



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

REPORT OF EXAMINATION OF

CAMBRIDGE MUTUAL FIRE INSURANCE COMPANY

Andover, Massachusetts

As of December 31, 2019

NAIC GROUP CODE 0022

NAIC COMPANY CODE 19771

EMPLOYERS ID NO. 04-1144900

CAMBRIDGE MUTUAL FIRE INSURANCE COMPANY

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Summary of Significant Findings	3
Company History	3
General	3
Management and Control	3
Annual Meeting	3
Board of Directors	3
Investment Committee	4
Audit Committee	4
Officers	5
Holding Company	5
Organizational Chart	6
Transactions and Agreements with Subsidiaries and Affiliates	6
Territory and Plan of Operation	7
Treatment of Policyholders – Market Conduct	7
Dividends to Policyholders	7
Reinsurance	7
Ceded Reinsurance	7
Assumed Reinsurance	8
Financial Statements	9
Statement of Assets, Liabilities, Surplus and Other Funds	10
Statement of Assets, Liabilities, Surplus and Other Funds (continued)	11
Statement of Income	12
Reconciliation of Capital and Surplus	13
Analysis of Changes in Financial Statements Resulting from the Examination	14
Comments on Financial Statement Items	14
Subsequent Events	14
Summary of Recommendations	15
Signature Page	16



COMMONWEALTH OF MASSACHUSETTS
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May 21, 2021

Honorable Gary D. Anderson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
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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 the

CAMBRIDGE MUTUAL FIRE INSURANCE COMPANY

at its home office located at 95 Old River Road, Andover, Massachusetts, 01810-1078. Due to the COVID-19 pandemic, the examination was conducted remotely. The following report thereon is respectfully submitted.

Cambridge Mutual Fire Insurance Company

SCOPE OF EXAMINATION

The Cambridge Mutual Fire Insurance Company (“Company”) was last examined as of December 31, 2014 by the Massachusetts Division of Insurance (“Division”). The current examination was conducted by the Division and covers the five year period from January 1, 2015 through December 31, 2019, 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 Andover Insurance Group were also examined and separate reports have been issued:

Merrimack Mutual Fire Insurance Company
Bay State Insurance Company

The current 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, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2015 through 2019. A review and use of the Certified Public Accountants’ workpapers were made to the extent deemed appropriate and effective. An independent consulting firm, Risk and Regulatory Consulting, LLC (“RRC”) was retained by the Division to evaluate the adequacy of the Company’s loss and loss adjustment expense reserves as of December 31, 2019. Additionally, RRC reviewed the adequacy and effectiveness of the IT controls to determine the level of reliance to be placed on the information generated by the data processing systems.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings during the previous examination and there are no significant findings related to the current examination.

COMPANY HISTORY

General

The Company is a mutual company and was incorporated on March 14, 1833 under the laws of the Commonwealth of Massachusetts and commenced business on January 1, 1834. The company absorbed by merger, on January 1, 1971, Traders and Mechanics Insurance Company of Lowell, Massachusetts. The Merrimack Mutual Fire Insurance Company is the lead company of the Andover Group. Under the same management are the Merrimack Mutual Fire Insurance Company and the Bay State Insurance Company.

MANAGEMENT AND CONTROL

Annual Meeting

In accordance with the bylaws, the Annual Meeting of the Company is held on the second Monday in May of each year. Eight members constitute a quorum for the transaction of business at any annual or special meeting. The minutes indicated that a quorum was obtained at each annual meeting held during the examination period.

Board of Directors

The bylaws provide that the Board of Directors (“the Board”) shall manage the business and affairs of the Company except as otherwise provided by the Articles of Incorporation. The Board shall consist of not fewer than seven or more than ten directors with the number determined at each annual meeting. Each director holds office for a term of four years. Upon expiration or resignation, his/her successor is elected at the next Annual Meeting.

The bylaws do not specify the number of meetings to be held during a year. The minutes of the Board meetings indicated that meetings were held four times per year during the examination period. At any meeting of the Board, five directors constitute a quorum. The minutes indicated that a quorum was obtained at all meetings of the Board held during the examination period.

At December 31, 2019 the Board was comprised of eight directors which are in compliance with the Company’s bylaws. The director’s names and business affiliation were as follows:

Cambridge Mutual Fire Insurance Company

<u>Director</u>	<u>Business Affiliation</u>
John Appleton	Retired, Senior Vice President Fidelity Investments
Malcolm W. Brawn	President and Chief Executive Officer The Andover Companies
David F. Dietz	Retired Partner Goodwin Procter
Thomas J. Hollister	Chief Financial Officer Harvard University
Paul J. Jacques	Vice President CVS Health/Omnicare
Thomas J. Ridge	Chairman Ridge Global, LLC
David A. Splaine	President Spinnaker and Associates
John A. Swift	Vice President The Andover Companies

Investment Committee

The Board of Directors appointed an Investment committee in accordance with the bylaws. The committee has enacted an Investment Policy to guide the Company's investments in accordance with Massachusetts General Laws with prudent quality and diversification of the investments. The directors serving on this committee at December 31, 2019 were as follows: John Appleton, Chairman, Malcolm Brawn, Thomas Hollister and Amy DiPerna.

Audit Committee

The Audit Committee consists of five independent Board members including a certified public accountant and this committee also jointly serves for Merrimack Mutual Fire Insurance Company ("Merrimack") and Bay State Insurance Company ("Bay State"). The committee serves as an independent and objective party to monitor the Companies' financial reporting processes and internal controls. Directors serving on this committee at December 31, 2019 were as follows: David Dietz, Chairman, John Appleton, Thomas Hollister, Paul Jacques, and David Splaine.

In addition to the committees named above, the Andover Companies boards have a Compensation Committee, Corporate Governance Committee, and Administrative committees for the Retirement Plan and the 401k Plan.

Cambridge Mutual Fire Insurance Company

Officers

The bylaws of the Company provide that the officers of the Company shall be a President, a Treasurer, a Secretary and other officers as deemed necessary. Pursuant to the bylaws, the officers of the Company are elected by the Board of Directors at the first meeting of the Board held after the Annual Meeting.

The elected officers and their respective titles at December 31, 2019 follow:

<u>Name</u>	<u>Title</u>
Malcolm W. Brawn	President and Chief Executive Officer
Charles J. DiGrande	Vice President
Amy L. DiPerna	Vice President and Treasurer
Janet A. Wallace	Vice President and Secretary
Paul R. Nadeau	Vice President
Stephen E. Randall	Vice President
John A. Swift	Vice President

