



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

REPORT OF EXAMINATION OF THE
CITATION INSURANCE COMPANY

Webster, Massachusetts

As of December 31, 2023

NAIC GROUP CODE 0411

NAIC COMPANY CODE 40274

EMPLOYER ID NUMBER 04-2739876

CITATION INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

One Federal Street, Suite 700 • Boston, MA 02110

(617) 521-7794 • Toll-free (877) 563-4467

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

MAURA T. HEALEY
GOVERNOR

MICHAEL T. CALJOUW
COMMISSIONER OF INSURANCE

KIMBERLEY DRISCOLL
LIEUTENANT GOVERNOR

May 22, 2025

The Honorable Michael T. Caljouw
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
One Federal Street, Suite 700
Boston, MA 02110

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

CITATION INSURANCE COMPANY

at its home office located at 211 Main Street, Webster, Massachusetts 01570. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Citation Insurance Company ("the Company" or "Citation") was last examined as of December 31, 2018 by the Massachusetts Division of Insurance ("the Division" or the DOI). The current multi-state examination was also conducted by the Division and covers the five-year period from January 1, 2019 through December 31, 2023, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

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 KPMG, LLP ("KPMG"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2019 through 2023. A review and use of the Certified Public Accountants' work papers was made to the extent deemed appropriate and effective.

Baker Tilly Advisory Group, LP ("Baker Tilly") was engaged to perform certain agreed upon procedures, which are in compliance with the NAIC *Financial Condition Examiners' Handbook*. The 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.

The examination was conducted in compliance with the coordinated examination framework of the NAIC. The Company is a party to the Reinsurance Pooling Agreement between the direct and indirect property and casualty insurance company subsidiaries of MAPFRE U.S.A. Corp. These

Citation Insurance Company

subsidiaries are domiciled in various states, including California, Florida, New Jersey, New York, and Ohio. As such, the California Department of Insurance, Florida Office of Insurance Regulation, New Jersey Department of Banking and Insurance, New York Department of Financial Services, and Ohio Department of Insurance coordinated with the Division to conduct the examination of their domiciled insurers, collectively referred to as the MAPFRE Group. The participating state Insurance Departments relied upon work performed by the Division impacting the MAPFRE Group, including IT and actuarial work performed on the MAPFRE Group's pooled operations.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There have been no exam findings for this examination period.

COMPANY HISTORY

General

The Company was incorporated as a stock property and casualty insurer on September 24, 1981 under the laws of the Commonwealth of Massachusetts and commenced business in Massachusetts on November 6, 1981. Effective June 2008, the Company's former parent, Commerce Group, Inc., was acquired by MAPFRE S.A. and renamed the parent, effective January 1, 2010, as MAPFRE U.S.A. Corp ("MAPFRE USA").

Over the course of our examination period, Citation has been a party to the Reinsurance Pooling Agreement for which its affiliate, Commerce Insurance Company ("Commerce"), is the lead insurer of the pool which consists of seven property and casualty insurers as of the examination date, December 31, 2023.

MAPFRE USA is one of the largest writers of personal property and casualty insurer and Commerce is the largest writer of personal automobile insurance in Massachusetts. The Company primarily writes homeowners coverage on a direct basis; though shares in the other lines of business through participation in the Reinsurance Pooling Agreement.

Capital Stock

The Company has authorized, issued, and outstanding 22,000 shares of common capital stock with a par value of \$50.00 per share. All of the outstanding capital stock is owned by MAPFRE USA.

Dividends to Stockholders

The following table illustrates the total dividends paid by the Company to its parent, MAPFRE USA, during the period covered by this examination:

Citation Insurance Company

Date	Dividends Declared	
2023	-	
2022	-	
2021	\$ 7,650,000	Ordinary
2020	\$ 7,000,000	Ordinary
2019	<u>\$ 6,500,000</u>	Ordinary
Total	<u><u>\$ (21,150,100)</u></u>	

MANAGEMENT AND CONTROL

Board of Directors

According to the bylaws, the Company's business shall be managed under the direction of the Board of Directors, who may exercise all powers of the Company, except such as are expressly conferred upon the stockholders by law, by the certificate of incorporation or by the bylaws. The Board of Directors may, by resolution or resolutions passed by a majority of the whole Board, designate one or more committees to exercise the powers of the Board of Directors in the management of the business and affairs of the corporation.

The Board of Directors was comprised of the following members as of December 31, 2023.

<u>Name of Director</u>	<u>Principal Occupation</u>
Randall V. Becker	Chairman of the Board MAPFRE U.S.A. Corp.
Jaime Tamayo	President & Chief Executive Officer MAPFRE U.S.A. Corp.
Maureen Brundage	Senior Advisor Baker Gilmore
Joaquin Castrillo	Senior Advisor MAPFRE Group in Puerto Rico
Bernardo Hernandez	Spanish Technology Entrepreneur & General Partner e.ventures
Edward Timmes	Managing Director, Chief Financial Officer TCE Associates Consulting LLC
Luis Viceira	Professor; Dean for International Development Harvard Business School

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Committees of the Board of Directors

As of the examination date and for the entire examination period the MAPFRE USA Audit Committee has served in the capacity as the Audit Committee for the Company as allowed under Massachusetts Law. Further, during the examination period, MAPFRE USA had established an Investment Strategy Committee of the Board of Directors; though as of December 31, 2023, this committee was dismantled and the responsibilities assumed by the entire Board of Directors.

Audit Committee

Per the committee charter, the committee's purpose is to oversee the work of the independent accountant related to each insurance subsidiary and to carry out such other duties and responsibilities as the Board may delegate to the Committee in compliance with Company's Articles of Organization and Bylaws. The committee also has oversight responsibility of Internal Audit; including approval of the Annual Audit Plan, review of Internal Audit activities, and review of material reports and the follow-up related to findings and recommendations. Further, the charter establishes the oversight responsibilities related to Risk Management, Internal Controls, and Corporate Governance and Conflict of Interests.

The Audit Committee was comprised of the following members as of December 31, 2023.

Edward Timmes, Chair
Randall Becker
Maureen Brundage

Officers

Principal Officers of the Company as of December 31, 2023 were as follows:

<u>Name of Officer</u>	<u>Title</u>
Jamie Tamayo	President & Chief Executive Officer
Jose Corral	Executive VP & Chief Financial Officer
Daniel Olohan	Secretary, General Counsel, & Executive VP
John Meciak	Treasurer, Chief Accounting Officer, & Senior VP

Citation Insurance Company

Affiliated Companies

As stated in the Insurance Holding Company System Form 8 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 Company is a direct wholly owned subsidiary of MAPFRE USA, a Massachusetts corporation wholly owned by MAPFRE Internacional S.A. MAPFRE Internacional S.A. is a sociedad anonimia organized under the laws of Spain and wholly owned by MAPFRE S.A.; a sociedad anonimia organized under the laws of Spain; which is 68.2% owned by FUNDACION MAPFRE; the ultimate controlling entity.

Organization Chart

A summary of ownership of the Company as of December 31, 2023 is illustrated below:

Fundacion Mapfre

Catera MAPFRE S.L.

MAPFRES.A.

MAPFRE Asistencia Compania Internacional De Seguros y Reaseguros, S.A.

MAPFRE RE Compania De Reaseguros, S.A.

MAPFRE RE Vermont Corporation

MAPFRE Internacional S.A.

MAPFRE U.S.A Corp.

Commerce Insurance Company

MAPFRE Insurance Company of Florida

MAPFRE Insurance Company

Citation Insurance Company

Verti Insurance Company

BFC Holding Corporation

MAPFRE Life Insurance Company

MAPFRE Tech USA Inc.

ACIC Holding Co., Inc.

Commerce West Insurance Company

American Commerce Insurance Company

MAPFRE Insurance Company of New York

Transactions and Agreements with Subsidiaries and Affiliates

Management and Cost Allocation Agreement

The Company's Management Cost Allocation Agreement provides that the company is charged or reimbursed for services rendered by the Company or its insurance affiliates and entails 1) investment related and 2) non-investment related services. Costs pertaining to investment related services are actual costs borne by the company which, per agreement, were determined to be the total rate of fifteen basis points per annum times the investment balance at each regular calendar quarter. The non-investment related charges are costs borne by the Company and or its affiliates

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for functions supporting the affiliated companies. Loss adjustment expenses will be apportioned through the studies in accordance with the SSAP No. 70 which such studies shall be conducted no less than annually. Expenses other than investment related expenses and loss adjustment expenses will be apportioned to each company based on its direct written premium relative to that of the other companies.

Inter-Company Technology Development, Operations and Support Agreement

The Inter-Company Technology Development, Operation and Support agreement is effective 10/1/2017. The companies involved are Commerce, Citation Insurance Company, Verti Insurance Company, and MAPFRE Tech. MAPFRE Tech USA will provide technological services to the other parties. Services may include Joint Technology Development Projects, Client Specific Development Projects, and Support and Maintenance Services. MAPFRE Tech will invoice parties receiving services based on actual costs and expenses incurred and allocated amongst parties in compliance. The agreement provides for terms in which a client party (i.e., Commerce, Citation, or Verti) may provide dedicated and non-dedicated personnel to MAPFRE Tech; for which MAPFRE Tech would reimburse the client party for actual amounts incurred. A Client Parties' fair and reasonable share of costs reasonably incurred and allocated. The service fee is paid monthly.

Tax Allocation Agreement

The Tax Allocation Agreement is effective 11/1/2022. The companies involved are MAPFRE U.S.A. Corp., The Commerce Insurance Company, ACIC Holding Co., Inc., American Commerce Insurance Company, Citation Insurance Company, Commerce West Insurance Company, BFC Holding Corporation, MAPFRE Insurance Company, MAPFRE Insurance Company of Florida, Bright Idea Insurance Solutions, Inc., formerly known as MAPFRE Intermediaries, Inc., Verti Insurance Company, MAPFRE Tech USA, Inc., MAPFRE Assistance USA Inc., Century Automotive Service Corporation, Federal Assist Company, and MAPFRE Warranty Corporation of Florida. The parties desire to provide for (i) the preparation and filing of federal and state income tax returns, which they are required or elect to file jointly on a consolidated or combined basis and, (ii) the sharing of all tax liabilities shown on such returns. Preliminary settlement of amounts owed under this agreement for and with respect to a Consolidated Return Year shall be made within 30 days of filing the federal extension and shall be based on the estimated tax liability as determined for the federal extension. Final settlement shall be made within 30 days of filing the consolidated tax return. The service fee is paid within 30 days of filing.

TERRITORY AND PLAN OF OPERATION

As noted, MAPFRE USA, through its direct subsidiary Commerce, is the largest writer of private passenger auto in the State of Massachusetts. Other core products of MAPFRE USA include homeowners and commercial auto. The Company writes primarily homeowners on a direct written premium basis. Products are primarily marketed through a network of independent agents. The Company is licensed to write business in the State of Massachusetts.

The MAPFRE Group had a total direct written premiums of over \$291 million in 2023 written across fifty-two states and territories. The top Five states in relation to direct written premiums for the MAPFRE Group are Massachusetts, Connecticut, California, Washington, and Rhode Island. Per the Reinsurance Pooling Agreement, the total MAPFRE Group business is ceded to Commerce Insurance Company and then retroceded to the parties based on their participation percentages

Citation Insurance Company

included within the Agreement.

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 policyholders 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.

REINSURANCE

Assumed Reinsurance

The Company is a participant under the Reinsurance Pooling Agreement with its affiliated insurance entities of the MAPFRE U.S.A Corp.: Commerce, MAPFRE Insurance Company, Commerce West Insurance Company, and American Commerce Insurance Company. Commerce is the lead insurer of the pool. The Company's participation in the pool is dictated by the percentages included in the agreement which are updated from time to time. As of December 31, 2023, the participation percentages were as follows:

	Pooling Participation
Commerce Insurance Company	70.8%
Citation Insurance Company	7.4%
American Commerce Insurance Company	10.9%
Commerce West Insurance Company	6.1%
MAPFRE Insurance Company	2.4%

Effective January 1, 2019, the Reinsurance Pooling Agreement was amended to remove MAPFRE Insurance Company of New York; which was sold to Plymouth Rock Assurance.

Ceded Reinsurance

As noted above under the heading Assumed Reinsurance, the Company is a party to the Reinsurance Pooling Agreement with the affiliated insurance entities of the MAPFRE U.S.A. Corp. Under this agreement, the Company cedes 100% of premium written and loss insurance liabilities to the lead entity, Commerce Insurance Company.

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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, 2023. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2023, Statement of Income, Capital and Surplus for the Year Ended December 31, 2023

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2023

Citation Insurance Company

Citation Insurance Company Statement of Assets as of December 31, 2023

	Per Annual Statement
Assets	
Bonds	\$ 92,374,054
Cash, cash equivalents, and short-term investments	2,668,930
Subtotals, cash and invested assets	94,842,984
Investment income due and accrued	696,294
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	12,563,167
Deferred premiums, agents' balances and installments booked but deferred and not yet due	31,981,635
Reinsurance	
Amounts recoverable from reinsurers	9,786,925
Current federal income tax recoverable	937,784
Net Deferred tax assets	3,352,622
Receivable from parent, subsidiaries, and affiliates	6,392,827
Aggregate write-ins for other-than-invested-assets	<u>47,675,545</u>
Total Assets	<u>\$ 208,229,783</u>

Citation Insurance Company

Citation Insurance Company Statement of Liabilities, Surplus, and Other Funds as of December 31, 2023

	Per Annual Statement
Liabilities	
Losses	\$ 55,974,116
Reinsurance payable on paid loss and loss adjustment expenses	4,607,154
Loss adjustment expense	6,371,704
Commissions payable, contingent commissions and other similar charges	3,733,326
Other expenses	829,775
Unearned premiums	66,784,673
Advanced Premium	2,872,359
Ceded reinsurance premium payable	<u>17,165,026</u>
Total Liabilities	<u>158,338,133</u>
Common capital stock	1,100,000
Gross paid in and contributed surplus	17,200,000
Unassigned funds (surplus)	31,591,650
Surplus as regards policyholders	<u>49,891,650</u>
Total liabilities and policyholder surplus	<u>208,229,783</u>

Citation Insurance Company

Citation Insurance Company Statement of Income For the Year Ended December 31, 2023

	Per Annual Statement
Underwriting Income	
Premiums earned	\$ 119,589,397
Deductions	
Losses incurred	80,917,564
Loss adjustment expenses incurred	15,382,724
Other underwriting expenses incurred	34,699,594
Aggregate write-ins for underwriting deductions	
Total underwriting deductions	<u>130,999,882</u>
Net underwriting gain (loss)	(11,410,485)
Investment Income	
Net investment income earned	3,911,261
Net realized capital gains or (losses)	<u>7,232</u>
Net investment gain or (loss)	3,918,493
Other Income	
Net gain (loss) from agents' or premium balances charged off	
Finance and service charges not included in premiums	1,888,951
Aggregate write-ins for miscellaneous income	
Total other income	<u>1,888,951</u>
Net income before dividends to policyholders and before federal income taxes	(5,603,041)
Foreign and federal income taxes incurred	(971,107)
Net income	<u>\$ (4,631,934)</u>
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	54,358,241
Net income	(4,631,934)
Change in net unrealized capital gains or (losses)	(13)
Change in net deferred income tax	210,150
Change in nonadmitted assets	251,543
Dividends to stockholders	
Aggregate write-ins for gains and losses in surplus	(296,337)
Change in surplus	<u>(4,466,591)</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 49,891,650</u>

Citation Insurance Company

Citation Insurance Company Reconciliation of Capital & Surplus For Each Year in the Five-Year Period Ended December 31, 2023

	Per Annual Statements				
	2019	2020	2021	2022	2023
Surplus as regards to policyholders, Dec. 31 prior year	\$65,922,571	\$64,590,647	\$ 66,860,030	\$ 60,647,868	\$ 54,358,241
Net Income	9,936,683	7,679,081	4,736,064	(6,175,883)	(4,631,934)
Change in net unrealized capital gains or losses	2,701,819	(129,103)	133,087	(1,316)	(13)
Change in net deferred income tax	(962,433)	(731,548)	3,703	51,112	210,150
Change in nonadmitted assets	740,485	34,008	(13,612)	(207,288)	251,543
Dividends to stockholders	(6,500,000)	(7,000,000)	(7,650,000)		
Aggregate write-ins for gains and losses in surplus	(7,248,478)	2,416,945	(3,421,404)	43,748	(296,337)
Change in surplus	(1,331,924)	2,269,383	(6,212,162)	(6,289,627)	(4,466,591)
Surplus as regards to policyholders, Dec. current year	64,590,647	\$66,860,030	\$ 60,647,868	\$ 54,358,241	\$ 49,891,650

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

Baker Tilly was retained to assist in the analysis of various actuarially determined items in the 2023 Annual Statement. Given the "risk focused" examination approach of the overall examination, Baker Tilly's primary objective was to perform an assessment of reserve risk by performing a qualitative review of the work papers and documentation supporting the estimates of loss and loss adjustment expense liabilities in order to assess reasonableness, the data used, the methodologies, and the assumptions applied. This review included the analysis prepared by the Company's appointed actuary and review and evaluation of the Company's reconciliation as of December 31, 2023 of the actuarial data to Schedule P. This evaluation was also intended to consider data integrity and the appropriateness of the data segmentation. Baker Tilly also performed a high-level evaluation of the Group's actuarial process for development of pricing indications.

Based on Baker Tilly's analysis and applied examination procedures, Baker Tilly determined that the Company's carried Loss and LAE reserves are approximately \$2.6 million lower than Baker Tilly's central estimate, but still within Baker Tilly's range of reasonable estimates.

Below shows the pooled reserves and the amount allocated to the Company as a result of their participation percentage for the year ended December 31, 2023. Further, the above analysis notes that the Company's carried reserves are \$0.6 million above the appointed actuary's central estimate and MAPFRE Group's carried reserves are \$6.3 million below the appointed actuary's central estimate; though consistent with the examination actuary's central estimate and within the acceptable range.

Citation Insurance Company

<u>MAPFRE Group Intercompany Reinsurance Pool</u> (in millions)					
<u>Baker Tilly Estimates</u>					
	<u>Low</u>	<u>Central</u>	<u>High</u>	<u>Total Carried</u>	<u>(Deficiency) Vs. Indicated</u>
Net Loss & LAE	\$800.2	\$877.4	\$958.1	\$842.5	(\$34.9)
<u>Appointed Actuary Estimates</u>					
	<u>Low</u>	<u>Central</u>	<u>High</u>	<u>Total Carried</u>	<u>(Deficiency) Vs. Indicated</u>
Net Loss & LAE	\$759.9	\$848.8	\$921.3	\$842.5	(\$6.3)

<u>Citation Insurance Company (7.4% of Pool)</u> (in millions)					
<u>Baker Tilly Estimates</u>					
	<u>Low</u>	<u>Central</u>	<u>High</u>	<u>Total Carried</u>	<u>(Deficiency) Vs. Indicated</u>
Net Loss & LAE	\$59.2	\$64.9	\$70.9	\$62.3	(\$2.6)
<u>Appointed Actuary Estimates</u>					
	<u>Low</u>	<u>Central</u>	<u>High</u>	<u>Total Carried</u>	<u>(Deficiency) Vs. Indicated</u>
Net Loss & LAE	\$56.2	\$61.7	\$68.2	\$62.3	\$0.6

SUBSEQUENT EVENTS

There have not been any current subsequent events to report as of the examination period.

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.

Citation Insurance Company

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 Baker Tilly in this examination is hereby acknowledged.

Maanik Gupta

Maanik Gupta, CFE
Examiner in charge
Baker Tilly Advisory Group, LP

John Curran

John M. Curran, CFE
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance