

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

REPORT OF EXAMINATION OF THE
BUNKER HILL INSURANCE COMPANY

Boston, Massachusetts

As of December 31, 2017

NAIC GROUP CODE 0415

NAIC COMPANY CODE 10394

EMPLOYER ID NUMBER 04-3292991

BUNKER HILL INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

May 24, 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 an examination has been made of the financial condition and affairs of

BUNKER HILL INSURANCE COMPANY

at its home office located at 695 Atlantic Avenue, Boston, Massachusetts 02111. The following report thereon is respectfully submitted.

Bunker Hill Insurance Company

SCOPE OF EXAMINATION

Bunker Hill Insurance Company ("BHIC" or the "Company") was last examined as of December 31, 2012 by the Massachusetts Division of Insurance (the "Division"). The current examination was also conducted by the Division, and covers the 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.

Concurrent with this examination, the following insurance affiliates in the Plymouth Rock Company Group were also examined and separate Reports of Examination have been issued:

Plymouth Rock Assurance Corporation ("PRAC")
Pilgrim Insurance Company ("PIC")
Bunker Hill Insurance Casualty Company ("BH Cas")
Bunker Hill Preferred Insurance Company ("BH Pref")
Bunker Hill Property Insurance Company ("BH Prop")
Bunker Hill Security Insurance Company ("BH Sec")

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 the calendar years 2013 through 2017. A review and use of the certified public accountants' work papers was made to the extent deemed appropriate and effective. Representatives from the firm Risk & Regulatory Consulting LLC ("RRC") were retained by the Division to assist in the examination by performing certain examination procedures at the direction

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and under the overall management of the Division's examination staff. Additional assistance included a review of information systems and information technology general controls ("ITGC's") and a review of the actuarially determined loss and loss adjustment expense reserves, as well as other significant actuarial estimates.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

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. There were no significant recommendations noted by the examination team in the previous report of examination.

COMPANY HISTORY

General

The Company, a privately held stock company, was incorporated on December 13, 1995 under the laws of the Commonwealth of Massachusetts and commenced business on May 1, 1996. The Company is authorized to issue policies for fire, ocean & inland marine, liability other than auto, glass, water damage and sprinkler leakage, burglary, robbery, theft, repair-replacement, stock companies (extension of coverage), reinsurance except life, personal property floater, and dwellings.

The Company is authorized to transact business in Connecticut and Massachusetts.

On December 21, 2016, three new wholly-owned subsidiaries of the Company were established to write homeowners insurance in Massachusetts: BH Pref, BH Prop and BH Sec. These companies began writing homeowners insurance policies in February 2017.

BHIC is a wholly owned subsidiary of The Plymouth Rock Company Incorporated ("PRC" or the "Parent").

Capital Stock

During 2014 and 2016, the Company declared and paid distributions to its Parent of \$3,000,000 and \$1,000,000 respectively from the Company's gross paid and contributed surplus. These transactions were approved by the Division.

Dividends

There were no dividends declared during the period under examination.

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board of Directors, or consent actions in lieu of meetings, and minutes of its Committee meetings for the period under examination were read, and they indicated that all actions were taken in accordance with the Company's bylaws and the Laws of the

Bunker Hill Insurance Company

Commonwealth of Massachusetts. Activities of the Committees were ratified by the Board of Directors.

Articles of Organization and Bylaws

The bylaws and Articles of Organization and amendments thereto were read. On November 16, 2000, an amendment to the Company's Articles of Organization filed in accordance with Massachusetts General Law, Chapter 156B, Section 6, was approved by the Massachusetts Commissioner of Insurance. The approved amendment changed the par value of the stock from \$0.01 per share to \$100.00 per share and increased the total number of shares issued from 9,000 to 10,000. The bylaws were updated during 2014 to reflect minor formatting and word changes.

Board of Directors

According to the bylaws, the Company's business shall be managed by a Board of Directors which may exercise all of the powers of the Company except as otherwise provided by the Articles of Organization, by law, or by the bylaws. The Board of Directors shall consist of not fewer than five Directors with the number to be determined at each Annual Meeting by vote of the stockholders. Each Director shall hold office until the next Annual Meeting. Upon death, removal, or resignation, his or her successor shall be elected by either the stockholders or the Directors.

As of December 31, 2017, the Company's Board was comprised of five Directors as follows:

<u>Name of Director</u>	<u>Title</u>
Harold Ronnie Belodoff	Chairman, BHIC Board of Directors; President and Chief Operating Officer, PRC
Wilbur Lincoln Martin IV	President & Chief Executive Officer, BHIC
Kerry Andrew Emanuel	Professor of Atmospheric Science, Massachusetts Institute of Technology
Colleen Mary Granahan	Vice President, Counsel to the Chairman, PRC
Scott Norman Kwiker	Chief Product Officer, PRAC

Committees of the Board of Directors

The bylaws allow the Directors to elect from their number an Executive Committee and such other committees as they may determine, and delegate to any such committees some or all of the powers of the Directors except those are prohibited by delegating. There were no committees of the BHIC Board of Directors during the examination period except for the Compensation Committee. However, the Company's parent Board, the Plymouth Rock Company Incorporated ("PRC"), established the Audit Committee and Enterprise Risk Committee to fulfill the functions on behalf of the Company. In addition, PRC's Investment Committee is charged with authorizing and approving investments for the Company consistent with the Investment Guidelines adopted by the Board. The membership includes Directors Bailey and Director Belodoff.

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 elect or appoint. Pursuant to the

Bunker Hill Insurance Company

bylaws, the officers of the Company shall be elected by the Board of Directors at its first meeting after the Annual Meeting. If any office becomes vacant, the Board of Directors may elect a successor.

Officers of the Company at December 31, 2017 were as follows:

<u>Name of Officer</u>	<u>Title</u>
Wilbur Lincoln Martin IV	President and Chief Executive Officer
William Daniel Hartranft	Treasurer
Colleen Mary Granahan	Secretary
Daniel Carey Barrett	Vice President
Courtland John Troutman	Vice President

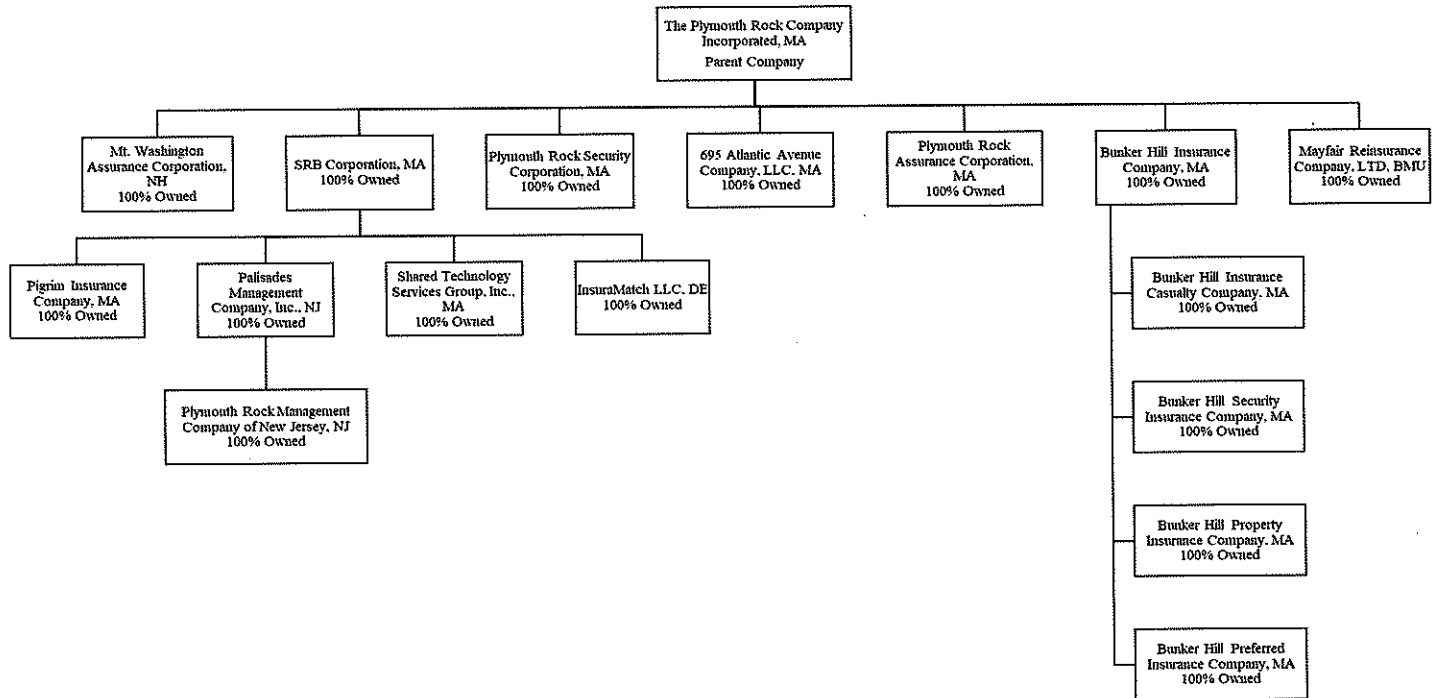
Affiliated Companies

As stated in the Insurance Holding Company System Form B as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of Massachusetts General Laws, Chapter 175, Section 206C, and 211 CMR 7.00. The Plymouth Rock Company Incorporated is the "ultimate controlling person" of the holding company system.

Bunker Hill Insurance Company

Organization Chart

At December 31, 2017, Bunker Hill Insurance Company and its operating subsidiaries and affiliated companies were members of the following organizational structure:



Transactions and Agreements with Affiliates

Administrative Services Agreements

The Company receives certain accounting, data processing, actuarial, management, and other services from its affiliates. Service fees are paid pursuant to the terms of inter-company service agreements previously approved by the Division.

Investment Management Agreement

Affiliate SRB Corporation provides investment advising services to the Company and other affiliates, among other services. Investment expenses are paid to SRB Corporation pursuant to the terms of an investment agreement previously approved by the Division.

Tax Sharing Agreement

The Company participates in a tax allocation agreement with its eligible affiliates. The allocation method is based upon the respective tax liability of each member computed as if a separate return were filed, in accordance with the Internal Revenue Code. Inter-company tax balances are settled quarterly and after the tax filing is made in October.

Bunker Hill Insurance Company

Capital Support Agreement

During 2007, the Company entered into a Statutory Capital Support Agreement with its Parent, the Plymouth Rock Company Inc. The agreement was renewed multiple times, most recently in 2016. The agreement stated that at any time during the period from July 1, 2016 to June 30, 2017 that BHIC's surplus as regards policyholders fell below \$20 million, the Parent would make a capital contribution to BHIC not to exceed \$5.1 million. The agreement expired on June 30, 2017 and has not been renewed.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in Massachusetts and Connecticut. The Company's principal line of business is homeowners insurance provided primarily to personal risks through its appointed independent agents.

Treatment of Policyholders – Market Conduct

The Division's Market Conduct Section is initiating a comprehensive market conduct examination of the Plymouth Rock Group as of December 31, 2018. The results of the examination were not available at the time of this report.

REINSURANCE

Intercompany Pooling Agreements

Prior to January 1, 2017, BHIC and BH Cas were party to an intercompany pooling agreement. Under this agreement, BHIC assumed 100% of the net liabilities arising from underwriting of the two companies. The liabilities were combined and subsequently ceded to the entities as follows during 2016:

Bunker Hill Insurance Company:	76%
Bunker Hill Insurance Casualty Company:	24%

Effective January 1, 2017, BHIC entered into an intercompany pooling agreement with BH Cas, BH Pref, BH Prop, and BH Sec covering all lines of business. Under this agreement, BHIC assumes 100% of the net liabilities arising from underwriting of the five companies. The liabilities are combined and subsequently ceded to the entities as follows:

Bunker Hill Insurance Company:	20%
Bunker Hill Insurance Casualty Company:	20%
Bunker Hill Preferred Insurance Company:	20%
Bunker Hill Property Insurance Company:	20%
Bunker Hill Security Insurance Company:	20%

Effective July 1, 2017, the BHIC Group, consisting of the five Bunker Hill entities, entered into a catastrophe excess of loss reinsurance layer with PRAC, certain other entities managed by an affiliate of the Company, and an unaffiliated reinsurer under which participants cede in catastrophe

Bunker Hill Insurance Company

losses in excess of a retention and assume an amount of the layer's total catastrophe losses at participation rates that were proportional to each entity's surplus at the time the layer was established. Prior to July 1, 2017, PRAC participated as a reinsurer at approximately 20% on the catastrophe excess of loss reinsurance program for BHIC and other entities managed by an affiliate of the Company.

Ceded Reinsurance

The Company maintains various other reinsurance treaties with numerous insurers in the ordinary course of business in order to manage risk.

Assumed Reinsurance

In addition to the pooling agreements mentioned above, the Company assumes business from the MA and CT FAIR Plans.

Bunker Hill 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, 2017. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds 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

Bunker Hill Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2017

	Per Annual Statement
ASSETS	
Bonds	\$ 6,733,763
Common stock	27,745,232
Cash, cash equivalents, and short-term investments	6,323,607
Other invested assets	2,402,003
Subtotals, cash and invested assets	<u>43,204,605</u>
Investment income due and accrued	191,350
Uncollected premiums and agents' balances in course of collection	965,509
Deferred premiums and agents' balances and installments booked but deferred and not yet due	4,058,935
Amounts recoverable from reinsurers	679,931
Funds held by or deposited with reinsured companies	170,533
Net deferred tax asset	156,763
Receivable from parent, subsidiaries and affiliates	150,120
Aggregate write-ins for other than invested assets	<u>6,162,210</u>
Total Assets	<u><u>\$55,739,956</u></u>

Bunker Hill Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds (Continued) as of December 31, 2017

	Per Annual Statement
LIABILITIES	
Losses	\$1,319,941
Reinsurance payable on paid losses and loss adjustment expenses	62,766
Loss adjustment expenses	432,003
Commissions payable, contingent commissions and other similar charges	1,810,698
Other expenses	1,696,424
Taxes, licenses and fees	163,658
Current federal and foreign income taxes	810,846
Unearned premiums	3,477,487
Advance premium	887,663
Ceded reinsurance premiums payable	1,418,023
Funds held by company under reinsurance treaties	202,095
Remittances and items not allocated	(49,773)
Payable to parent, subsidiaries and affiliates	2,182,521
Payable for securities	2,279,616
Aggregate write-ins for liabilities	4,403,410
Total Liabilities	21,097,378
Common capital stock	1,000,000
Gross paid in and contributed surplus	8,910,000
Unassigned funds (surplus)	24,732,578
Surplus as regards policyholders	34,642,578
Total Liabilities, Surplus and Other Funds	\$55,739,956

Bunker Hill Insurance Company

Statement of Income For the Year Ended December 31, 2017

	Per Annual Statement
Underwriting Income	
Premiums earned	\$4,997,924
Deductions	
Losses	1,406,888
Loss adjustment expenses incurred	572,560
Other underwriting expenses incurred	1,724,133
Total underwriting deductions	3,703,581
Net underwriting gain (loss)	1,294,343
Investment Income	
Net investment income earned	408,040
Net realized capital gains or (losses)	1,217,865
Net investment gain (loss)	1,625,905
Other Income	
Net gain (loss) from agents' or premium balances charged off	(27,200)
Finance and service charges not included in premiums	190,401
Total other income	163,201
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	3,083,449
Federal and foreign income taxes incurred	603,470
Net income	<u>\$2,479,979</u>