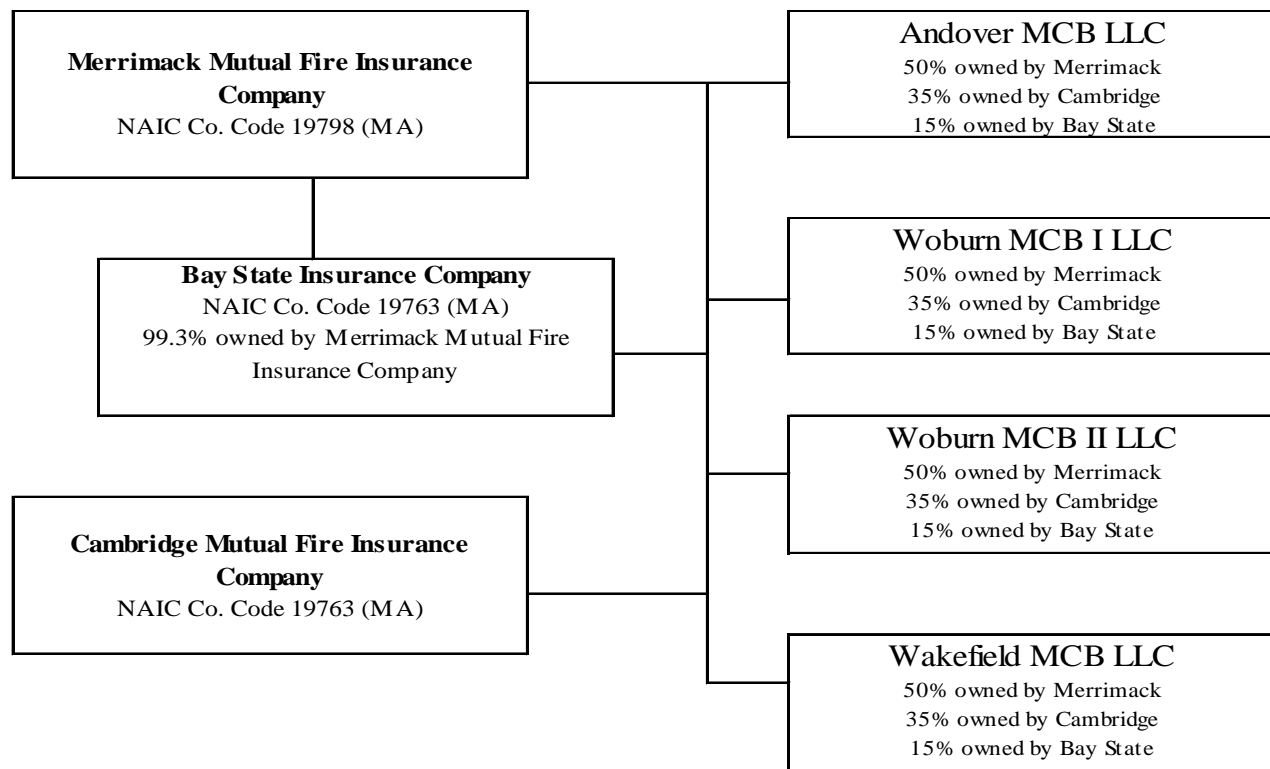
Holding Company

As stated in the Insurance Holding Company System Form B, as filed with the Massachusetts Division of Insurance, the Company is a member of a holding company system and is subject to the registration requirements of Chapter 175, Section 206C and 211 CMR 7.00 of the Massachusetts General Laws. The Company shares common management with Merrimack and Bay State.

Cambridge Mutual Fire Insurance Company

Organization Chart

At December 31, 2019, the Company is a member of the following organizational structure:



Transactions and Agreements with Subsidiaries and Affiliates

The Company has the following intercompany agreement in place with their affiliates, Merrimack Mutual Fire Insurance Company and Bay State Insurance Company:

Management and Reinsurance Agreement

The Company participates in a Management and Reinsurance Agreement with its affiliates, Merrimack and Bay State. Under this agreement all net insurance shall be pooled and distributed in the following proportions: Merrimack 50%, Cambridge 35% and Bay State 15%. Merrimack provides all employees, management and administration services for Cambridge and Bay State. Cambridge and Bay State will reimburse Merrimack for the expenses incurred in providing these services based on the percentage set forth above.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in nine states; all of the New England states, New Jersey, New York and Illinois.

The Company specializes in providing homeowners, commercial multiple peril and fire coverages through its appointed independent agents.

Treatment of Policyholders – Market Conduct

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to members and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination. During the claims test work, it was noted that the Company investigates and settles claims on a timely and fair basis.

Dividends to Policyholders

The Company issues only non-participating policies and no policyholder dividends were declared or paid during the examination period.

REINSURANCE

The Company and its affiliates operate under a pooling agreement as described in the “Management and Reinsurance Agreement” section of this report. Assumed and ceded reinsurance with unaffiliated companies is also subject to the intercompany pooling agreement.

Ceded Reinsurance

On behalf of Cambridge and Bay State, Merrimack has entered into various reinsurance agreements to protect their exposure.

Joint reinsurance arrangements are maintained for all companies in the Group. The largest amount retained on any one risk is \$2.0 million on personal umbrella with per risk coverage providing protection of \$3.0 million excess of the \$2.0 million retention. Property catastrophe reinsurance provides protection of 97.7% of \$1.1 billion excess \$100 million per occurrence with an aggregate limit of \$2.2 billion. Coverage is placed by brokers and split among many participating reinsurers. Quota share coverage is also maintained for commercial property risks as is facultative reinsurance, when needed.

Each treaty reviewed contained an insolvency clause in accordance with Massachusetts General Law, Chapter.175 Section 20A.

Cambridge Mutual Fire Insurance Company

Assumed Reinsurance

Merrimack assumes business from ten quota share agreements with the participation percentage varying by treaty. Coverage is primarily property catastrophe quota share on excess of loss coverage.

On July 1, 2008 the Company and its affiliated companies, Merrimack and Bay State, collectively known as The Andover Companies, entered into an agreement with Quincy Mutual Fire Insurance Company and its affiliated insurance companies known as the Quincy Mutual Group (“Quincy”). The agreement is named the Andover Quincy Underwriting Alliance (“AQUA”), pursuant to which Quincy auto policies will be marketed and written through independent agents of Andover. The AQUA agreement applies only to Massachusetts private passenger automobile insurance business.

Concurrent with the AQUA agreement, the Andover Companies and Quincy entered into a quota share reinsurance contract applicable to the business subject to the AQUA agreement. Under the terms of the quota share contract, Quincy ceded 12.5% of the business to Andover for the 2019 underwriting year.

Pools

The Company participates in the Associated Inland Marine (“AIM”) pool which was established as a means for insurers to underwrite larger policies and spread the risk among the members. The AIM pool is for inland marine personal line policies and membership is composed of New England Mutual Companies. Additionally, the Company participates in various state mandated pools and various FAIR plans.

Cambridge Mutual Fire 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, 2019. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds As of December 31, 2019

Statement of Income As of December 31, 2019

Reconciliation of Capital and Surplus For the Five-Year Period Ended December 31, 2019

Cambridge Mutual Fire Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2019

Assets	As Reported by the Company
	<hr/>
Bonds	\$ 208,397,164
Common stocks	634,959,258
Cash and short-term investments	64,008,113
Other invested assets	33,280,666
Subtotals, cash and invested assets	<hr/> 940,645,201
Investment income due and accrued	3,855,687
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	132,164,714
Deferred premiums, agents' balances and installments booked but deferred and not yet due	22,515,995
Amounts recoverable from reinsurers	10,070,013
Funds held by reinsured companies	3,257,557
Current federal income tax recoverable	9,966,935
Guaranty funds receivable or on deposit	58,800
Electronic data processing equipment	328,388
Aggregate write-ins for other-than-invested assets	9,434,950
Total Assets	<hr/> <hr/> \$ 1,132,298,242

Cambridge Mutual Fire Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2019

Liabilities	<u>As Reported by the Company</u>
Losses	\$ 144,210,999
Reinsurance payable on paid loss and LAE	78,133,590
Loss adjustment expenses	14,645,050
Commissions payable	5,748,400
Other expenses	48,739,600
Taxes, licenses and fees	890,050
Net deferred tax liability	33,665,593
Unearned premiums	110,521,393
Advance premiums	2,843,050
Ceded reinsurance premiums payable	11,401,630
Amounts withheld	83,555
Drafts outstanding	6,182,660
Payable to parent, subsidiaries and affiliates	6,049,426
Aggregate write-ins for liabilities	<u>29,985,200</u>
Total Liabilities	<u>493,100,196</u>
Guaranty fund	500,000
Unassigned funds (surplus)	<u>638,698,046</u>
Surplus as regards policyholders	<u>639,198,046</u>
Total Liabilities, Capital and Surplus	<u><u>\$ 1,132,298,242</u></u>

Cambridge Mutual Fire Insurance Company
Statement of Income
For the Year Ended December 31, 2019

	As Reported by the Company
Premiums earned	\$ 225,493,412
Deductions:	
Losses incurred	124,767,455
Loss expenses incurred	15,376,936
Other underwriting expenses incurred	96,056,742
Total underwriting deductions	236,201,133
Net underwriting gain (loss)	(10,707,721)
Net investment income earned	24,726,149
Net realized capital gains	(3,722,939)
Net investment gain	21,003,210
Net gain (loss) from agents' balances or premium balances charged off	(22,221)
Finance and service charges not included in premiums	306,996
Aggregate write-ins for miscellaneous income	1,192,275
Total other income	1,477,050
Net income before dividends to policyholders and before federal and foreign income taxes	11,772,539
Federal and foreign income taxes incurred	4,505,202
Net Income	\$ 7,267,337

Cambridge Mutual Fire Insurance Company
Reconciliation of Capital and Surplus
For the Five Year Period Ended December 31, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Capital and surplus, December 31, prior year	\$ 540,974,175	\$ 579,528,939	\$ 512,719,916	\$ 474,120,023	\$ 478,975,750
Net income	7,267,337	(3,904,237)	56,724,060	39,363,171	(9,292,648)
Change in net unrealized capital gains or (losses)	88,805,202	(18,983,122)	(1,083,249)	11,446,669	(3,127,213)
Change in net deferred income tax	2,479,618	3,634,842	22,855,425	(7,505,944)	5,840,875
Change in nonadmitted assets	316,303	(5,839,147)	(6,518,064)	(3,405,503)	(5,734,891)
Aggregate write-ins for gains and losses in surplus	<u>(644,590)</u>	<u>(13,463,100)</u>	<u>(5,169,150)</u>	<u>(1,298,500)</u>	<u>7,458,150</u>
Net change in capital and surplus for the year	<u>98,223,870</u>	<u>(38,554,765)</u>	<u>66,809,022</u>	<u>38,599,893</u>	<u>(4,855,727)</u>
Capital and surplus, December 31, current year	<u><u>\$ 639,198,046</u></u>	<u><u>\$ 540,974,174</u></u>	<u><u>\$ 579,528,938</u></u>	<u><u>\$ 512,719,916</u></u>	<u><u>\$ 474,120,023</u></u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There have been no changes made to the financial statements as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

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

The Division requested that Risk and Regulatory Consulting, LLC review the reasonableness of the Loss and Loss Adjustment Expense Reserves (the “Reserves”) of the Company as of December 31, 2019. 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, 2019. The table below summarizes a comparison of RRC’s range of reasonable net estimates for the Reserves to the Company’s carried net Reserves as of December 31, 2019.

**COMPARISON OF INDICATED NET RESERVES
TO CARRIED RESERVES as of 12/31/19**

	Low Point of Range	Selected Estimate	High Point of Range
RRC Total Net Loss & Loss Adjustment Expense Reserves	\$137,737,460	\$144,987,800	\$159,485,480
Total Company Carried Net Loss & LAE Reserves	158,860,100	158,860,100	158,860,100
Difference	(21,123,640)	(13,873,300)	625,380

The Company’s total net carried reserves are above RRC’s selected estimate and below their high point. Therefore the Division concludes the Company’s reserves are a reasonable estimate of their ultimate liability.

SUBSEQUENT EVENTS

In March 2020 the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there was significant uncertainty on the effect that the pandemic would have on the insurance industry, economy, and society at large. Any impact to the Company will take time to assess and will be specific to the class and mix of business they underwrite. The Division will continue to monitor how the pandemic might impact the Company.

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 and Regulatory Consulting, LLC who participated in this examination is hereby acknowledged.

Kenneth R. Plumb

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Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance

Arthur C. Hughes

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Commonwealth of Massachusetts
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