



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

REPORT OF EXAMINATION OF THE
BUNKER HILL PROPERTY INSURANCE COMPANY

Boston, Massachusetts

As of December 31, 2017

NAIC GROUP CODE 0415

NAIC COMPANY CODE 16036

EMPLOYER ID NUMBER 81-4241799

BUNKER HILL PROPERTY INSURANCE COMPANY

TABLE OF CONTENTS

Page

| | |
|--|----|
| Salutation | 1 |
| Scope of Examination | 2 |
| Summary of Significant Findings of Fact | 3 |
| Company History | 3 |
| General | 3 |
| Capital Stock | 3 |
| Dividends | 3 |
| Management and Control | 3 |
| Board of Directors Minutes | 3 |
| Articles of Organization and Bylaws | 4 |
| Board of Directors | 4 |
| Committees of the Board of Directors | 4 |
| Officers | 4 |
| Affiliated Companies | 5 |
| Organizational Chart | 5 |
| Transactions and Agreements with Affiliates | 6 |
| Territory and Plan of Operation | 6 |
| Treatment of Policyholders – Market Conduct | 6 |
| Reinsurance | 6 |
| Intercompany Pooling Arrangements | 6 |
| Ceded Reinsurance | 7 |
| Assumed Reinsurance | 7 |
| Financial Statements | 8 |
| Statement of Assets, Liabilities, Surplus and Other Funds | 9 |
| Statement of Assets, Liabilities, Surplus and Other Funds (continued) | 10 |
| Statement of Income | 11 |
| Reconciliation of Capital and Surplus | 12 |
| Analysis of Changes in Financial Statements Resulting From Examination | 13 |
| Comments on Financial Statements Items | 13 |
| Subsequent Events | 14 |
| Summary of Recommendations | 14 |
| Signature Page | 15 |



COMMONWEALTH OF MASSACHUSETTS
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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 PROPERTY INSURANCE COMPANY

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

Bunker Hill Property Insurance Company

SCOPE OF EXAMINATION

Bunker Hill Property Insurance Company ("BH Prop" or the "Company") has not been examined by the Massachusetts Division of Insurance (the "Division") since its formation on December 21, 2016. The current examination covers the period from December 21, 2016 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 Company ("BHIC")
Bunker Hill Insurance Casualty Company ("BH Cas")
Bunker Hill Preferred Insurance Company ("BH Pref")
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

Bunker Hill Property Insurance Company

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 21, 2016 under the laws of the Commonwealth of Massachusetts and commenced business on January 1, 2017. The Company, along with affiliates BH Pref and BH Sec, were established to write homeowners insurance in Massachusetts.

Capital Stock

The Company's Articles of Organization authorized the Company to issue 10,000 shares of common stock with a par value of \$100 per share. There are 7,000 shares issued and outstanding, all owned by BHIC. The ultimate controlling entity of the Company is The Plymouth Rock Company Incorporated.

The initial capitalization of the Company consisted of common capital stock of \$700,000 and \$4,130,000 of gross paid in and contributed surplus.

Dividends

The Company has not declared a stockholder dividend since inception.

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

Bunker Hill Property Insurance Company

Articles of Organization and Bylaws

The bylaws and Articles of Organization and amendments thereto were read. The bylaws and Articles of Organization have not been amended since inception.

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 BH Pref Board of Directors during the examination period. 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 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 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.

Bunker Hill Property Insurance Company

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

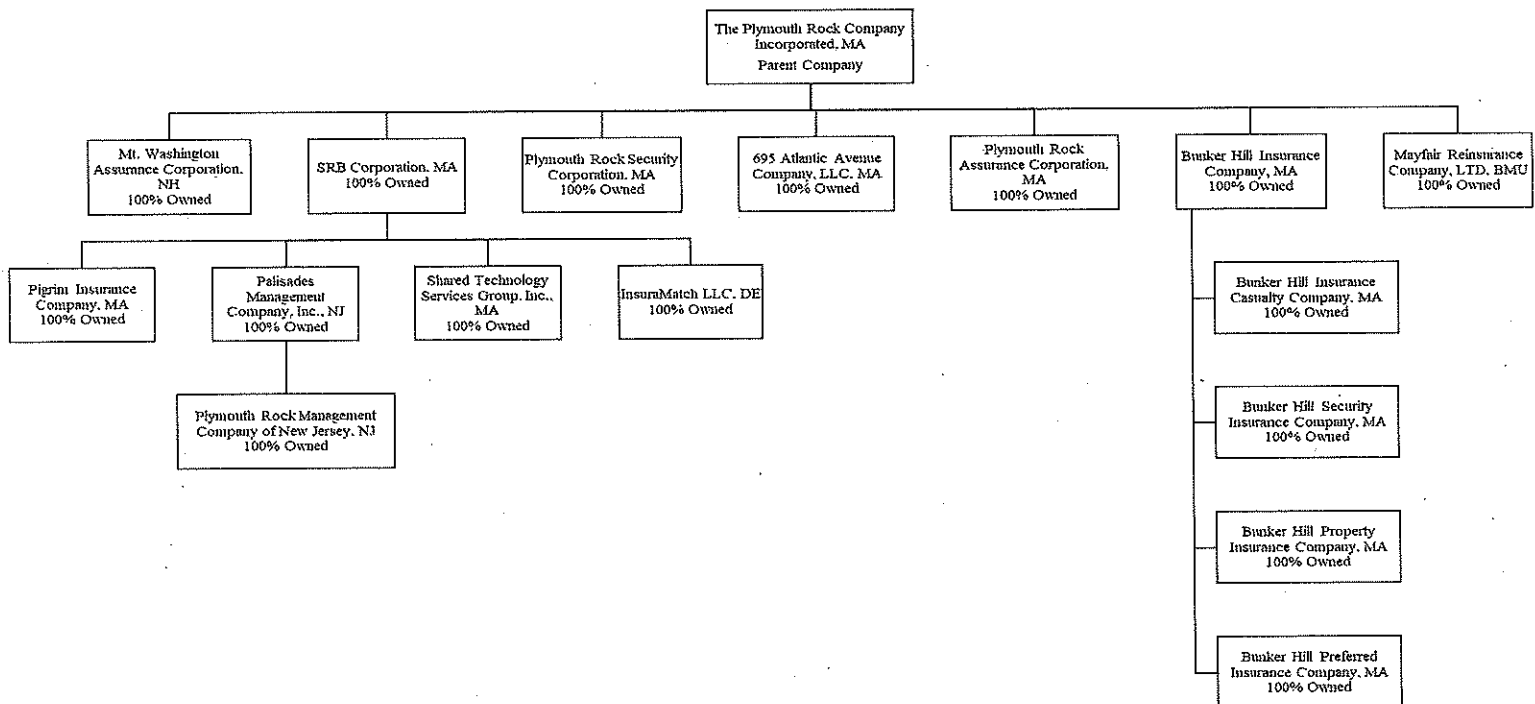
| <u>Name of Officer</u> | <u>Title</u> |
|--------------------------|---------------------------------------|
| Wilbur Lincoln Martin IV | President and Chief Executive Officer |
| William Daniel Hartranft | Treasurer |
| Colleen Mary Granahan | Secretary |
| Daniel Carey Barrett | Vice President |
| 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 Section 206C of Massachusetts General Law ("M.G.L"), Chapter 175, and regulation 211 CMR 7.00. The Plymouth Rock Company Incorporated is the "ultimate controlling person" of the holding company system.

Organizational Chart

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



Bunker Hill Property Insurance Company

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.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in Massachusetts. 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

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% |

Bunker Hill Property Insurance Company

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 ceded catastrophe 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

Other than the pooling agreements mentioned above, the Company has no other ceded reinsurance.

Assumed Reinsurance

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

Bunker Hill Property 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 Two-Year Period Ended December 31, 2017

Bunker Hill Property Insurance Company

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

| | Per Annual Statement |
|---|----------------------------|
| ASSETS | |
| Bonds | \$ 7,081,554 |
| Common stock | 2,290,589 |
| Cash, cash equivalents, and short-term investments | 1,590,786 |
| Receivable for securities | 406 |
| Subtotals, cash and invested assets | <u>10,963,335</u> |
| Investment income due and accrued | 104,777 |
| Uncollected premiums and agents' balances in course of collection | 62,170 |
| Deferred premiums and agents' balances and installments booked but deferred and not yet due | 136,034 |
| Amounts recoverable from reinsurers | 29,495 |
| Funds held by or deposited with reinsured companies | 69,596 |
| Net deferred tax asset | 110,222 |
| Receivable from parent, subsidiaries and affiliates | <u>105,039</u> |
| Total Assets | <u>\$ 11,580,668</u> |

Bunker Hill Property Insurance Company

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

| | Per Annual Statement |
|--|----------------------------|
| LIABILITIES | |
| Losses | \$ 1,319,941 |
| Loss adjustment expenses | 432,002 |
| Commissions payable, contingent, commissions and other similar charges | 32,138 |
| Other expenses | 167 |
| Taxes, licenses and fees | (2,144) |
| Current federal and foreign income taxes | 417,678 |
| Unearned premiums | 3,477,487 |
| Advance premium | 7,921 |
| Remittances and items not allocated | 690 |
| Payable to parent, subsidiaries and affiliates | 60 |
| Aggregate write-ins for liabilities | 787 |
| Total Liabilities | <u>5,686,726</u> |
| Common capital stock | 700,000 |
| Gross paid in and contributed surplus | 4,130,000 |
| Unassigned funds (surplus) | <u>1,063,942</u> |
| Surplus as regards policyholders | <u>5,893,942</u> |
| Total Liabilities, Surplus, and Other Funds | <u>\$ 11,580,668</u> |

Bunker Hill Property Insurance Company

Statement of Income For the Year Ended December 31, 2017

| | Per Annual Statement |
|--|----------------------------|
| Underwriting Income | |
| Premiums earned | \$ 4,997,926 |
| Deductions | |
| Losses | 1,406,889 |
| Loss adjustment expenses incurred | 572,560 |
| Other underwriting expenses incurred | 1,724,133 |
| Total underwriting deductions | 3,703,582 |
| Net underwriting gain (loss) | 1,294,344 |
| Investment Income | |
| Net investment income earned | 108,743 |
| Net realized capital gains or (losses) | 7,996 |
| Net investment gain (loss) | 116,739 |
| Other Income | |
| Finance and service charges not included in premiums | 1,935 |
| Total other income | 1,935 |
| Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | 1,413,018 |
| Federal and foreign income taxes incurred | 721,936 |
| Net income | \$ 691,082 |

Bunker Hill Property Insurance Company

Reconciliation of Capital and Surplus

For Each Year in the Two-Year Period Ended December 31, 2017

| | <u>2017</u> | <u>2016</u> |
|---|--------------------|--------------------|
| Surplus as regards policyholders, December 31 prior year | \$4,880,514 | \$ 0 |
| Net income | 691,082 | 50,586 |
| Change in net unrealized capital gains or (losses) less capital gains tax | 202,326 | 0 |
| Change in net deferred income tax | 164,077 | (72) |
| Change in nonadmitted assets | (44,057) | 0 |
| Paid in capital | 0 | 700,000 |
| Paid in surplus | 0 | 4,130,000 |
| Change in surplus as regards policyholders for the year | <u>1,013,428</u> | <u>4,880,514</u> |
| Surplus as regards policyholders, December 31 current year | <u>\$5,893,942</u> | <u>\$4,880,514</u> |

Bunker Hill Property Insurance Company

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.

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

No subsequent events or transactions that occurred after the December 31, 2017 examination date were noted that would have had a material effect on the Company's Financial Statements.

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.

A handwritten signature in black ink, appearing to read 'Robert Dynan', is written over a horizontal line.

Robert Dynan, CFE

Supervising Examiner

Commonwealth of Massachusetts

Division of Insurance