THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION

OF THE

AUTOMOTIVE INDUSTRIES COMPENSATION CORPORATION

D/B/A INSURANCE/FUTURECOMP

123 INTERSTATE DRIVE

WEST SPRINGFIELD, MASSACHUSETTS 01089

As of DECEMBER 31, 2010

N.A.I.C. GROUP CODE NONE

N.A.I.C. COMPANY CODE NONE

EMPLOYER ID NUMBER 04-3259998

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May 23, 2012

The Honorable Joseph G. Murphy
Commissioner of Insurance
The Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Commissioner Murphy:

Pursuant to your specific instructions and by authority of Section 25I, of Chapter 152 of Massachusetts General Laws ("MGL"), an examination has been made of the transactions and financial condition as of December 31, 2010, of the

AUTOMOTIVE INDUSTRIES COMPENSATION CORPORATION

at its main administrative office located at c/o TD Insurance/FutureComp, 123 Interstate Drive, West Springfield, Massachusetts 01090. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Automotive Industries Compensation Corporation, (herein after referred to as "AICC" or the "Group") was last examined by the Massachusetts Division of Insurance ("Division") as of December 31, 2007. The present examination of the Group was conducted by the Division and covers the transactions of the Group from January 1, 2008, through December 31, 2010, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of the examination.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to Massachusetts regulations.

All accounts and activities of the company were considered in accordance with the risk-focused examination process.

In addition to a review of the financial condition of the Group, the examination included a review of the Group's business policies and practices, available corporate records, reinsurance treaties, fidelity bonds and other insurance, and other pertinent matters to provide reasonable assurance that the Group 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 Group has been audited annually by Shores, Tagman, Butler & Co., P.A., an independent certified public accounting firm. The firm expressed unqualified opinions on the Group's statutory financial reports for each of the three years under examination. Review and use of the certified public accountants work papers were made to the extent deemed appropriate and effective.

This Report of Examination is written on an exception basis.

Status of Findings of the Prior Examination

Reportable findings: None

HISTORY

The Group was organized on December 27, 1994, and commenced business within the Commonwealth of Massachusetts on January 1, 1995, pursuant to and in accordance with Massachusetts General Law, Chapter 180, to establish a not-for-profit association of employers to constitute a workers' compensation self-insurance group. The Group was created consistent with Massachusetts General Law, Chapter 152, and Section 25E through 25U and 211 Commonwealth of Massachusetts Regulation 67 to provide workers' compensation coverage for a group of eligible companies which are engaged in the automotive industry.

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During the period under review, the Group has engaged FutureComp a registered trademark of TD Insurance, Inc. (the "Administrator") to perform and manage the day-to-day activities of the Group through a written administrative services agreement.

TERRITORY AND PLAN OF OPERATION

The Group is a self-insurance group permitted to transact workers' compensation business only in the Commonwealth of Massachusetts.

MANAGEMENT

Pursuant to the bylaws, the affairs of the Group shall be managed by the Board of Directors, who shall have and may exercise all the powers of the Group except those powers reserved to the members by law, the Articles of Organization or the By-laws. To assist in the management of the Group, the Board of Directors shall appoint an Administrator to perform and manage the day-to-day activities of the Group. The Board of Directors shall have the power to adopt and issue rules, regulations, policies and procedures which shall be binding upon the members and the Administrator.

Corporate Records

The Articles of Organization and Bylaws were reviewed. The minutes of the Board of Directors were reviewed for the period under examination. For that period, votes and authorizations were found to be in order and the records indicated that the group appeared to be conducting its affairs in compliance with its By-laws and the laws of the Commonwealth of Massachusetts.

Annual Meeting

According to the By-laws as amended, the annual meeting of the members shall be held on the third Tuesday of September or such date as may be designated by the Board of Directors, of each year or, if the date is a legal holiday in the place where the meeting is to be held, then on the next succeeding day not a legal holiday.

Board of Directors

In accordance with the Group's By-laws, the Board of Directors shall at any time consist of a number of individuals not to exceed the number of Members of the corporation at the time, but in no event fewer than three (3). At least one (1) Director shall be an employee, officer, or director of Automotive Wholesalers Association of New England. Each director holds office for a term of three years. Upon expiration or resignation their successor is elected at the next annual meeting.

The members of the Board of Directors serving as of December 31, 2010, were as follows:

Name of Director	Affiliation
Steven R. Barbanel	Gold Standard Automotive, Inc.
Rita Louise Bousquet	Auburn Auto Parts, Inc.

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Richard T. Delaney	Dave Delaney's Columbia
Michael J. Gardner	Penta-G Corporation
Jack Goldstein	Chairman, AWANE* Insurance Committee
Richard T. Healy	President, AWANE*
William E. Johnson	Pleasant Street Auto Body & Repair, Inc.
Michael Lindley	McMar, Inc.
Ronald Roucoulet	AWANE*
Charles Slotnick	ALCO Auto Parts Company, Inc.
Mark Wagner	Wagner & Wagner Auto Sales, Inc.
Irwin H. Young	Central Auto Warehouse Corporation

Note: *Automotive Wholesalers Association of New England (AWANE) is the sponsoring association for AICC.

At any meeting of the Directors, a majority of the Directors then in office shall constitute a quorum. A quorum of Directors was not present at the first quarterly meeting held on March 6, 2008. The minutes indicated that a quorum was obtained at all of the other meetings of the Board of Directors held during the examination period

In accordance with provisions of 211 CMR 67.07 (1) all Directors serving are residents of the Commonwealth or officers of corporations authorized to do business in the Commonwealth.

Officers

Pursuant to the bylaws, the officers of the Group shall consist of a President, Treasurer, Clerk and such other officers, if any, as the Board of Directors may determine. A person may hold more than one office at the same time. The officers shall be elected annually by the Board of Directors at their first meeting following the annual meeting of the members. The President and Treasurer of the corporation must be Directors; the Clerk need not be a Director.

The elected officers and their respective titles at December 31, 2010, follow:

Name of Officers	Title
Michael Lindley	President
Michael Lindley	Treasurer
Irwin H. Young	Vice President
Irwin H. Young	Secretary

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Conflict of Interest Procedures

The Group has adopted a policy statement pertaining to conflict of interest in accordance with Question 17 of the General Interrogatories of the Annual Statement. The Group has an established procedure for the disclosure to the Board of Directors of any material interest or affiliation on the part of any officer or Director which is in or is likely to conflict with their official duties.

DISASTER RECOVERY and BUSINESS CONTINUITY

The Administrator has a formal disaster plan for the continuity of the Group's business operations in the event of any disaster. The total recovery effort is governed by the TD Bank Insurance Business Continuity Plan. The plan was made available to the examiner for review and determined to have addressed adequately the process in which to resume certain critical business functions of the Group.

FIDELITY BONDS AND OTHER INSURANCE

In accordance with MGL Chapter 152, Section 25G and 211 CMR 67.10, the Group's Administrator maintains fidelity coverage with an authorized Massachusetts insurer. The aggregate limit of liability provides coverage above the prescribed minimum set forth by the NAIC's schedule of suggested minimum amounts of fidelity insurance.

211 CMR 67.08 (2)(d), states that the Group shall have a security deposit or bond not less than $100,000 and any securities or certificates of deposit shall have a remaining maturity of one year or less from their time of purchase. At December 31, 2010, the Group had a certificate of deposit pledged to the Commonwealth of Massachusetts in the amount of $575,200.

EXCESS INSURANCE

The Group follows a general procedure of insuring exposures which exceed specified limits.

The Group maintains specific and aggregate excess workers compensation and employers liability indemnity policies with two unaffiliated excess insurance carriers authorized to transact reinsurance in the Commonwealth of Massachusetts. They are rated (A+) and (A) by A.M. Best Company. Under the policies, the Group initially retained the first $250,000 of each occurrence and subsequently increased their per occurrence retention limit to $775,000 at December 31, 2010, on each individual accident. The Group has an aggregate limit of $5 million.

The Group remains primarily liable for its obligations under its reinsurance contracts. In the event the reinsurer would be unable to pay its portion of any losses incurred, the Group would be liable for such obligations.

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ACCOUNTS AND RECORDS

The trial balances, general ledgers and audited financial statements provided by the Group were reviewed for the years ending December 31, 2008, through December 31, 2010. The financial accounting records are processed and maintained by FutureComp automated administrative system. An independent statutory accounting specialist is utilized to review the financial records and to prepare the quarterly filings to the Division of Insurance. The system supports statutory reporting and accounting requirements as set by the NAIC for the Group's business operations.

General ledger account balances were reconciled and traced to amounts reported in the Annual Statement for 2010. All balance sheet accounts were summarized and traced to the appropriate asset exhibits and liability lines within the Group's Annual Statement. Selected income and expense allocations and postings were sampled and verified for reasonableness.

The internal control structure for the Group and for selected accounting streams was discussed with the Administrator. Reliance upon the controls was utilized as appropriate in the selection of examination procedures.

FINANCIAL STATEMENTS

The following financial statements comply with Statements of Statutory Accounting Principles promulgated by the NAIC in its Accounting Practices and Procedures Manual and with practices prescribed or permitted by the Massachusetts Division of Insurance which adopted the codification of statutory accounting principles effective January 1, 2001.

These financial statements reflect the Group's assets and liabilities as determined by the examination, which include a review of the following:

Statement of Assets and Liabilities as of December 31, 2010
Statement of Income for the year ended December 31, 2010

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Statement of Admitted Assets Liabilities
As of December 31, 2010

Assets	Per Statement	Adjustments	Per Examination	Note
Bonds	$6,506,193		$6,506,193	
Cash	1,142,484		1,142,484	
Investment income due & accrued	59,360		59,360	
Other receivables	81,357		81,357	
Total Assets	$7,789,394		$7,789,394	

Liabilities	Per Statement	Adjustments	Per Examination	Note
Losses	$2,666,772		$2,666,772	1
Loss adjustment expense	293,038		293,038	1
Other expenses	27,676		27,676	
Taxes, licenses and fees	20,927		20,927	
Dividends unpaid	4,769,358		4,769,358	
Payable to members	11,623		11,623	
Total Liabilities	$7,789,394		$7,789,394	

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Statement of Income
As of December 31, 2010

	Per Statement	Adjustments	Per Examination	Note
Underwriting Income	$3,863,511		$3,863,511	
Losses incurred	2,059,934		2,059,934	
Loss adjustment expenses incurred	395,643		395,643	
Other underwriting expenses incurred	821,304		821,304	
Total underwriting deductions	3,276,881		3,276,881	
Net underwriting gain (loss)	586,630		586,[illegible]	
Net investment Income earned	187,138		187,138	
Net realized capital gains (losses)	163,293		163,293	
Net investment gain (loss)	350,431		350,431	
Net income (loss) before dividends to policyholders	937,061		937,061	
Dividends to policyholders	937,061		937,061	
Net income (loss) after dividends to policyholders	$0		$0	

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NOTES TO FINANCIAL STATEMENTS

Note 1

Losses and loss adjustment expenses	$2,959,810

The Group establishes reserves based upon the case basis estimates of its claims and an analysis of loss and loss adjustment expense reserves performed on an annual basis by an independent actuarial consulting firm, Milliman, Inc. This review is in turn relied upon by the Group's certified public accountants. The Massachusetts Division of Insurance has reviewed documentation of the Group's loss and loss adjustment expense reserves, and has relied on the opinion of this independent and qualified expert as deemed appropriate.

The reserve for unpaid losses and loss adjustment expenses includes an estimated provision for incurred but not reported losses (IBNR) as well as reported losses. The IBNR provision totaled approximately $2,165,525 on an undiscounted basis as of December 31, 2010.

The net loss and loss adjustment expense reserves reported have been discounted using a discount factor not less than the discount factor that would result from use of the interest rate and loss pattern prescribed by and under section 846 of the Internal Revenue Code of 1986, as amended. Such discounting of loss and loss adjustment expense is permitted by Massachusetts' Regulation 211 CMR 67.08 (2).

The unpaid losses and loss adjustment expenses were discounted approximately $494,195 for a net carried reserve of $2,959,810 at December 31, 2010.

Note 2

Commitment and Contingencies

The Group has entered into a restated application and indemnity agreement with each member to provide risk management services and workers' compensation insurance. The agreement stipulates, among other things, that each member is jointly and severally liable for the workers' compensation obligations of the Group and its members which were incurred during the member's period of membership in the Group, irrespective of the subsequent termination of the member's membership in the Group, the insolvency of bankruptcy of another member of the Group, or other facts or circumstances. Accordingly, the financial viability of the Group is contingent upon the financial viability of the individual members.

The Group does not have any pending legal proceedings. The Group does not have any material contingent liabilities as of the Annual Statement date.

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CONCLUSION

We have applied verification procedures to the data contained in this report using substantive statistical sampling techniques as deemed appropriate. While sampling techniques do not give complete assurance that all errors and irregularities will be detected, those that were detected during the course of this examination have been disclosed in this report. We were not informed of, and did not become aware of, any other error or irregularity that could have a material effect on the financial condition of the Group as presented in this report.

ACKNOWLEDGMENT

The examiners hereby express their appreciation to the Group and its Administrator for their courteous cooperation throughout the examination.

The undersigned examiners gratefully acknowledge the participation of Massachusetts Insurance Examiner II Daniel R. Dowd in this examination.

Respectfully submitted,

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