



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

***REPORT OF EXAMINATION OF THE***  
**DORCHESTER MUTUAL INSURANCE COMPANY**

**Dedham, Massachusetts**

**As of December 31, 2019**

**NAIC GROUP CODE 0144**

**NAIC COMPANY CODE 13706**

**EMPLOYER ID NUMBER 04-1255040**

# **DORCHESTER MUTUAL INSURANCE COMPANY**

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**COMMONWEALTH OF MASSACHUSETTS**  
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**DIVISION OF INSURANCE**

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COMMISSIONER OF INSURANCE

May 27, 2021

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

**DORCHESTER MUTUAL INSURANCE COMPANY**

at its home office located at 222 Ames Street, Dedham, MA 02026-1850. Due to the COVID-19 pandemic, the examination was conducted remotely. The following report thereon is respectfully submitted.

Dorchester Mutual Insurance Company

**SCOPE OF EXAMINATION**

The Dorchester Mutual Insurance Company (“Company” or “Dorchester”) was last examined as of December 31, 2014 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, 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 Norfolk & Dedham Group (“Group”) were also examined and separate Reports of Examination have been issued:

Norfolk and Dedham Mutual Fire Insurance Company (“Norfolk”)  
Fitchburg Mutual Insurance Company (“Fitchburg”)

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 Marcum, 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’ work papers were made to the extent deemed appropriate and effective.

The INS Companies (“INS”) was engaged by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division’s examination staff. The assistance included a review of accounting records, information systems, investments and actuarially determined loss and loss adjustment expense reserves, as well as other significant actuarial estimates.

## Dorchester Mutual Insurance Company

### **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**

The Company was incorporated on March 1, 1855 under the laws of the Commonwealth of Massachusetts as the Dorchester Mutual Fire Insurance Company and commenced business on July 1, 1855. The Company purchased the Guaranty Capital of Groveland Mutual Insurance Company ("Groveland") on May 30, 1974 and assumed management of that company. The members voted to adopt the Company's current name on July 27, 1988.

Effective January 1, 1995, the Company and Groveland became affiliated with the Norfolk and Dedham Mutual Fire Insurance Company ("Norfolk") and its affiliate, the West Newbury Mutual Fire Insurance Company ("West Newbury"). On October 20, 1999, the Company purchased 100 shares of Newbury Corporation ("Newbury") stock from Norfolk giving it 1% interest in the subsidiary. Effective June 14, 2001, the Fitchburg Mutual Insurance Company ("Fitchburg") became affiliated with the Company.

Charles River Insurance Company, ("Charles River") a Vermont domiciled captive insurance company, was incorporated on July 15, 2002. The Group owns 100% of the captive. Norfolk owns 4,500 shares of the common stock of Charles River, representing 45% interest, Dorchester owns 2,500 shares or 25% and Fitchburg owns 3,000 shares or 30%.

Effective December 23, 2003, the West Newbury Mutual Fire Insurance Company merged into the Dorchester Mutual Insurance Company. Effective November 29, 2004, the Groveland Mutual Insurance Company was dissolved.

In March of 2009, Dorchester purchased 1,406 additional shares of Newbury stock, as authorized by the Board of Directors ("Board") which gave them 13% interest in the subsidiary.

As of January 1, 2010, the Group formed an alliance with Rockingham Mutual Insurance Company ("Rockingham") and Rockingham Casualty Company ("Rockingham Casualty"), both Virginia domiciled companies. As part of the alliance, Rockingham entered into an inter-company pooling agreement, management services agreement and a Class "A" shareholder's agreement. Effective December 31, 2010, the alliance was terminated, and all agreements were cancelled. Subsequently, the ownership of Newbury changed to 68% to Norfolk, 19% to Fitchburg and 13% to Dorchester.

On October 17, 2017, NDG I, LLC, was formed as a limited liability corporation. The Group contributed cash in exchange for membership interest in the corporation. Units held by the mutual insurance companies and their respective ownership interests were as follows: Norfolk 650 Units, or 65%, Dorchester 140 Units, or 14% and Fitchburg 210 Units, or 21%.

## Dorchester Mutual Insurance Company

### Dividends to Policyholders

The Company did not pay any dividends to policyholders during the examination period. The Company received no policyholder dividends from any of its subsidiaries during the examination period.

## **MANAGEMENT AND CONTROL**

### Board of Directors Minutes

The minutes of meetings of the Board and its Committees for the period under examination were reviewed, 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 by the Board.

### Articles of Organization and Bylaws

The bylaws and articles of organization and amendments thereto were reviewed. The Company's bylaws were amended on March 9, 2016 which "delineated the authority and responsibilities of the Chief Financial Officer position". On March 14, 2018, the bylaws were amended again to read that "the President shall be the Chief Executive Officer of the Company. The President, or in his absence the Chairman, shall preside at all meetings of the members. The Chairman or in his absence, the Lead Director or if both are unavailable, the President shall preside at all meetings of the Board of Directors. The President, Treasurer or Chief Financial Officer, with the approval of the Board of Directors, shall be authorized to obtain a loan or loans in the name of the Company." Additionally, "the directors shall be divided into no more than four classes. The term of office of the directors of one class only shall expire in each year and their successors shall be chosen by ballot at the annual meeting of the members for a term of one year or a term of three years or until their successors are elected and qualified." The Company complied with Massachusetts General Laws, Chapter 175, Section 46B by filing these bylaws with the Division. The articles of organization were not amended during the examination period.

### Board of Directors

The bylaws of the Company provide that the directors may exercise all powers of the Company except as otherwise provided by law or the bylaws of the Company. The Board shall consist of not less than seven directors and shall be fixed at the Annual Meeting or a special meeting called for that purpose. The Board is divided into no more than four classes of Directors. The term of office for one class will expire in each year. Directors shall be elected at the Annual Meeting of the members and shall serve for three years or until their successors are elected and qualified.

## Dorchester Mutual Insurance Company

At December 31, 2019, the Company's Board consisted of the following Directors:

<u>Name of Director</u>	<u>Title</u>
F. Timothy Hegarty, Jr.	Chairman, Independent Director
Stephen A. Fine	Independent Director
James F. Gerrity, III	Independent Director, President, Gerrity Company, Inc.
Joseph A. Giovino	Independent Director, President, Giocon, Inc.
Barbara Finigan Fitzgerald	Independent Director
Glenn E. Niinimaki	Independent Director, Insurance Agent, Choice Insurance Group.
Gregory L. Petrini	Independent Director, CEO, Petrini Corporation.
John J. O'Neil, III	Independent Director, Managing Partner National Development.
Michael J. Shea	Independent Director
Joel P. Murray	President & CEO, Norfolk and Dedham Mutual Fire Insurance Company

\* Mr. James F. Gerrity retired from all Boards and Committees effective March 10, 2020.

### Officers

Officers of the Company as of December 31, 2019 were as follows:

<u>Name of Officer</u>	<u>Title</u>
F. Timothy Hegarty, Jr.	President and CEO
Thomas F. Alighieri	Treasurer
David N. Cote	Secretary
Erin M. Cummings	Assistant Corporate Secretary

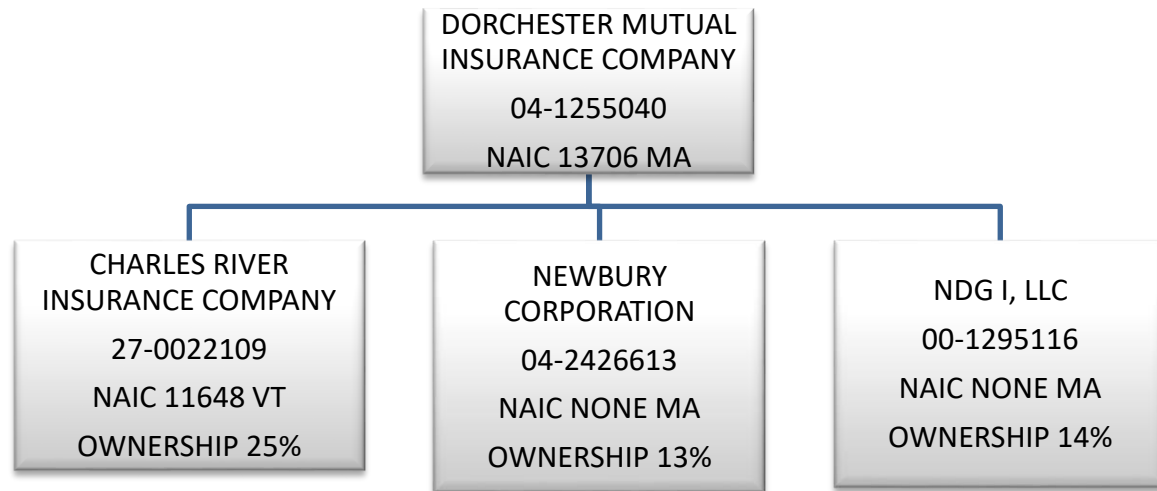
### Affiliated Companies

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 Law ("M.G.L.") 175, Section 206C and 211 CMR 7.00.

## Dorchester Mutual Insurance Company

### Organization Chart

A summary of ownership and relationship of the Company and its affiliated companies as of December 31, 2019 is illustrated below:



### Transactions and Agreements with Subsidiaries and Affiliates

#### *Management Agreement*

Newbury Corporation is a Massachusetts management company. As of December 31, 2019, the Company owned 1,606 shares of Newbury's common stock representing a 13% interest. Newbury provides managerial, technical, and clerical services to the Company, including the administration and management of all contracts and policies of insurance written by each of the Group's companies, as well as management of the Group's invested assets. The management agreement with Newbury also provides for an annual service fee, paid in quarterly installments, based on the net written premiums of the Group. The Company has no direct employees and Newbury sponsors all employee benefit and retirement plans.

#### *Pooling Agreement*

The majority of all inter-company transactions are governed by the inter-company reinsurance pooling agreement covering all underwriting and claim operations of the Company. The respective participation ratios are based on each individual company's direct written premium contribution into the pool and levels of surplus. The pooling agreement among the three legal entities that comprise the Group is detailed further in the reinsurance section of this report.



## Dorchester Mutual Insurance Company

### *NDG I, LLC*

In 2017, NDG I on behalf of the Company and pursuant to an investment management agreement with Angel Oak Capital Advisors deposited \$2,100,000 million into Angel Oak Capital Advisors. However, there has been no activity between the Company and NDG I other than the Company's initial investment. The investment was reported on the 2019 Schedule BA – Part 1 and classified as Non-Registered Private Funds.

### *Charles River Insurance Company*

Charles River assumed reinsurance from the Group in the form of an Aggregate Stop-Loss Policy with an annual limit of \$6,000,000, covering all lines of business for the period January 1, 2019 through December 31, 2019. During 2019, Charles River also provided the Company excess property coverage of \$500,000 in excess of \$1,500,000, with maximum coverage of \$1,500,000 on any risks involved in any one loss occurrence during the contract term.

## **TERRITORY AND PLAN OF OPERATION**

The Company is currently licensed to write various property and casualty lines of business in four states including Connecticut, Massachusetts, New Hampshire, and Rhode Island. The Company has written direct premium only in Massachusetts and New Hampshire during the examination period. The Company uses independent agents to primarily sell homeowners multiple peril, inland marine, workers' compensation, and other liability-occurrence insurance in these states. The Company reported \$41,030,791 of 2019 direct premium written, of which, \$40,832,119 was written in Massachusetts. All direct premiums, net of third-party reinsurance, are ceded to the inter-company reinsurance pool, and a percentage of the total post-pooled business is assumed by the Company.

### **Treatment of Policyholders – Market Conduct**

Within the past five years, the Commonwealth of Massachusetts has called one limited scope market conduct market analysis examination for calendar year 2016. There were no regulatory actions reported within the past five years. A statutorily required comprehensive examination of the Group was called on March 3, 2020, that is currently in progress.

## **REINSURANCE**

### **Pooling Agreement**

The Company participates in an inter-company reinsurance pooling agreement with Fitchburg and Norfolk. Under the terms of the agreement, each participating company cedes 100% of its business to Norfolk and assumed the agreed upon percentage of the entire pool. As of December 31, 2019, the pooling percentages were Norfolk 66%, Fitchburg 20%, and Dorchester 14%.

## Dorchester Mutual Insurance Company

### Ceded Reinsurance

The Company may reinsure risks prior to pooling, and as a member of the Group, the Company participates as a named insured in the reinsurance program managed and administered by the Group. Each treaty/contract reviewed contained an insolvency clause in accordance with M.G.L. Chapter 175, Section 20A.

### Assumed Reinsurance

The Company is also required to participate in certain underwriting pools and is assessed by insurance insolvency guaranty funds of various states to cover obligations of insolvent insurers. The Company participates in Pools and Associations such as the National Workers' Compensation Reinsurance Pool and Associated Inland Marine.

The Company also has an Assumed Reinsurance Program ("ARP"), which started in 2010. The assumed reinsurance program is subject to the inter-company pooling agreement. The majority of the business in the ARP is property CAT focused with both US and non-US exposures. The ARP is on a quota-share basis, the Group does not price the business directly but relies on the pricing of the Group's partners.

Dorchester Mutual Insurance Company

**FINANCIAL STATEMENTS**

The following financial statements 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 Each Year in the Five-Year Period Ended December 31, 2019

Dorchester Mutual Insurance Company

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

<b>Assets</b>	<b>Per Annual Statement</b>
Bonds	\$ 62,372,204
Common stocks	23,100,814
Cash and short-term investments	2,287,350
Other Invested assets	5,213,045
Subtotals, cash and invested assets	<u>92,973,413</u>
Investment income due and accrued	865,226
Premiums and considerations:	
Uncollected premiums and agents' balances	656,502
Deferred premiums, agents' balances and installments	4,914,611
Reinsurance:	
Amounts recoverable from reinsurers	1,443,251
Receivables from parent, subsidiaries and affiliates	585,855
Aggregate write-ins for other than invested assets	<u>6,143,351</u>
Total Assets	<u><u>\$107,582,209</u></u>

Dorchester Mutual Insurance Company

**Statement of Assets, Liabilities, Capital and Surplus (Continued)**  
**As of December 31, 2019**

<b>Liabilities</b>	<u>Per Annual Statement</u>
Losses	\$ 21,407,973
Reinsurance payable on paid losses and loss adjustment expenses	1,560,287
Loss adjustment expenses	3,668,659
Commissions payable, contingent commissions and other similar charges	2,560,497
Other expenses	1,652,802
Taxes, licenses and fees	235,406
Current federal and foreign income taxes	18,277
Net deferred tax liability	677,335
Borrowed money	5,160,718
Unearned premiums	18,321,670
Advance premium	638,420
Ceded reinsurance premiums payable	50,635
Derivatives	82,750
Payable for securities	86
Aggregate write-ins for liabilities	151,230
Total Liabilities	<u>56,186,745</u>
Unassigned funds (surplus)	<u>51,395,464</u>
Surplus as regards policyholders	<u>51,395,464</u>
Total Liabilities, Surplus and Other Funds	<u><u>\$ 107,582,209</u></u>

Dorchester Mutual Insurance Company

**Statement of Income  
As of December 31, 2019**

	Per Annual Statement
<b>Underwriting Income</b>	
Premiums earned	\$ 34,927,018
<b>Deductions:</b>	
Losses incurred	17,217,390
Loss adjustment expenses incurred	2,626,003
Other underwriting expenses incurred	13,512,168
Total underwriting deductions	33,355,561
Net underwriting gain	1,571,457
<b>Investment Income</b>	
Net investment income earned	2,261,497
Net realized capital gains	1,142,121
Net investment gain	3,403,618
<b>Other Income</b>	
Net gain from agents' premium balances charged off	(986,523)
Finance and service charges not included in premiums	98,298
Aggregate write-ins for miscellaneous income	139,632
Total other income	(748,593)
Net income before dividends to policyholders	4,226,482
Federal and foreign taxes incurred	625,895
<b>Net income</b>	<b>\$ 3,600,587</b>

Dorchester Mutual Insurance Company

**Reconciliation of Capital and Surplus**  
**For Each Year in 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	\$ 45,370,267	\$ 46,607,042	\$ 42,541,359	\$ 37,930,930	\$ 39,315,622
Net income	3,600,587	1,490,064	2,057,859	2,298,746	536,077
Change in net unrealized capital					
gains or (losses)	2,337,879	(2,549,498)	1,739,040	2,075,423	(1,956,316)
Change in net deferred income tax	90,172	(192,615)	276,075	211,736	59,710
Change in nonadmitted assets	(3,441)	15,274	(7,291)	(6,064)	6,425
Change in provision for reinsurance	-	-	-	30,588	(30,588)
Net change in capital and surplus					
for the year	<u>6,025,197</u>	<u>(1,236,775)</u>	<u>4,065,683</u>	<u>4,610,429</u>	<u>(1,384,692)</u>
Capital and surplus,					
December 31, current year	<u><u>\$ 51,395,464</u></u>	<u><u>\$ 45,370,267</u></u>	<u><u>\$ 46,607,042</u></u>	<u><u>\$ 42,541,359</u></u>	<u><u>\$ 37,930,930</u></u>

## **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION**

There were no adjustments 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”)

<b>Losses</b>	<b>\$21,407,973</b>
<b>Loss Adjustment Expenses</b>	<b>\$3,668,659</b>

The Division engaged INS to review the reasonableness of the loss and LAE reserves of the Company as of December 31, 2019. The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the Standard of Practice adopted by the Actuarial Standards Board.

INS performed an analysis of the loss and LAE reserves evaluated as of December 31, 2019 on a gross and ceded basis using data included in the Appointed Actuary’s Actuarial Report. INS noted that the Company’s Appointed Actuary, PwC, concluded that the Company’s carried net loss and LAE reserves as of December 31, 2019 were reasonable. The Company’s carried net loss and LAE reserves of \$25.077 million as of December 31, 2019 were above the Appointed Actuary’s Actuarial Central Estimate by approximately 5.1%.

INS found that the methodologies and assumptions employed by the Appointed Actuary in the Actuarial Report were reasonable. INS found the Company’s carried loss and LAE reserves as of December 31, 2019 were reasonable.

The table below shows that the Company’s net carried reserves of \$25.077 million was within the INS range of reasonable estimates from \$21.043 million to \$27.050 million. The INS Actuarial Central Estimate (“ACE”) of the net loss and LAE reserve of \$23.583 million was lower than the Company’s net carried reserves of \$25.077 million by \$1.494 million, or 6.0% of reserves. The Company’s gross carried loss and LAE reserves of \$38.556 million falls within the INS range of reasonable estimates of \$32.235 million and \$41.526 million. The INS ACE of \$36.167 million was lower than the Company’s gross carried reserves of \$38.556 million by \$2.389 million, or 6.2% of reserves.



## Dorchester Mutual Insurance Company

The table below summarizes a comparison of the INS range of reasonable estimates for loss and LAE reserves to the Company's carried loss and LAE reserves as of December 31, 2019.

Summary of Indicated Reserves (\$000s)							
	INS Estimate				Difference		
	Low	Central	High	Company Carried	Low	Central	High
Net	21,043	23,583	27,050	25,077	(4,034)	(1,494)	1,973
Gross	32,235	36,167	41,526	38,556	(6,321)	(2,389)	2,970

### **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 it underwrites. The Division will continue to monitor how the pandemic might impact the Company.

### **SUMMARY OF RECOMMENDATIONS**

There were no recommendations for the Company.

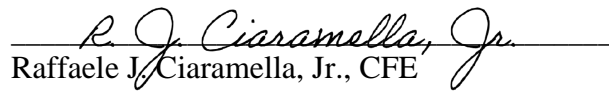
Dorchester Mutual Insurance Company

**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 INS and the following Division examiner who participated in this examination is hereby acknowledged:

Carla Mallqui, CFE, Insurance Examiner II

  
Raffaele J. Ciarabella, Jr., CFE  
Supervising Examiner  
Commonwealth of Massachusetts  
Division of Insurance