Bunker Hill 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	\$29,177,429	\$24,578,135	\$27,912,494	\$25,989,603	\$22,453,687
Net income	2,479,979	3,893,048	1,584,621	2,198,715	1,959,260
Change in net unrealized capital gains or (losses) less capital gains tax	3,599,154	(437,287)	(3,018,370)	2,184,706	1,585,589
Change in net deferred income tax	(674,859)	(198,722)	(1,003,367)	597,526	174,809
Change in nonadmitted assets	60,875	1,233,034	211,978	(58,056)	(183,742)
Change in provision for reinsurance	0	1,109,221	(1,109,221)	0	0
Surplus adjustments: Paid in	0	(1,000,000)	0	(3,000,000)	0
Change in surplus as regards policyholders for the year	5,465,149	4,599,294	(3,334,359)	1,922,891	3,535,916
Surplus as regards policyholders, December 31 current year	\$34,642,578	\$29,177,429	\$24,578,135	\$27,912,494	\$25,989,603

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no changes in the financial statements resulting from the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

As a result of the examination, no significant issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

The Division engaged consulting actuaries from Risk & Regulatory Consulting, LLC to review the reasonableness of the losses and loss adjustment expense reserves ("Reserves") of the Company as of December 31, 2017. The review was conducted in a manner consistent with the Code of Professional Conduct and Qualification Standards of the American Academy of Actuaries and the Standards of Practice adopted by the Actuarial Standards Board.

RRC's actuarial review utilized year-end paid and incurred loss data developed through December 31, 2017. The table below summarizes a comparison of RRC's range of reasonable net estimates for the Reserves to the Company's net carried reserves as of December 31, 2017.

<u>Bunker Hill Insurance Company</u> (000's omitted)					
<u>RRC Estimates</u>					
	<u>Low</u>	<u>Indicated</u>	<u>High</u>	<u>Total Carried</u>	<u>(Deficiency) Vs. Indicated</u>
Net Loss & LAE	\$1,488	\$1,567	\$1,723	\$1,752	\$185
<u>Appointed Actuary Estimates</u>					
	<u>Low</u>	<u>Indicated</u>	<u>High</u>	<u>Total Carried</u>	<u>(Deficiency) Vs. Indicated</u>
Net Loss & LAE	N/A	\$1,567	N/A	\$1,752	\$185

The Company's total net carried reserves are above RRC's high point by approximately 1.68%. This amount was deemed acceptable, and RRC concludes the Company's reserves are a reasonable estimate of their ultimate liability.

SUBSEQUENT EVENTS

PRC contributed \$4.0 million of capital to the Company during 2018. In March 2019, the Company contributed \$1.4 million of capital to BHICC and \$1.7 million to each BH Pref, BH Prop and BH Sec.

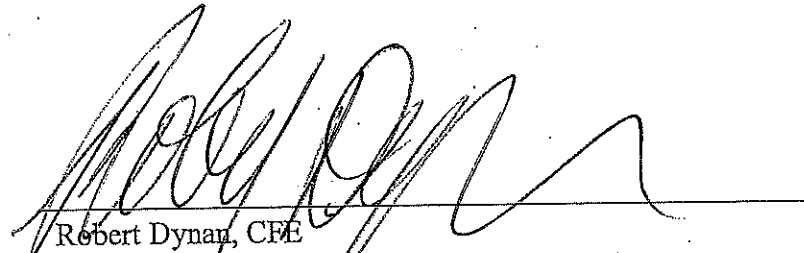
SUMMARY OF RECOMMENDATIONS

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 Risk & Regulatory Consulting, LLC who participated in the examination is hereby acknowledged.



Robert Dynan, CFE
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance