



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

REPORT OF EXAMINATION OF THE
COMMERCE INSURANCE COMPANY

Webster, Massachusetts

As of December 31, 2018

NAIC GROUP CODE 0411

NAIC COMPANY CODE 34754

EMPLOYER ID NUMBER 04-2495247

COMMERCE INSURANCE COMPANY

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**COMMONWEALTH OF
MASSACHUSETTS**
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DIVISION OF INSURANCE

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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

May 31, 2020

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

COMMERCE INSURANCE COMPANY

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

Commerce Insurance Company

SCOPE OF EXAMINATION

Commerce Insurance Company ("Company" or "Commerce") was last examined as of December 31, 2013 by the Massachusetts Division of Insurance ("Division"). The current multi-state examination was also conducted by the Division and covers the five-year period from January 1, 2014 through December 31, 2018, 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 2015 through 2018. The Company was audited in 2014 by the independent certified public accounting firm of Ernst & Young, LLP, who also expressed unqualified opinions of the Company's financial statements. For the examination year 2015, the Company completed a change in independent auditor from Ernst & Young, LLP to KPMG. A review and use of the Certified Public Accountants' work papers was made to the extent deemed appropriate and effective.

Baker Tilly Virchow Krause, LLP ("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

Commerce 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

As a result of the previous examination, a management letter was issued to the Company's Board of Directors ("Board") on June 25, 2015. A comment and recommendation was included in that management letter as described below related to the Company's loss and loss adjustment expense reserves as of December 31, 2013.

1. Management's estimate for loss and loss adjustment expense reserves were below the Appointed Actuary's central estimate as well as below the Examination Actuary's central estimate. With the emergence of adverse development of certain prior accident years, Management's estimate was noted to be \$58.8 million below the Exam Actuary's central estimate and fell below the low end of the range of reasonable. Further, it was noted that if Management's estimate has been consistent with the Appointed Actuary's central estimate, "the emergence of adverse development would most likely not have resulted in the recorded reserves falling outside a range of reasonable values." The Division recommended that the Company book reserves that are supported by the actuarially sound data and analysis.

Further, the prior examination report included an adjustment to surplus as a result of the examination and in connection with the observation above. Specifically, an adjustment to increase losses and loss adjustment expense reserves by \$33,526,000 and \$8,331,000, respectively, based on the Examination Actuary's assessment that losses and loss adjustment expense reserves were below "the indicated value and range of reasonable estimates." This analysis was performed by the contracted actuary from PwC LLP. As a result, the examination noted a total decrease of \$41,858,000 to December 31, 2013 surplus. See "Comments on Financial Statements" section of this report for the current examinations consideration of this comment and recommendation.

COMPANY HISTORY

General

The Company was incorporated as a stock property and casualty insurer on September 15, 1971 under the laws of the Commonwealth of Massachusetts and commenced business in Massachusetts on May 10, 1972. 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").

Commerce Insurance Company

Over the course of our examination period, Commerce has been a party to the Reinsurance Pooling Agreement. Further, Commerce is the lead insurer of the pool which consists of seven property and casualty insurers as of the examination date, December 31, 2018. Subsequent the examination date and effective January 1, 2019, MAPFRE USA sold a previous affiliate and pool participant, MAPFRE Insurance Company of New York, to Plymouth Rock Assurance Corporation.

The Company is one of the largest writers of personal property and casualty insurance in the State of Massachusetts and the largest writer of personal automobile insurance in Massachusetts.

Capital Stock

The Company has authorized, issued, and outstanding 50,000 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 ordinary and extraordinary dividends paid by the Company to its parent, MAPFRE USA, during the period covered by this examination:

Date	Dividends Paid	
April 8, 2014	\$ 55,526,000	Extraordinary
December 3, 2014	\$ 138,017,000	Extraordinary
October 12, 2016	\$ 30,000,000	Ordinary
December 28, 2016	\$ 36,000,000	Ordinary
October 17, 2017	\$ 26,000,000	Ordinary
August 7, 2018	\$ 36,600,000	Ordinary
October 19, 2018	\$ 21,400,000	Ordinary
Total	<u>\$ 343,543,000</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, 2018.

<u>Name of Director</u>	<u>Principal Occupation</u>
Randall V. Becker	Chairmen of the Board MAPFRE U.S.A. Corp.

Commerce Insurance Company

Alfredo Castelo	President & Chief Executive Officer MAPFRE U.S.A. Corp.
Maureen Brundage	Senior Advisor Baker Gilmore
Joaquin Castrillo	Chairmen of the Board 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
Mark Shaw	President and Chief Executive Officer (retired) AAA Northeast
Alan Solomont*	Dean, Jonathan M. Tisch College of Citizenship and Public Service Tufts University

* Mr. Solomont resigned from the Board of Directors, effective December 31, 2018.

Committees of the Board of Directors

Effective January 1, 2018, the MAPFRE USA Audit Committee was designated to serve as the Audit Committee for Commerce as allowed under Massachusetts Law. Prior, the Company had its own Audit Committee. Further, during the examination period, the Company had established an Investment Strategy Committee of the Board of Directors; though as of December 31, 2018, 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, 2018.

Edward Timmes, Chair
Randall Becker
Maureen Brundage
Alan Solomont*

Commerce Insurance Company

* Mr. Solomont resigned from the Board of Directors, effective December 31, 2018.

Officers

Principal Officers of the Company as of December 31, 2018 were as follows:

<u>Name of Officer</u>	<u>Title</u>
Alfredo Castelo	President & Chief Executive Officer
Francois Facon	Executive VP & Chief Financial Officer
Daniel Olohan	Secretary, General Counsel, & Executive VP
Robert McKenna*	Treasurer, Chief Accounting Officer, & Senior VP

*Mr. McKenna retired from the Company, effective January 3, 2020, and was replaced by John Meciak, former Senior VP & Controller.

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 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, 2018 is illustrated below:

Fundacion Mapfre

Catera MAPFRE S.L.

MAPFRE S.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

Commerce 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

This sixth amended and restated Management and Cost Allocation Agreement is effective January 1, 2018 and executed by and among the Company and its affiliates, Citation Insurance Company ("Citation"), MAPFRE Insurance Company of Florida, MAPFRE Insurance Company, Commerce West Insurance Company, American Commerce Insurance Company, Verti Insurance Company, and MAPFRE Insurance Company of New York. The terms of the agreement establish all parties as possible service providers on behalf of the others for Management Services, which include though are not limited to: analysis of company performance, strategic planning and budgeting, legal and regulatory support, governance, financial services, human resources, product development and distribution (i.e. underwriting and claims), and investment management services.

A service provider's compensation for non-investment services is comprised of actual costs and expenses incurred by the party performing the services. Loss adjustment expenses are apportioned to each party through SSAP No. 70, Allocation of Expenses, compliant study; with other non-investment related expenses allocated based on direct written premiums of the parties. Investment related services compensation is determined based on the Investment Services Formula(s) outlined within the agreement.

This Agreement was amended and restated through the Seventh Amended and Restated Management Cost Allocation Agreement, effective January 1, 2019, to remove MAPFRE Insurance Company of New York as a party to the agreement following the sale of the Company to Plymouth Rock; See "Subsequent Events" for additional discussion.

Management Cost Allocation Agreement

Effective January 1, 2017, Commerce executed a Management Cost Allocation Agreement with a list of affiliates referred to as the Asistencia Companies; affiliates and indirect subsidiaries of MAPFRE S.A. The terms of the agreement establish all parties as possible service providers on behalf of the others for Management Services, which include though are not limited to: analysis of company performance, strategic planning and budgeting, legal and regulatory support, governance, financial services, human resources, product development and distribution (i.e. underwriting and claims), and investment management services. The purpose of this agreement was stated as aligning the North America Region comprising MAPFRE S.A.'s operations in the United States, Puerto Rico, and Canada.

Service fees owed to a party providing services based on actual costs and expenses incurred and are allocated amongst the parties based on generally accepted accounting principles. Service fees related to dedicated employees are allocated based on time records while other expenses are allocated based

Commerce Insurance Company

on direct revenues of the parties. Investment service fees are determined by the Investment Services Formula(s) outlined within the agreement.

Management and Cost Allocation Agreement

Effective June 2, 2014, Commerce and MAPFRE Life Insurance Company of Puerto Rico and MAPFRE Life Insurance Company ("MAPFRE Life") entered into a Management and Cost Allocation Agreement where as the companies are affiliates and indirect subsidiaries of MAPFRE S.A. and MAPFRE Life and Commerce desire to obtain certain management services, support, assistance and other functions from one another and from MAPFRE Life of Puerto Rico. Management services may consist of thought are not limited to management and consulting in connection with the business of life insurance in the United States, analysis of company performance, strategic planning and budgeting, legal and regulatory support, financial services, human resources, and product development and distribution services (i.e. underwriting and claims). Further, per the agreement, Commerce may provide investment services solely to MAPFRE Life.

A management fee is to be paid to the service provider and determined based on the actual costs and expenses incurred. The agreement outlines specific expenses such as personnel and investment services which are determined based on time recorded and an investment formula, respectively.

Management Cost Allocation Agreement

Effective January 1, 2014 Commerce executed a Management Cost Allocation with MAPFRE Insurance Company and MAPFRE Tepeyac SA. The terms of the agreement establish all parties as possible service providers on behalf of the others for management services, which include though are not limited to: analysis of company performance, strategic planning and budgeting, legal and regulatory support, governance, financial services, human resources, product development and distribution (i.e. underwriting and claims), and investment management services.

The service provider is compensated based on actual costs and expenses and based upon the recorded time spent by personnel.

Inter-Company Technology Development, Operations and Support Agreement

Entered into on December 28, 2017, the Inter-Company Technology Development, Operations and Support Agreement is made by and among MAPFRE Tech USA, Inc. and Citation, Commerce, and Verti (collectively "Client Parties") with an effective date of October 1, 2017. Under the terms of the agreement, MAPFRE Tech USA will provide technology 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 with SSAP No. 70, related to joint development and support and maintenance services.

The agreement provides for terms in which a client party (i.e. Commerce, Citation, or Verti) may provide dedicated and non-dedicated personal to MAPFRE Tech; for which MAPFRE Tech would reimburse the client party for actual amounts incurred.

Commerce Insurance Company

Asset Purchase Agreement & Assignment and Assumption Agreement

Effective December 28, 2017, Commerce and MAPFRE Tech USA, Inc. ("MAPFRE Tech") entered into an Asset Purchase Agreement in which Commerce wished to sell and MAPFRE Tech wished to acquire ownership of Verti Insurance Company. The purpose of this agreement is for MAPFRE Tech to provide certain technology services to Verti as a "Client Party" as defined by the Inter-Company Technology Development, Operations and Support Agreement described above. In exchange for the Verti Asset, Commerce received \$7,491,232 in cash by wire transfer at closing.

As of the same date, December 28, 2017, Commerce and MAPFRE Tech executed the Assignment and Assumption Agreement whereby Commerce assigned all of its rights, title and interest in and delegated to MAPFRE Tech all of its obligations under certain contracts as described in Schedule I of this agreement; Assigned Contracts. In consideration for this assignment, MAPFRE Tech shall pay Commerce as of the effective date the assignment amount representing the actual value of the Assigned Contracts, determined in compliance with SSAP, in the amount of \$24,343,937.

Investment Advisory Agreement

Effective January 1, 2012, Commerce and MAPFRE Re executed the Investment Advisory Agreement establishing Commerce as the investment advisor for MAPFRE Re. Under the terms of the agreement, Commerce has the power to supervise and direct the investment and reinvestment of the MAPFRE Re cash and other assets under the direction of the MAPFRE Re Board of Directors or a Committee thereof. Commerce will be responsible for ensuring MAPFRE Re is in compliance with laws, the Investment Guidelines, and the terms and conditions of the agreement. Commerce will ensure that the cash and assets in the account shall be held by the institution specified within the agreement. The agreement prohibits Commerce from having custody or physical control of the assets or cash.

MAPFRE Re shall pay Commerce a fee of \$200,000 per year as compensation for the services provided by Commerce on behalf of MAPFRE Re. This agreement was amended as of the same date to change the service fee to \$160,000 per year

Investment Services Agreement

Effective January 1, 2019, Commerce and MAPFRE Re Vermont Corporation ("MAPFRE Re Vermont") executed the Investment Services Agreement establishing Commerce as the investment advisor for MAPFRE Re Vermont. Under the terms of the agreement, Commerce has the power to supervise and direct the investment and reinvestment of the MAPFRE Re Vermont's cash and other assets under the direction of the MAPFRE Re Vermont's Board of Directors or a Committee thereof. Commerce will be responsible for ensuring MAPFRE Re Vermont is in compliance with laws, the Investment Guidelines, and the terms and conditions of the agreement. Commerce will ensure that the cash and assets in the account shall be held by the institution specified within the agreement. The agreement prohibits Commerce from having custody or physical control of the assets or cash. Investment services compensation is determined based on an Investment Services Formula defined within the agreement

Commerce Insurance Company

Tax Allocation Agreement

Effective January 1, 2018, MAPFRE U.S.A Corp. and affiliates: Commerce, ACIC Holding Co. Inc., Citation Insurance Company, BFC Holding Corporation, MAPFRE Insurance Company of Florida, MAPFRE Insurance Company, Commerce West Insurance Company, American Commerce Insurance Company, Verti Insurance Company, MAPFRE Intermediaries, Inc., MAPFRE Tech, and MAPFRE Insurance Company of New York executed the Fourth Amended and Restated Tax Allocation Agreement. Under the terms of the agreement, each affiliate and any other member of the MAPFRE USA Affiliated Group will file a consolidated and combined return for the taxable year ending December 31, 2018. The liability of each affiliate will be based on the Separate Company Liability calculation. Commerce is responsible to make the consolidated payments on behalf of the group and will be settled with the parties to the agreement based on the terms of the agreement.

The Fifth Amended and Restated Tax Allocation Agreement removes MAPFRE NY as a party to the agreement in conjunction with the Stock Purchase Agreement discussed below.

TERRITORY AND PLAN OF OPERATION

As noted, the Company is the largest writer of private passenger auto in the State of Massachusetts. Other core products include homeowners and commercial auto. The Company's products are primarily marketed through a network of independent agents. While the Company is licensed in eight states; it writes the entirety of its business within six states: Massachusetts, New Hampshire, Maine, Vermont, Connecticut, and Rhode Island.

The Mapfre Group had a total direct written premiums of over \$2.37 billion in 2018 written across 52 states and territories. The top six states in relation to direct written premiums for the Mapfre Group are Massachusetts, Connecticut, California, Washington, Rhode Island, and Florida. Per the Reinsurance Pooling Agreement, the total Mapfre Group business is ceded to Commerce and then retroceded to the parties based on their participation percentages included within the Agreement.

Market Conduct

During the financial examination of the Company, the Division's Market Conduct Department initiated a comprehensive market conduct examination of the Company for the period January 1, 2018 through December 31, 2018. The market conduct examination was called pursuant to authority in M.G.L. Chapter 175, Section 4. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose and Noller Advisors, LLC were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Regulation Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The business areas that were reviewed under this comprehensive market conduct examination are Company Operations/Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; Underwriting and Rating and Claims. Each business area reviewed includes the identification and evaluation of the insurer's internal controls.

Commerce Insurance Company

REINSURANCE

Assumed Reinsurance

The Company operates under the Reinsurance Pooling Agreement with its affiliated insurance entities of the MAPFRE U.S.A Corp.: Citation Insurance Company, MAPFRE Insurance Company of Florida, MAPFRE Insurance Company, Commerce West Insurance Company, American Commerce Insurance Company, and MAPFRE Insurance Company of New York. The Company is the lead insurer in the pool and assumes 100% of premium written and loss insurance liabilities. The participation in the pool is dictated by the percentages included in the agreement which are updated from time to time. As of December 31, 2018 the participation percentages were as follows:

	Pooling Participation
Commerce Insurance Company	65.2%
Citation Insurance Company	7.7%
American Commerce Insurance Company	11.2%
Commerce West Insurance Company	5.6%
MAPFRE Insurance Company of New York	4.8%
MAPFRE Insurance Company of Florida	3.2%
MAPFRE Insurance Company	2.3%

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

The Quota Share and Catastrophe Reinsurance Program establishes coverage to mitigate the adverse financial consequences of a severe loss under individual policies or catastrophic events where a number of claims can produce an extraordinary aggregate loss. Consistent with prior years, in 2018 the Mapfre Group utilized a combination of a Quota Share Treaty, an Aggregate Winter Cover, and catastrophic reinsurance. The reinsurance coverage with counterparties is on a claims incurred basis.

The Quota Share Treaty, which excludes Florida risks, provides first dollar coverage for all layers including the first \$100 million of an event. Effective, April 1, 2018, a change was effective in the reinsurance in which 30% would be ceded to MAPFRE Re and an additional 40% would be ceded to Swiss Re, Munich Re, and Scor Re. Effective July 1, 2018, the contract with MAPFRE Re terminated, bringing the coverage in effect from this date through December 31, 2018 to a 40% Quota Share; down from 70%.

The Aggregate Winter Cover program provides stop loss coverage designed to protect against winter losses and / or the amalgamation of certain multiple smaller events. The coverage is designed to reduce a potential retained loss by \$120 million after a \$30 million retention. Under this program, covered losses include incurred losses from winter perils plus any catastrophe event larger than \$10 million.

The Catastrophe program covers lines of business classified as property and includes fire, allied lines, homeowners, inland marine, special multi-peril and business owner policies. This program has been expanded to provide coverage for comprehensive auto and marine losses over \$100 million. Further,

Commerce Insurance Company

the catastrophe program includes coverage for the FAIR Plan policies, for which the Company is required to participate, and which primary reinsurance for losses sustained from riots and civil disorder is covered by the federal government. The catastrophe coverage is segregated into two coverages: MAPFRE USA, excluding Florida, and MAPFRE Insurance Company of Florida and Florida exposure of other pool participants. The catastrophe coverage is reinsured to MAPFRE Re and provides the Mapfre Group with coverage for losses up to a \$510 million limit in excess of a \$50 million net retention, prior to July 1, 2018, and up to a \$ 1.02 billion limit excess a \$100 million retention through December 31, 2018.

A Casualty Excess of Loss treaty, effective January 1, 2018, is written to provide coverage in any event or occurrence with a maximum loss of \$10 million excess a retention of \$2 million. This policy excludes umbrella policies and the coverage is placed with MAPFRE Re.

An Umbrella Quota Share treaty, effective January 1, 2017, covers personal and commercial liability umbrella policies for amounts up to but not exceeding \$1 million on a 50% quota share basis. Policies issued in excess of \$1 million and not exceeding \$3 million are reinsured on a 50% quota share basis on the first \$1 million and on a 100% quota share for the amount in excess of \$1 million. Similarly, the quota share percentages applies for umbrella policies issued in excess of \$3 million and not exceeding \$5 million; with a 50% quota share on the first million and 100% quota share for amounts in excess of that. Further, the Company has also established personal liability umbrella reinsurance coverage for policies with underlying automobile coverage up to but not exceeding \$1 million on a 65% quota share basis. Policies in excess of \$1 million though not exceeding \$3 million are reinsured on the quota share basis of 65% for the first million and 100% in excess of \$1 million for each loss occurrence. Finally, this agreement provides reinsurance for business owners limits of \$2 million for each loss occurrence and \$4 million for all loss occurrences on a 65% quota share percentage. This coverage is placed with MAPFRE Re.

Additional Excess of Loss Agreement(s) have been put in place by the Mapfre Group. Specifically, effective July 1, 2017 through June 30, 2018, an excess of loss program related to the personal homeowner property business of the pooled entities was in place. The program contains two layers: the first, excluding MA and FL risks, provides coverage at \$1.5 million excess \$1.5 million and the second, excluding FL, offers coverage of \$1.5 million excess \$3 million, subject to limits of \$6 million and \$4.5 million, respectively. Effective July 1, 2018 through June 30, 2019, this coverage was continued with two layers: the first excludes MA and FL risks at \$3 million excess \$3 million and the second, excluding FL, at \$3 million excess \$6 million, subject to limits of \$12 million and \$9 million, respectively. This coverage was placed with MAPFRE Re.

The Mapfre Group is a required participant in various Property Insurance Underwriting Associations; for which the Fair Access to Insurance Requirements Plan ("FAIR Plan") in MA is the most significant. The federal government reinsures participating insurers and this exposure is also covered under the catastrophe reinsurance program described above.

The Company is a voluntary member of the non-profit, unincorporated American Nuclear Insurers ("ANI") through which members provide property insurance protection and nuclear energy liability insurance protection; which covers hazards arising out of risks related to nuclear installations, operations or facilities. Membership is on a percentage participation basis applied through each pool in which the member participates. Members must be approved by the ANI Board, may terminate in

Commerce Insurance Company

writing prior to June 30th of each calendar year, and may participate as a direct writing member, ceding member, assuming member, or a combination. The Company is an assuming and ceding member.

Certain personal and commercial property policies are reinsured on a facultative excess of loss basis with General Reinsurance and, beginning in 2012, with MAPFRE Re for personal property policies only. The Company further has treaty quota share reinsurance with Hartford Steam Boiler and Factory Mutual for equipment breakdown coverage.

Effective January 1, 2019, MAPFRE Re Vermont purchased 50% of the Catastrophe Reinsurance Program, the Per Risk Excess of Loss Program, and the Aggregate Excess of Loss Program described above. Further an additional 30% Quota Share was written within these programs.

Commerce 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, 2018. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2018

Statement of Income, Capital and Surplus for the Year Ended December 31, 2018

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2018

Commerce Insurance Company

Commerce Insurance Company Statement of Assets as of December 31, 2018

	Per Annual Statement
Assets	
Bonds	\$ 1,119,821,787
Preferred stock	11,680,487
Common stock	153,219,853
Real estate	
Properties occupied by the company	43,425,797
Properties held for the production of income	53,567,427
Cash, cash equivalents, and short-term investments	100,453,304
Other invested assets	16,396,669
Aggregate write-ins for invested assets	3,268,674
Subtotals, cash and invested assets	1,501,833,998
Investment income due and accrued	8,848,284
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	122,936,336
Premium and agents balances deferred and not yet due	385,540,605
Reinsurance	
Amounts recoverable from reinsurers	83,873,699
Funds held by or deposited with reinsured companies	498,793
Current federal income tax recoverable	11,926,166
Net Deferred tax assets	36,278,271
Electronic data processing equipment and software	5,726,845
Receivable from parent, subsidiaries and affiliates	17,528,216
Aggregate write-ins for other-than-invested-assets	41,193,907
Total Assets	\$ 2,216,185,120

Commerce Insurance Company

Commerce Insurance Company Statement of Liabilities, Surplus and Other Funds as of December 31, 2018

	Per Annual Statement
Liabilities	
Losses	\$ 578,364,506
Reinsurance payable on paid loss and loss adjustment expenses	51,669,789
Loss adjustment expense	108,376,879
Commissions payable, contingent commissions and other similar charges	28,327,977
Other expenses	38,231,562
Unearned premiums	683,531,589
Advance premium	25,598,576
Ceded reinsurance premium payable	85,481,366
Funds held by company under reinsurance treaties	55,364,291
Amounts withheld or retained by company for account of others	581,228
Provision for reinsurance	545,228
Aggregate write-ins for liabilities	4,066,956
Total Liabilities	1,660,139,719
Common capital stock	2,500,000
Gross paid in and contributed surplus	199,935,297
Unassigned funds (surplus)	353,610,104
Surplus as regards policyholders	556,045,401
Total liabilities and policyholder surplus	\$ 2,216,185,120

Commerce Insurance Company

Commerce Insurance Company Statement of Income For the Year Ended December 31, 2018

	Per Annual Statement
Underwriting Income	
Premiums earned	\$ 1,316,617,444
Deductions	
Losses incurred	858,597,933
Loss adjustment expenses incurred	162,138,963
Other underwriting expenses incurred	377,044,117
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	1,397,781,013
Net underwriting gain (loss)	(81,163,569)
Investment Income	
Net investment income earned	42,612,740
Net realized capital gains or (losses)	4,908,033
Net investment gain or (loss)	47,520,773
Other Income	
Net gain (loss) from agents' or premium balances charged off	0
Finance and service charges not included in premiums	31,844,670
Aggregate write-ins for miscellaneous income	71,234
Total other income	31,915,904
Net income before dividends to policyholders and before federal income taxes	(1,726,892)
Foreign and federal income taxes incurred	55,965
Net income	\$ (1,782,857)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	626,327,374
Net income	(1,782,857)
Change in net unrealized capital gains or (losses)	(5,150,027)
Change in net deferred income tax	4,685,970
Change in nonadmitted assets	8,618,215
Change in provision for reinsurance	(331,271)
Dividends to stockholders	(58,000,000)
Aggregate write-ins for gains and losses in surplus	(18,322,003)
Change in surplus	(70,281,973)
Surplus as regards policyholders, December 31 current year	\$ 556,045,401

Commerce Insurance Company

Commerce Insurance Company Reconciliation of Capital & Surplus For Each Year in the Five Year Period Ended December 31, 2018

Per Annual Statements

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Surplus as regards to policyholders, Dec. 31 prior year	\$ 626,327,374	\$ 621,274,512	\$ 660,632,079	\$ 682,832,281	\$ 834,756,455
Net Income	(1,782,857)	18,442,952	48,033,942	(1,697,118)	63,730,361
Change in net unrealized capital gains or losses	(5,150,027)	6,417,670	(3,328,500)	(10,149,044)	7,314,964
Change in net deferred income tax	4,685,970	(15,562,715)	(5,848,670)	(2,064,601)	(3,819,632)
Change in nonadmitted assets	8,618,215	28,134,964	(7,754,814)	(28,247,239)	(25,143,639)
Change in provision for reinsurance	(331,271)	91,825	(37,593)	23,237	(41,643)
Paid in Surplus	-	(2,463,805)	-	-	-
Dividends to stockholders	(58,000,000)	(26,000,000)	(66,000,000)	-	(193,543,007)
Aggregate write-ins for gains and losses in surplus	(18,322,003)	(4,008,029)	(4,421,932)	19,934,563	(421,577)
Change in surplus	<u>(70,281,973)</u>	<u>5,052,862</u>	<u>(39,357,567)</u>	<u>(22,200,202)</u>	<u>(151,924,173)</u>
Surplus as regards to policyholders, Dec. current year	<u>\$ 556,045,401</u>	<u>\$ 626,327,374</u>	<u>\$ 621,274,512</u>	<u>\$ 660,632,079</u>	<u>\$ 682,832,281</u>

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 2018 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 the reasonableness of the scope, data used, methodologies and 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, 2018 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 \$186,000 higher 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 Commerce as a result of their participation percentage for the year ended December 31, 2018. Further, the above analysis notes that the Company’s and Mapfre Group’s carried reserves are \$8.2 million and \$12.9 million below the appointed actuary’s central estimate; though consistent with the examination actuary’s central estimate and within the acceptable range.

Commerce Insurance Company

<u>MAPFRE Group Intercompany Reinsurance Pool</u> (000's omitted)					
<u>Baker Tilly Estimates</u>					
	<u>Low</u>	<u>Indicated</u>	<u>High</u>	<u>Total Carried</u>	<u>(Deficiency) Vs. Indicated</u>
Net Loss & LAE	\$ 1,000,000	\$ 1,053,000	\$ 1,158,000	\$ 1,053,000	\$ -
<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	\$ 980,615	\$ 1,065,886	\$ 1,135,169	\$ 1,053,000	(\$ 12,886)

<u>Commerce Insurance Company (65.2% of Pool)</u> (000's omitted)					
<u>Baker Tilly Estimates</u>					
	<u>Low</u>	<u>Indicated</u>	<u>High</u>	<u>Total Carried</u>	<u>(Deficiency) Vs. Indicated</u>
Net Loss & LAE	\$ 652,000	\$ 686,556	\$ 755,016	\$ 686,742	\$ 186
<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	\$ 639,361	\$ 694,958	\$ 740,130	\$ 686,742	(\$ 8,216)

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.

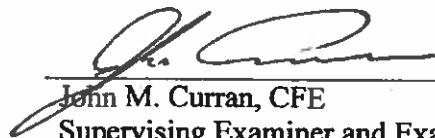
Commerce Insurance Company

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 and the following Division examiner who participated in this examination is hereby acknowledged.

Mike Lewandowski, Financial Examiner II



John M. Curran, CFE
Supervising Examiner and Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance