



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

REPORT OF EXAMINATION OF THE
DANBURY INSURANCE COMPANY

Hingham, Massachusetts

As of December 31, 2018

NAIC GROUP CODE 0787

NAIC COMPANY CODE 37346

EMPLOYER ID NUMBER 06-0600334

DANBURY INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
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COMMISSIONER OF INSURANCE

March 13, 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, and other applicable statutes, an examination has been made of the financial condition and affairs of

DANBURY INSURANCE COMPANY

at its home office located at 50 Derby Street, #104, Hingham, Massachusetts, 02043. The following report thereon is respectfully submitted.

Danbury Insurance Company

SCOPE OF EXAMINATION

Danbury Insurance Company ("Company") was last examined as of December 31, 2013 by the Massachusetts Division of Insurance ("Division"). The current 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 PricewaterhouseCoopers LLP ("PwC"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for calendar years 2014 through 2018. A review and use of the Certified Public Accountants' work papers was made to the extent deemed appropriate and effective.

Effective September 10, 2010, the Company and its parent, Hingham Mutual Insurance Company ("Hingham") became affiliated with New London County Mutual Insurance Company ("NLC") and Thames Insurance Company ("Thames") insurers domiciled in Connecticut. A coordinated examination was performed by the Connecticut Insurance Department ("Connecticut Department"). The Division relied on the work performed by the Connecticut Department wherever possible.

Danbury Insurance Company

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings identified during the examination.

COMPANY HISTORY

The Company was originally formed under the laws of the State of Connecticut and began business as Danbury Mutual Insurance Company in 1850 to insure risks against loss of real property by fire and lightning. In 1961, an amendment to its Charter empowered the Company to write fire, marine, casualty, liability, indemnity, fidelity, and any and all forms of insurance except life and endowment insurance and annuity contracts. In February 1988, the Company's charter was amended by the Connecticut General Assembly to allow the Company, when authorized by a two-thirds vote of its Board of Directors, to submit a plan of restructuring for the approval of Connecticut's Insurance Commissioner. Effective January 1, 1991, the Company underwent demutualization and was incorporated as a stock company with its current name under the laws of the State of Connecticut. At that time, it was licensed to write business only in the State of Connecticut. On August 11, 1994, Hingham purchased 80% of the stock of Danbury Holding Company ("DHC"), which was the sole parent company of Danbury Insurance Company; DHC later became a wholly owned subsidiary of Hingham Mutual Insurance Company ("Hingham") when Hingham purchased all remaining outstanding shares of DHC on May 1, 1998. The Company redomesticated to the Commonwealth of Massachusetts on December 15, 2000.

Effective September 10, 2010, the Company and its parent, Hingham, became affiliated with New London County Mutual and Thames Insurance Company, insurers domiciled in Connecticut. The affiliation agreement was approved by the Massachusetts Division of Insurance and the Connecticut Insurance Department.

Dividends to Policyholders

During the exam period, the Company did not pay dividends to its policyholders.

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board of Directors ("Board") and its Committees for the period under examination were read and they indicated that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at the meetings of the Board.

Articles of Organization and By-laws

The articles of organization and by-laws of the Company were reviewed. There have been no updates or amendment to the Company's by-laws since the last examination.

Danbury Insurance Company

Board of Directors

According to the bylaws, the powers of the Company shall be exercised, its business and affairs shall be conducted and its property shall be controlled by the Board of Directors, except as otherwise provided by the laws of the Commonwealth of Massachusetts, the Articles of Organization or the bylaws. The number of Directors shall be no more than twelve (12) or less than seven (7).

At December 31, 2018, the Company's Board of Directors was composed of seven persons, which is in compliance with the Company's bylaws and General Laws of Massachusetts. The members of the Board are as follows:

<u>Director</u>	<u>Title</u>
Steve Henry Chevalier	President and Chief Executive Officer, Director of NLC Insurance Companies and The Hingham Group
Edward Bulkeley Griswold	Managing Director, Centripetal Capital Partners
Judy Sanstrom Jackson	Retired NLC Employee
Donald Frank Mango	Actuary
Francis Pasquale Pandolfi	Self-employed consultant
Martin Charles Shapiro	Private Investor
Robert Hampton Steele	Vice Chairman, John Ryan Co.

Officers

According to the Company's bylaws, the Board of Directors shall elect the officers of the Company. The officers of the Company shall be the chief executive officer, the president, the treasurer, and the secretary and such officers shall be elected. The positions of operational vice presidents, assistant secretaries, and assistant treasurers may be created by the chief executive officer in consultation with the chairman of the board. The officers shall hold office until the date of the next annual meeting and until their respective successors are elected and qualified. The officers of the Company as of December 31, 2018 were as follows:

<u>Officer</u>	<u>Title</u>
Steve Henry Chevalier	President
George Kowalsky*	Treasurer and Vice President
Sherrie Lynn Krockomberger**	Secretary & Controller
George William Francis Jr	Vice President
Janice Viscio Ingarra	Vice President
Dennis Joseph Nelson	Vice President
James William Parylak	Vice President

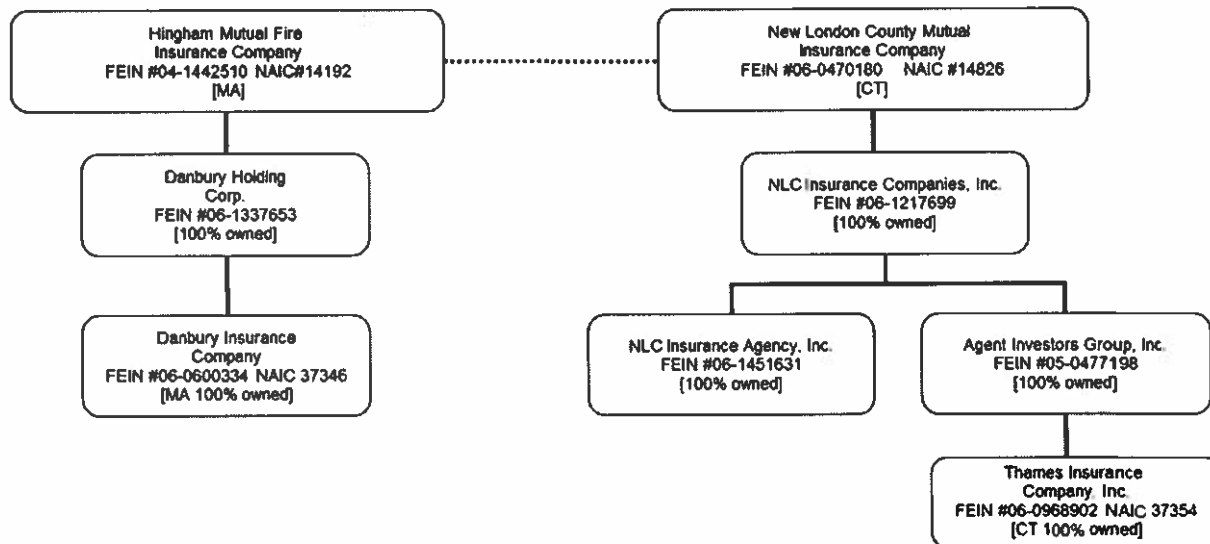
*Effective December 31, 2018, George Kowalsky retired and was replaced by Craig Michael Thomas

**In 2019 Craig Michael Thomas also replaced Sherrie Lynn Krockomberger as Secretary

Danbury Insurance Company

Organizational Chart

At December 31, 2018, the following Companies were part of the organizational structure:



Affiliated Companies

As stated in the Insurance Holding Company System Form B and Form C 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 Law Chapter 175, Section 206C and Regulation 211 CMR 7.00. The ultimate controlling entity of the system is New London County Mutual Insurance Company.

