholders. Stockholders entitled to vote shall have one vote for each share of stock owned by them and a proportionate vote for any fractional share of stock owned by them. Stockholders may vote in person or by proxy. If an annual meeting shall not have been held on the date fixed in the bylaws, a special meeting in lieu of an annual meeting may be held with all the force and effect of an annual meeting. The bylaws also specify that any action permitted to be taken at any meeting of the stockholders may be taken without a meeting if all stockholders entitled to vote on the matter consent to the action in writing. The corporate records document that for each year in the examination period, the requirement for an annual meeting was satisfied with an action by consent of the Company's sole stockholder.

# ATLANTIC CHARTER INSURANCE COMPANY

## Board of Directors

According to the bylaws, the business of the Company shall be managed by a board of directors which may exercise all of the powers of the Company except those exclusively conferred upon or reserved solely to the stockholders. The board of directors shall consist of not fewer than five directors and the stockholders shall fix the number of directors for the ensuing corporate year at the annual meeting of the stockholders or at any special meeting held for that purpose. The directors shall be elected at the annual meeting of stockholders or the special meeting in lieu of the annual meeting. Each director shall hold office until the next annual meeting of the stockholders and until a successor shall have been duly elected and qualified, but any director may resign. The stockholders may remove any director from office with or without cause; the board of directors may remove any director from office for cause. If the office of a director becomes vacant for any reason, the stockholders or the board of directors may elect a successor to complete the unexpired term of the predecessor, but only the stockholders may fill a vacancy resulting from enlargement of the board. A director may, but need not, be a stockholder, an officer, or an employee of the Company.

The bylaws permit that by majority vote of the board of directors, the board may be divided into two or more classes, such classes to be as nearly equal in number as possible.

At December 31, 2005, the Company's board of directors had the common governance of the same seven (7) people serving as directors on the boards of affiliates. The following table lists the members of the board, their business or professional affiliations, and residential addresses:

<u>Name of Director</u>	<u>Business Affiliation</u>	<u>Residence</u>
Linda Jane Sallop, Esq. Chairperson	Chairperson and President, CMC, EIC, and ICIC	Newton, Massachusetts
Mitchel Ira Weisman, Esq.	Executive Vice President and Secretary, CMC, EIC, and ICIC	Marblehead, Massachusetts
David Allan Bakst, Esq.	Senior Partner, Morrison, Mahoney, and Miller	Lexington, Massachusetts
Brian Albert Brooks, CPA *	Senior Partner, Retired, PricewaterhouseCoopers, LLP	Boston, Massachusetts
William Joseph Kearney *	Underwriting Manager, Retired, The Hartford Companies	Duxbury, Massachusetts
Bruce Charles Levine, CPA	Owner and Partner, Levine, Katz, Nannis, and Solomon, PC	Newton, Massachusetts
Eric Dean Schlager	Chief Executive Officer, The Bullfinch Companies, Inc.	Weston, Massachusetts

\* Newly elected to Directorship since the prior examination.

Directors Linda J. Sallop and Mitchell I. Weisman also serve on the Board of Directors for Charter Management Company, Inc.



The bylaws do not specify the number of meetings of the board of directors to be held during a year and they allow the board of directors to take action by consent and/or telephonic meetings. At any meeting of the board, a majority of the directors then in office shall constitute a quorum but in no event shall a quorum be less than four directors. The minutes indicated that a quorum was obtained for all meetings of the board of directors held during the examination period.

The bylaws allow that the directors may elect from their number an executive committee, an investment committee, and such other committees as they may determine. In accord therewith, the board of directors appointed an Investment Committee and an Audit Committee. The purpose and membership of each committee at December 31, 2005, follow.

#### *Investment Committee*

The Investment Committee monitors the performance of the Company's investments and authorizes the purchase and/or sale of securities. At the date of examination, the members of the Investment Committee were Director Linda J. Sallop, Director Mitchel I. Weisman, and Treasurer Joseph N. Russo.

#### *Audit Committee*

The Audit Committee coordinates and oversees services of the Company's auditors and it serves as a liaison between the Company and its auditors. At the date of examination, the Audit Committee consisted of Directors Bruce C. Levine, Brian A. Brooks, and William J. Kearney.

#### *Officers*

According to the Company's bylaws, the officers of the Company shall be a president, a treasurer, a secretary and such other officers as the board of directors may determine. The board of directors shall elect the president, treasurer, secretary, and any other officers. The president may, but need not, be a director. The secretary shall be a resident of Massachusetts. To the extent permitted by law, any two or more offices may be held by the same person. No officer need be a stockholder in or an employee of the Company.

The president, treasurer, and secretary each shall hold office until the first meeting of the board of directors following the annual meeting of stockholders (or a special meeting in lieu thereof) and until his or her successor shall have been duly elected and qualified; each other officer shall hold office similarly, unless a shorter term shall have been specified in the vote electing such officer. The board of directors may remove from office with or without cause any officer elected or appointed by the board. Any officer may resign.

Generally, the powers and duties of each of the Company's officers are those commonly incident to the respective office; they are set forth in the bylaws and are subject to action of the board of directors. Except as the board of directors may otherwise determine, the president shall be the chief executive officer and chairman of the board of directors and shall have general supervision and control of the Company's business. Subject to the direction of the board of directors, the

treasurer shall have general charge of the Company's financial affairs, shall cause to be kept accurate books of account, and shall have care and custody of all funds, securities, and valuable documents of the Company. The secretary shall keep in Massachusetts the original or attested copies of the Articles of Organization, the bylaws, the records of all meetings of incorporators and of all meetings and consents of stockholders and of the board of directors, and the stock and transfer records. The secretary or assistant secretary shall record the proceedings of any meeting of stockholders and of any meeting of the board of directors and shall have additional powers and duties as the board of directors may determine. Any vice president or assistant treasurer shall have such duties and powers as the board of directors may from time to time designate.

The elected and appointed officers and their respective titles at December 31, 2005, were the following:

<u>Name of Officer</u>	<u>Title</u>
Linda J. Sallop, Esq.	President and Chairperson of the Board
Mitchel I. Weisman, Esq.	Executive Vice President and Secretary
Joseph N. Russo, CPA	Chief Financial Officer and Treasurer
Faye O. Shulman	Vice President, Claims Manager

All of the Company's Officers simultaneously held similar positions in EIC and ICIC.

#### Conflict of Interest Procedure

In support of its answer to Question 15 of Part 1 Common Interrogatories of the annual statement, the Company has an established procedure for the reporting of any material interest or affiliation on the part of any officer or director or responsible employee which is in or is likely to conflict with his/her official duties.

#### Corporate Records

##### *Articles of Incorporation and By-Laws*

The Articles of Incorporation and bylaws for the Company were read and no changes have been made to these documents since the prior examination.

##### *Disaster Recovery and Business Continuity*

The bylaws of the Company were read and were found to contain specific provision for the succession of directors and officers in event of an emergency.

As part of the examination's evaluation of the Company's information technology systems and control environment, the Company has indicated that it has an informal plan in place to deal with

## ATLANTIC CHARTER INSURANCE COMPANY

recovery and continuity of operations. Refer to the Comments and Recommendations Section on Page 21 of this Report for a comment and recommendation on this matter.

### *Board of Directors Minutes*

The minutes of meetings of the board of directors 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 of directors.

With specific regard to voting and ratification of investment activity, refer to the Comments and Recommendations Section on Page 21 of this Report for a comment and recommendation on this matter.

### Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

In the period of examination, the only significant new transaction involving the Company in acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance was the Company's assumption of all of the business writings of its newly formed affiliate, ICIC, through a reinsurance agreement. ICIC commenced business in May 2004 and entered into a quota share reinsurance agreement whereby the Company assumed 100% of the business written by ICIC.

Aggregate balances for gross premiums associated with reinsurance transactions are compared in summary below for the two insurers over the examination years the agreement has been in effect.

<u>GROSS PREMIUMS</u>	<u>2 0 0 5</u>		<u>2 0 0 4</u>	
	<u>A.C.I.C.</u>	<u>I.C.I.C.</u>	<u>A.C.I.C.</u>	<u>I.C.I.C.</u>
Direct Business	\$ 30,546,238	\$ 5,748,796	\$ 25,869,196	\$ 2,182,153
Reinsurance Assumed from:				
Affiliates	16,500,695	0	19,047,717	0
Non-Affiliates	1,352,124	0	500,781	0
Reinsurance Ceded to:				
Affiliates	0	5,748,796	0	2,182,153
Non-Affiliates	3,283,889	0	2,670,084	0
Net Premiums Written	\$ 45,115,168	\$ 0	\$ 42,747,610	\$ 0

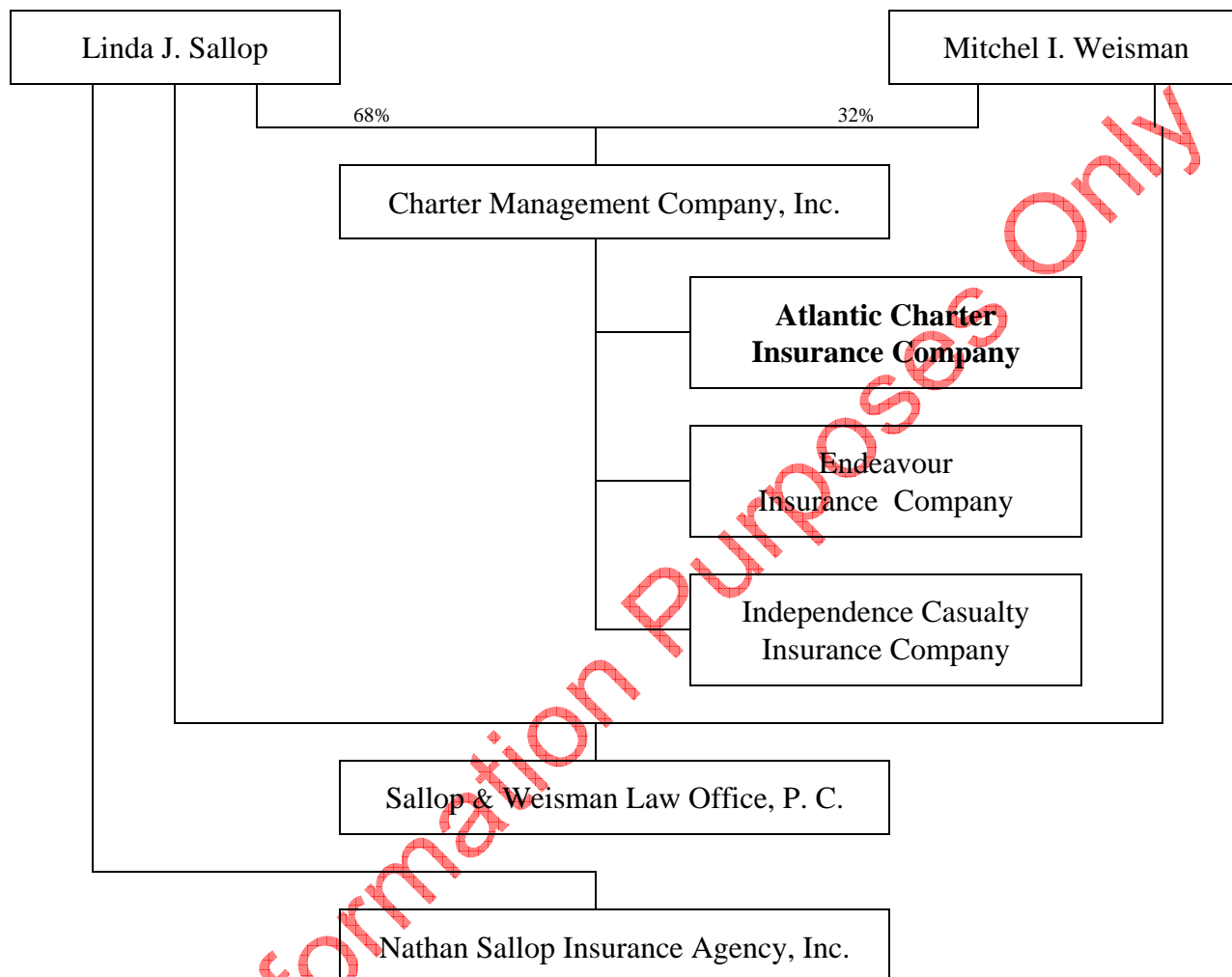
### **AFFILIATED COMPANIES**

Per 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 Section 206C of MGL Chapter 175 and Regulation 211 CMR 7.00. Charter Management Company, Inc., is the ultimate controlling party of the group of three insurance companies.

## ATLANTIC CHARTER INSURANCE COMPANY

### Organization Chart

The corporate organization of which the Company was a member at December 31, 2005, is represented as follows:



### Transactions and Agreements with Subsidiaries and Affiliates

The three predominant arrangements involving the Company and its affiliates are a service agreement, an inter-affiliate reinsurance agreement, and a tax sharing agreement. Each is described briefly in the following summary.

#### *Service Agreement*

Per 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, CMC. Under terms of the agreement, the Company shall pay to CMC 100% of the actual costs and expenses incurred by CMC on behalf of the Company.

*Inter-Affiliate Reinsurance Agreement*

The Company has a quota share reinsurance agreement with EIC and ICIC whereby the Company assumes all of the business written by these two affiliated insurers.

*Tax Sharing Agreement*

The Company participates in a written tax allocation agreement entered into as of May 4, 2004, with three affiliates, CMC, EIC, and ICIC. Per such agreement, CMC collects from 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.

**FIDELITY BONDS AND OTHER INSURANCE**

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with Section 60 of MGL Chapter 175. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by additional policies of insurance covering other insurable risks. Coverages were provided by insurers licensed in the Commonwealth of Massachusetts and were in force as of December 31, 2005.

**PENSION AND INSURANCE PLANS**

The Company has no employees. All services, office space, and staff are provided through a services agreement with its direct parent company, CMC.

**STATUTORY DEPOSITS**

The Company is licensed to transact business and restricts its writings to businesses only in the Commonwealth of Massachusetts. It does not have statutory deposits with the Commonwealth.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Policy Forms and Underwriting Practices**

The Company currently writes only workers' compensation coverage utilizing policy forms, riders, and endorsements that are subject to the approval of the Division. At December 31, 2005, the Company's maximum retention limit, net of reinsurance, was \$300,000 per risk.

### **Territory and Plan of Operation**

The Company currently is licensed to write business only in the Commonwealth of Massachusetts. Its Certificate of Authority was current and in force. It writes coverage provided through a small network of independent agents.

### **Treatment of Policyholders**

#### *Claim Settlement Practices*

Procedures performed in conjunction with the claims testwork indicated that the Company investigates and settles claims on a timely and equitable basis.

#### *Dividends to Policyholders*

In the period of examination, the Board of Directors authorized the following dividends to be paid to the Company's policyholders:

<u>Year:</u>	<u>2 0 0 1</u>	<u>2 0 0 2</u>	<u>2 0 0 3</u>	<u>2 0 0 4</u>	<u>2 0 0 5</u>
<u>Amount:</u>	\$ 1,169,170	\$ 1,145,819	\$ 1,391,169	\$ 1,198,098	\$ 922,368

## **REINSURANCE**

The Company has a limited program of reinsurance. It assumes reinsurance from two affiliated companies and accepts its statutorily imposed residual market obligations from MaWCARP; it also is carrying two small blocks of workers' compensation coverage in run-off mode assumed previously from two non-affiliates. The Company cedes reinsurance above its \$300,000 retention to two non-affiliated reinsurance companies. The following briefly describes the major features of the Company's reinsurance activity.

Inter-Affiliate Reinsurance Agreements

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.

Aggregate balances for gross premiums associated with reinsurance transactions are shown in the summary below for each company as of the date of examination.

GROSS PREMIUMS	A.C.I.C.	E.I.C.	I.C.I.C.
Direct Business	\$ 30,546,238	\$ 10,751,899	\$ 5,748,796
Reinsurance Assumed from:			
Affiliates	16,500,695	0	0
Non-Affiliates	1,352,124	0	0
Reinsurance Ceded to:			
Affiliates	0	10,751,899	5,748,796
Non-Affiliates	3,283,889	0	0
Net Premiums Written	\$ 45,115,168	\$ 0	\$ 0

Assumed Reinsurance*Involuntary Pool*

As a licensed insurer, the Company has statutorily mandated participation in MaWCARP, the residual market mechanism for workers' compensation insurance in the Commonwealth. MaWCARP bases the distributions of its operating results on a policy year basis and allocates its financial results among insurers in the property and casualty industry in proportion to their respective voluntary writings. Effective January 1, 1999, the Company exercised its option to fulfill its statutory obligation to MaWCARP by becoming a voluntary direct assignment carrier which is assigned its estimated share of MaWCARP values in the form of specific risks in lieu of a percentage of MaWCARP's overall results. The Company retains the underwriting risk of such policies and is responsible for their claims, loss adjustment expenses, and underwriting expenses.



*Voluntary Business*

The Company previously had assumed workers' compensation business from two non-affiliated insurers, Fairfield Insurance Company ("FIC") and First Return Insurance Company ("FRIC"). Early in 1999, the Company had considered expanding its business into New Hampshire by utilizing FIC as a fronting company until EIC would become licensed in New Hampshire; the program did not expand and the Company still has some small amounts of this reinsurance in run-off mode. At the end of 1999, the Company assumed all of the workers' compensation exposure of FRIC (a subsidiary of Harvard Pilgrim Health Care) via a retroactive reinsurance assumption agreement that was approved by the Division; loss reserve balances for this business, which are for claims in the 1998 and 1999 policy years, have been steadily decreasing over the period of examination.

Ceded Reinsurance

The Company participated in two treaties ceding coverage to non-affiliated reinsurers that limited, to some extent, its direct exposure. Under an excess of loss reinsurance agreement with American Reinsurance Company (now named Munich Reinsurance America, Inc.), the Company cedes risks above its \$300,000 retention in layers up to \$10 million per claim. The Company also has an agreement with General Reinsurance Corporation that addresses risks associated with the business assumed from FIC; it too is subject to \$300,000 retention. If any reinsurers are unable to fulfill their obligations under the reinsurance arrangements, primary liability to policyholders and claimants for incurred losses would remain the obligation of the Company.

**ACCOUNTS AND RECORDS**

The internal control structure was discussed with management through questionnaires and through a review of work performed by the Company's independent Certified Public Accountants. No material deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of controls in the information systems environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the controls in the Company's information systems.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to annual statements.

In accordance with 211 C.M.R. 23.00, the books and records of the Company are audited annually by a firm of independent certified public accountants. Throughout the examination period, the Company was audited by E&Y.



**FINANCIAL STATEMENTS**

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and the NAIC as of December 31, 2005:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2005

Statement of Income for the Year Ended December 31, 2005

Reconciliation of Capital and Surplus for the Five-Year Period Ended December 31, 2005

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## ATLANTIC CHARTER INSURANCE COMPANY

**Statement of Assets, Liabilities, Surplus and Other Funds  
as of December 31, 2005**

<b>Assets</b>	<b>Per Company</b>	<b>Examination Changes</b>	<b>Per Examination</b>	<b>Notes</b>
Bonds	\$ 120,648,824	\$ 0	\$ 120,648,824	
Common stocks	3,334,655		3,334,655	
Cash and short-term investments	342,077		342,077	
Subtotals, cash and invested assets	124,325,556	0	124,325,556	
Investment income due and accrued	1,489,205		1,489,205	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	2,034,820		2,034,820	
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	6,630,413		6,630,413	
Reinsurance:				
Amounts recoverable from reinsurers	6,321		6,321	
Funds held by or deposited with reinsured companies	72,662		72,662	
Current federal and foreign income tax recoverable and interest thereon	29,602		29,602	
Net deferred tax asset	1,971,821		1,971,821	
Total Assets	<u>\$ 136,560,400</u>	<u>\$ 0</u>	<u>\$ 136,560,400</u>	

## ATLANTIC CHARTER INSURANCE COMPANY

**Statement of Assets, Liabilities, Surplus and Other Funds  
as of December 31, 2005**

<b>Liabilities</b>	Per Company	Examination Changes	Per Examination	Notes
Losses	\$ 55,801,016	\$ 0	\$ 55,801,016	( 1 )
Loss adjustment expenses	4,821,564		4,821,564	( 1 )
Commissions payable, contingent commissions, and other similar charges	0	188,111	188,111	( 2 )
Other expenses	188,111	(188,111)	-	( 2 )
Unearned premiums	16,189,776		16,189,776	
Advance premiums	792,858		792,858	
Ceded reinsurance premiums payable	46,997		46,997	
Amounts withheld or retained by Company for account of others	451,336		451,336	
Aggregate write-in for liabilities: Retro-active reinsurance assumed	593,102		593,102	
<b>Total Liabilities</b>	<b>78,884,760</b>	<b>0</b>	<b>78,884,760</b>	
Common capital stock	1,100,000		1,100,000	
Gross paid-in and contributed surplus	2,200,000		2,200,000	
Unassigned funds (surplus)	54,375,640		54,375,640	
Surplus as regards policyholders	57,675,640	0	57,675,640	
<b>Total Liabilities, Capital, and Surplus</b>	<b>\$ 136,560,400</b>	<b>\$ 0</b>	<b>\$ 136,560,400</b>	

## ATLANTIC CHARTER INSURANCE COMPANY

**Statement of Income**  
**for the Year Ended December 31, 2005**

	Per Company	Examination Changes	Per Examination	Notes
Premiums earned	\$ 43,639,752	\$ 0	\$ 43,639,752	
Deductions:				
Losses incurred	19,985,475		19,985,475	
Loss expenses incurred	9,939,624		9,939,624	
Other underwriting expenses incurred	10,179,555		10,179,555	
Total underwriting deductions	40,104,654	0	40,104,654	
Net underwriting gain	3,535,098	0	3,535,098	
Net investment income earned	4,566,482		4,566,482	
Net realized capital gains	403,822		403,822	
Net investment gain	4,970,304	0	4,970,304	
Net gain (loss) from agents' or premium balances charged off	(168,882)		(168,882)	
Total other income	(168,882)	0	(168,882)	
Net income before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes	8,336,520		8,336,520	
Dividends to policyholders	922,368		922,368	
Net income, after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes	7,414,152		7,414,152	
Federal and foreign income taxes incurred	1,657,118		1,657,118	
Net Income	\$ 5,757,034	\$ 0	\$ 5,757,034	

## ATLANTIC CHARTER INSURANCE COMPANY

**Reconciliation of Capital and Surplus  
for Each Year in the Five Year Period Ended December 31, 2005**

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Surplus as regards policyholders as of December 31, prior year	\$ 54,871,644	\$ 55,410,318	\$ 57,077,304	\$ 55,840,513	\$ 54,564,521
Net income	5,757,034	3,782,697	5,697,763	2,362,738	(492,433)
Change in net unrealized capital gains or (losses)	11,426	693,979	(406,921)	(856,616)	2,054,706
Change in net deferred income tax	(709,581)	244,397	2,000,842	(367,165)	
Change in non-admitted assets	2,969,117	(759,747)	(3,308,670)	(216,766)	(286,281)
Cumulative effect of changes in accounting principles				1,814,600	
Dividends to stockholder	<u>(5,224,000)</u>	<u>(4,500,000)</u>	<u>(5,650,000)</u>	<u>(1,500,000)</u>	
Net change in surplus as regards policyholders for the year	<u>2,803,996</u>	<u>(538,674)</u>	<u>(1,666,986)</u>	<u>1,236,791</u>	<u>1,275,992</u>
Surplus as regards policyholders as of December 31, current year	<u>\$ 57,675,640</u>	<u>\$ 54,871,644</u>	<u>\$ 55,410,318</u>	<u>\$ 57,077,304</u>	<u>\$ 55,840,513</u>

**NOTES TO FINANCIAL STATEMENT****NOTE 1:**

<u>Losses</u>	<u>\$ 55,801,016</u>
<u>Loss Adjustment Expenses</u>	<u>\$ 4,821,564</u>

As part of the examination, the Division engaged the consulting actuarial services of Milliman, Inc. The consulting actuaries for the Division performed an independent actuarial review of the loss and loss adjustment expense reserves carried by the Company, by EIC, and by ICIC and rendered an opinion on the reasonableness of the reserves carried by the Company, by EIC, and by ICIC, as of December 31, 2005. Their review also included a review of the reasonableness of the assumptions, selections, and methodologies used by E&Y in its actuarial report on the calculation of the reserve estimates for the Company.

Based on their own independent review, the consulting actuaries from Milliman estimated the gross loss and loss adjustment expense liabilities for the Company as of December 31, 2005, at \$55.93 million, with a range of reasonable gross loss and loss adjustment expense reserves which spans from a low of \$48.22 million to a high of \$61.76 million. On a gross basis for loss and loss adjustment expense reserves as of December 31, 2005, the following table summarizes Milliman's reserve ranges and selected point estimate reserve and also E&Y's reserve ranges and selected point estimate reserve:

**Gross Loss and Loss Adjustment Expense Reserves**

( 000 omitted ) Reserve Category	Estimates by Milliman			Estimates by E & Y		
	Low	Point	High	Low	Point	High
Loss + ALAE *	32,407	38,118	41,941	36,344	39,869	43,395
ULAE #	<u>9,661</u>	<u>10,983</u>	<u>12,305</u>	<u>9,661</u>	<u>10,983</u>	<u>12,305</u>
Loss + LAE	42,068	49,101	54,246	46,005	50,852	55,700
MaWCARP	6,150	6,833	7,516	6,150	6,833	7,516
Total Loss + LAE	48,218	55,934	61,762	52,155	57,685	63,216

Similarly, on a net basis, the consulting actuaries from Milliman reported that as of December 31, 2005, the Company recorded statutory-basis loss and loss adjustment expense reserves, net of reinsurance recoverables, of \$60.62 million. Based on its own independent review, Milliman estimated the Company's net loss and loss adjustment expense liabilities as of December 31, 2005, at \$54.90 million, with a range of reasonable net loss and loss adjustment expense reserves which spans from a low of \$47.29 million to a high of \$60.63 million. On a net basis, the following table summarizes Milliman's reserve ranges and selected point estimate reserve, E&Y's reserve ranges and selected point estimate reserve, and the Company's carried loss and loss adjustment expense reserves as of December 31, 2005.

## ATLANTIC CHARTER INSURANCE COMPANY

## Net Loss and Loss Adjustment Expense Reserves

( 000 omitted ) Reserve Category	Estimates by Milliman			Estimates by E & Y			Company Carried
	Low	Point	High	Low	Point	High	
Loss + ALAE *	31,478	37,086	40,806	34,021	37,698	41,376	
ULAE #	<u>9,661</u>	<u>10,983</u>	<u>12,305</u>	<u>9,661</u>	<u>10,983</u>	<u>12,305</u>	
Loss + LAE	41,139	48,069	53,111	43,682	48,681	53,681	53,789
MaWCARP	6,150	6,833	7,516	6,150	6,833	7,516	6,833
Total Loss + LAE	47,289	54,902	60,627	49,832	55,514	61,197	60,622

Note: ULAE was estimated by E&Y and MaWCARP was estimated by the Company.

\* ALAE Reserves = Allocated Loss Adjustment Expense Reserves

# ULAE Reserves = Unallocated Loss Adjustment Expense Reserves

In the course of analyses, Milliman used several accepted loss reserving methods and procedures to derive reserve estimates and to construct ranges. Milliman gave consideration to the relative strengths and weaknesses of each of the methods in deriving its selected point estimate within the range. Milliman noted that the range of reasonable reserve estimates does not reflect all possible outcomes; rather, it is a range that has been constructed using alternative methodologies and assumptions believed to be reasonable. Actuaries of Milliman concluded that based upon their review, they believe that the gross and net loss and loss adjustment expense reserves estimated by E&Y and carried by the Company as of December 31, 2005, are reasonable.

In its Report, Milliman detailed the reserve position of EIC and ICIC similarly to the above presentation for loss and loss adjustment expense liabilities as of December 31, 2005. Whereas Milliman demonstrated that the Company's reserve position was conservative and that participation in the inter-company reinsurance agreement caused the Company to carry the net reserves for the three affiliated insurance companies, the summaries of Milliman's analyses for EIC and ICIC are not presented in this Report of Examination.

**NOTE 2:**

<u>Commissions Payable, Contingent Commissions, and Other Similar Charges</u>	<u>\$ 188,111</u>
<u>Other Expenses</u>	<u>\$ 0</u>

In its 2005 Annual Statement, the Company reported \$188,111 as the liability for other expenses on Page Three. This balance was composed of amounts of commissions payable and actually should have been reported on Page Three under that line item.

**COMMENTS AND RECOMMENDATIONS**

**Investment  
Reports to  
the Board**

Minutes of meetings of the board of directors and its Investment Committee recorded the actions of the directors and Committee members in regard to voting and ratification of investment activity. The minutes did not contain copies of the investment schedules which were presented to the directors for their consideration as required by Section 64 of MGL Chapter 175. It is recommended that copies of the investment schedules presented to directors for their consideration be maintained in the minutes of meetings in order to comply with the related statute.

**Business  
Continuity**

The Company indicated that it has an informal plan in place to deal with recovery and continuity of operations. It is recommended that the Company document and test its business contingency, recovery, and continuity plans in order to provide for continuity of management and operations in the event of a catastrophe or national emergency in accordance with Sections 180M through 180Q of MGL Chapter 175.

**Escheat  
Filings**

Though the Company follows a planned methodology for resolving outstanding checks, the examination was unable to determine how effectively the Company cleared its older outstanding checks and if any of these amounts were subject to the escheat statutes of Massachusetts. The Company indicated that it had no amounts which were escheatable to Massachusetts for the period of examination. The Company, however, failed to comply with MGL Chapter 200A which requires a declaration form to be filed annually with the Treasurer of the Commonwealth of Massachusetts. The Company has now filed such form with the Treasurer's Office for 2005. It is recommended that the Company comply with the cited statute by filing the prescribed disclosure forms annually with the Commonwealth of Massachusetts and maintain better documentation of its activities in clearing outstanding checks.

**Commission  
s  
Payable**

On Page Three of its 2005 Annual Statement, the Company incorrectly listed the balance for commissions payable as the liability for other expenses. It is recommended that the Company report such balances on the appropriately identified lines in future annual statements.



**CONCLUSION**

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by the following Division examiners who participated in this examination hereby is acknowledged:

Linda Dow  
Algernon Flowers  
Brian Knowlton

Examiner II  
Examiner II  
Examiner II

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Richard D. Looney, AFE, CIE  
Examiner-in-Charge  
Commonwealth of Massachusetts

---

Ralph J. Ciaramella, Jr.  
Supervising Examiner  
Commonwealth of Massachusetts

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John A. Turchi, CFE, CPCU  
Supervising Examiner  
Commonwealth of Massachusetts