Transactions and Agreements with Subsidiaries and Affiliates

Administrative Services Agreements

The Company receives certain management, administrative, and data processing services from its affiliate, NLC, for which it pays a fee. Charges incurred by the Company to NLC are based upon actual expenses incurred by NLC.

Inter-Company Pooling Agreement

Effective with the affiliation agreement on September 10, 2010, the Company participates in an intercompany pooling agreement that combines underwriting results with affiliated entities. NLC is the lead company of the pool.

Danbury Insurance Company

Tax Sharing Agreement

Effective January 1, 2001, the Company participates in a written tax allocation agreement with two of its subsidiaries, Hingham Mutual Fire Insurance Company and Danbury Holding Corporation. 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. Tax-related intercompany balances are settled annually upon finalization of the consolidated return.

TERRITORY AND PLAN OF OPERATION

The Company currently is licensed to write business in the following four states: Massachusetts, Connecticut, New Hampshire, and Rhode Island. All Certificates of Authority were current and in force.

Through its appointed independent agents, the Company's lines of business are homeowners provided to personal risks and some multiple peril coverage provided to commercial risks. Its predominant concentration of business is homeowners' coverage in Massachusetts.

Treatment of Policyholders – Market Conduct

During the financial examination of the Company, the Division's Market Conduct Department initiated a comprehensive market conduct examination of the Company as of December 31, 2018. The market conduct examination was called pursuant to authority in Massachusetts General Law 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. The examination was conducted 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.

REINSURANCE

Intercompany Pooling Arrangements

Effective September 10, 2010, the Company participates in an intercompany pooling agreement that combines underwriting results with affiliated entities. New London County Mutual Insurance Company is the lead company of the pool. The participation percentages are as follows:

Danbury Insurance Company

New London County Mutual Insurance Company	50%
Hingham Mutual Fire Insurance Company	29%
Thames Insurance Company	15%
Danbury Insurance Company	6%

Ceded Reinsurance

The Company's affiliate, New London County Mutual, purchases pro-rata excess of loss and catastrophe reinsurance on behalf of the pool.

Assumed Reinsurance

The Company does not assume reinsurance from unaffiliated reinsurers for the year ended December 31, 2018.

Danbury 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 for the Year Ended December 31, 2018

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

Danbury Insurance Company

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

	Per Annual Statement
Assets	
Bonds	\$9,744,581
Stocks	
Preferred stocks	255,000
Common stocks	871,485
Cash, cash equivalents and short-term investments	286,054
Subtotals, cash and invested assets	11,157,120
Investment income due and accrued	73,280
Premiums and considerations:	
Uncollected premiums and agents' balances	438,682
Deferred premiums, agents' balances and installments booked but deferred and not yet due	134,500
Reinsurance:	
Amounts recoverable from reinsurers	84,573
Current federal and foreign income tax recoverable and interest thereon	58,112
Net deferred tax asset	138,660
Receivables from parent, subsidiaries and affiliates	183,324
Aggregate write-ins for other than invested assets	214,178
Total assets	<u>\$12,482,429</u>
Liabilities	
Losses	\$1,374,487
Reinsurance payable on paid losses and loss adjustment expenses	428,136
Loss adjustment expenses	291,525
Commissions payable, contingent commissions and other similar charges	111,996
Other expenses (excluding taxes, licenses and fees)	88,978
Taxes, licenses and fees (excluding federal and foreign income taxes)	(3,410)
Unearned premiums	2,282,249
Advance premium	13,412
Ceded reinsurance premiums payable (net of ceding commissions)	227,248
Payable to parent, subsidiaries and affiliates	0
Total liabilities	<u>4,814,621</u>
Common Capital Stock	1,150,000
Gross paid in and contributed surplus	8,517,500
Unassigned funds (surplus)	(1,999,692)
Surplus as regards policyholders	7,667,808
Total liabilities, surplus and other funds	<u>\$12,482,429</u>

Danbury Insurance Company

Statement of Income For the Year Ended December 31, 2018

	Per Annual Statement
Premiums earned	\$4,269,291
Deductions:	
Losses incurred	2,601,761
Loss adjustment expenses incurred	374,970
Other underwriting expenses incurred	1,732,782
Total underwriting deductions	4,709,513
Net underwriting gain (loss)	(440,222)
Net investment income earned	250,999
Net realized capital gains (losses) less capital gains tax of \$42,740	160,783
Net investment gain (loss)	411,782
Net gain (loss) from agents' or premium balances charged off	7
Finance and service charges not included in premiums	8,631
Aggregate write-ins for miscellaneous income	53
Total other income	8,691
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(19,749)
Dividends to policyholders	0
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(19,749)
Federal and foreign income taxes incurred	(111,447)
Net income	\$91,698

Danbury Insurance Company

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Capital and surplus, December 31 prior year	\$7,968,795	\$7,459,788	\$7,036,472	\$7,220,449	\$6,843,702
Net income	91,698	520,934	335,143	(112,569)	539,854
Change in net unrealized capital gains or (losses)	(254,598)	128,164	90,366	(43,548)	(63,960)
Change in net deferred income tax	(41,799)	(147,184)	(50,523)	26,140	(101,608)
Change in nonadmitted assets	13,130	5,734	49,965	(50,996)	3,315
Aggregate write-ins for gains or (losses) in surplus	<u>(109,418)</u>	<u>1,359</u>	<u>(1,634)</u>	<u>(3,004)</u>	<u>(855)</u>
Net change in capital and surplus for the year	<u>(300,986)</u>	<u>509,007</u>	<u>423,316</u>	<u>(183,977)</u>	<u>376,747</u>
Capital and surplus, December 31 current year	<u><u>\$7,667,808</u></u>	<u><u>\$7,968,795</u></u>	<u><u>\$7,459,788</u></u>	<u><u>\$7,036,472</u></u>	<u><u>\$7,220,449</u></u>

Danbury Insurance Company

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 adverse findings, or changes to the financial statements were identified.

Note 1 – Summary of Loss and Loss Adjustment Expense Reserves (“Loss and LAE Reserves”)

NLC acts as the lead company in an intercompany pooling arrangement with its affiliates. The relevant pooling percentages are as follows:

New London County Mutual Insurance Company	50%
Hingham Mutual Fire Insurance Company	29%
Thames Insurance Company	15%
Danbury Insurance Company	6%

The Connecticut Insurance Department performed an actuarial analysis of the Loss and LAE reserves of the insurance companies in the pool. The analysis evaluated the processes, procedures, methods, and assumptions used to determine the reasonableness of the carried Loss and LAE reserves of the pool as of December 31, 2018. The Department actuary concurred with the Company actuary’s conclusion regarding the reasonableness of the carried reserve.

After reviewing the work performed on the NLC pool, the Division determined that there was sufficient work done and that it could rely upon the work of Connecticut and the actuarial work performed on the entire pool in which the Company participates as indicated above. The conclusion reached is that the carried reserves of the Company as of December 31, 2018 are reasonable and no adjustment to these liabilities has been made in the financial statement within the Report of Examination.

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

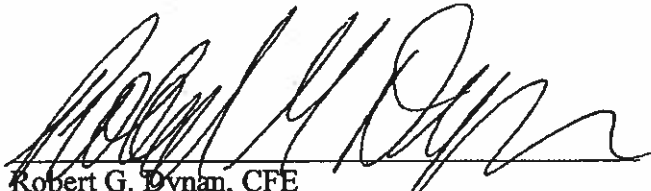
There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report.

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 the following Division examiners who participated in this examination hereby is acknowledged:

Guangping Wei, CFE, Financial Examiner III
Steven Tsimitsos, CFE, Financial Examiner II



Robert G. Dynan, CFE
Supervising Examiner & Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance