



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

REPORT OF EXAMINATION OF THE
INDEPENDENCE CASUALTY INSURANCE COMPANY

Boston, Massachusetts

As of December 31, 2010

NAIC GROUP CODE 1178

NAIC COMPANY CODE 11984

EMPLOYERS ID NO. 20-1135209

For Informational Purposes Only

INDEPENDENCE CASUALTY INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
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March 30, 2012

The Honorable Joseph G. Murphy
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

INDEPENDENCE CASUALTY INSURANCE COMPANY

at its home office located at 25 New Chardon Street, Boston, MA, 02114-4721. The following report thereon is respectfully submitted.

Independence Casualty Insurance Company

SCOPE OF EXAMINATION

Independence Casualty Insurance Company (hereinafter referred to as "Company" or "Independence") was last examined as of December 31, 2005 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the period from January 1, 2006 through December 31, 2010, 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 Atlantic Charter insurance group were also examined and separate Reports of Examination have been issued:

Atlantic Charter Insurance Company
Endeavour Insurance Company

The examination was conducted in accordance with standards established by the Financial Condition (E) Committee of the NAIC as well as with the requirements of the NAIC Financial Condition Examiners' Handbook, the examination standards of the Division and consistent with Massachusetts General Laws ("M.G.L."). The principal focus of the examination was 2010 activity; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Company is audited annually by Ernst & Young LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2006 through 2010. A review and use of the certified public accountants' work papers was made to the extent deemed appropriate and effective. An independent actuarial firm, Milliman, Inc., was retained by the Division to evaluate the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2010. An evaluation of the adequacy and effectiveness of the Information Technology Systems' controls was done to determine the level of reliance to be placed on summary information generated by the data processing systems.

Status of Prior Examination Findings

It appears that the previous examination comments have been addressed.

Independence Casualty Insurance Company

HISTORY

General

The Company was incorporated under the laws of the Commonwealth of Massachusetts on May 7, 2004, and it commenced business that same date. The Company writes workers' compensation insurance at a deviated rate (currently 5%) through a network of independent agents and brokers. The Company is licensed, as are its affiliates, to conduct business in Massachusetts and New Hampshire. The Company cedes all of its business to Atlantic Charter Insurance Company ("ACIC") via a 100% quota share reinsurance agreement.

The Company is a wholly owned subsidiary of Charter Management Company, Inc. ("CMC"), a Massachusetts corporation owned by Linda J. Sallop (68%) and Mitchel I. Weisman (32%). The Company's largest producer is the Nathan Sallop Insurance Agency ("NSIA").

The Company participates as a Voluntary Direct Assignment Carrier ("VDAC") in the Massachusetts Workers' Compensation Assigned Risk Pool ("MAWARP"), the residual market mechanism for workers' compensation insurance in the Commonwealth.

Capital Stock

The Articles of Organization for the Company authorized 200,000 shares of capital stock with no par value. In 2004, the Company initially was capitalized through the issuance of 50,000 shares of capital stock at a price of \$60.00 per share, as prescribed by Section 48 of MGL Chapter 175. All shares were purchased by CMC.

As of December 31, 2010, the Company had authorized 200,000 shares of no par value common capital stock, of which 50,000 have been issued and are outstanding. All outstanding shares continue to be held by CMC.

Dividends to Shareholders

The Company paid no dividends to shareholders during the examination period.

Independence Casualty Insurance Company

Growth of the Company

The growth of the Company for the years 2006 through 2010 is shown in the following schedule, which was prepared from the Company's Annual Statements, including any changes as a result of the examination:

| <u>Year</u> | <u>Admitted Assets</u> | <u>Direct Premiums</u> <u>Written</u> | <u>Surplus</u> |
|-------------|------------------------|--|----------------|
| 2010 | \$3,857,432 | \$12,982,614 | \$3,845,821 |
| 2009 | 3,735,180 | 15,113,781 | 1,714,373 |
| 2008 | 3,628,248 | 11,840,654 | 5,589,885 |
| 2007 | 3,464,076 | 7,315,193 | 3,455,573 |
| 2006 | 3,334,642 | 6,517,304 | 3,326,731 |

Management

Annual Meeting

In accordance with the Company's bylaws, the annual meeting of stockholders shall be held on the first Tuesday in March in each year. A majority in interest of all stock issued, outstanding, and entitled to vote at a meeting shall constitute a quorum of the stockholders. Stockholders entitled to vote shall have one vote for each share of stock owned by them and a proportionate vote for any fractional share of stock owned by them. Stockholders may vote in person or by proxy. If an annual meeting shall not have been held on the date fixed in the bylaws, a special meeting in lieu of an annual meeting may be held with all the force and effect of an annual meeting. The bylaws also specify that any action permitted to be taken at any meeting of the stockholders may be taken without a meeting if all stockholders entitled to vote on the matter consent to the action in writing. The corporate records document that for each year in the examination period, the requirement for an annual meeting was satisfied with an action by consent of the Company's sole stockholder.

Board of Directors

According to the bylaws, the business of the Company shall be managed by a board of directors which may exercise all of the powers of the Company except those exclusively conferred upon or reserved solely to the stockholders. The board of directors shall consist of not fewer than five directors and the stockholders shall fix the number of directors for the ensuing corporate year at the annual meeting of the stockholders or at any special meeting held for that purpose. The directors shall be elected at the annual meeting of stockholders or the special meeting in lieu of the annual meeting. Each director shall hold office until the next annual meeting of the stockholders and until a successor shall have been duly elected and qualified, but any director

Independence Casualty Insurance Company

may resign. The stockholders may remove any director from office with or without cause; the board of directors may remove any director from office for cause. If the office of a director becomes vacant for any reason, the stockholders or the board of directors may elect a successor to complete the unexpired term of the predecessor, but only the stockholders may fill a vacancy resulting from enlargement of the board. A director may, but need not, be a stockholder, an officer, or an employee of the Company. The bylaws permit that by majority vote of the board of directors, the board may be divided into two or more classes, such classes to be as nearly equal in number as possible.

At December 31, 2010, the Company's board of directors had the common governance of the same seven (7) people serving as directors on the boards of affiliates. The following table lists the members of the board and their business or professional affiliations.

| <u>Name of Director</u> | <u>Business Affiliation</u> |
|---------------------------|--|
| Linda Jane Sallop, Esq. | President and Chairperson of the Company |
| Mitchel Ira Weisman, Esq. | Executive Vice President and Secretary of the Company |
| David Allan Bakst, Esq. | Senior Partner, Morrison Maerzke LLP |
| Julianne M. Bowler* | Former Massachusetts Commissioner of Insurance |
| Brian Albert Brooks, CPA | Senior Partner, Retired, PricewaterhouseCoopers, LLP |
| William Joseph Kearney | Underwriting Manager, Retired, The Hartford Companies |
| Eric Dean Schlager | Chief Executive Officer, The Bullfinch Companies, Inc. |

* Newly elected to Directorship since the prior examination.

Directors Linda J. Sallop and Mitchel I. Weisman also serve on the Board of Directors for Charter Management Company, Inc.

The bylaws do not specify the number of meetings of the board of directors to be held during a year and they allow the board of directors to take action by consent and/or telephonic meetings. At any meeting of the board, a majority of the directors then in office shall constitute a quorum but in no event shall a quorum be less than four directors. The minutes indicated that a quorum was obtained for all meetings of the board of directors held during the examination period.

The bylaws allow that the directors may elect from their number an executive committee, an investment committee, and such other committees as they may determine. In accord therewith, the board of directors appointed an Investment Committee and an Audit Committee. The purpose and membership of each committee at December 31, 2010, are as follows:

Independence Casualty Insurance Company

Investment Committee

The Investment Committee monitors the performance of the Company's investments and authorizes the purchase and/or sale of securities. At the date of examination, the members of the Investment Committee were Director Linda J. Sallop, Director Brian A. Brooks, and Director Eric D. Schlager.

Audit Committee

The Audit Committee coordinates and oversees services of the Company's auditors and it serves as a liaison between the Company and its auditors. At the date of examination, the Audit Committee consisted of Directors Brian A. Brooks and William J. Kearney.

Officers

According to the Company's bylaws, the officers of the Company shall be a president, a treasurer, a clerk and such other officers as the board of directors may determine. The board of directors shall elect the president, treasurer, clerk, and any other officers. The president may, but need not, be a director. The clerk shall be a resident of Massachusetts. To the extent permitted by law, any two or more offices may be held by the same person. No officer need be a stockholder in or an employee of the Company.

The elected officers and their respective titles at December 31, 2010 follow:

| <u>Name</u> | <u>Title</u> |
|--------------------------|--|
| Linda J. Sallop, Esq. | President |
| Mitchel I. Weisman, Esq. | Executive Vice President and Secretary |
| Joseph N. Riccio, CPA | Treasurer |
| Faye C. Thalman | Vice President |
| Daniel E. Bakst, Esq. | Assistant Secretary |

Conflict of Interest Procedures

The Company has adopted a policy statement pertaining to conflicts of interest in accordance with Question 17 of the General Interrogatories of the Annual Statement. The Company has an established procedure for the disclosure to the board of directors of any material interest or affiliation on the part of any officer or director, which conflicts or is likely to conflict with his or her official duties.

Independence Casualty Insurance Company

Annually, each officer and director completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed, and no discrepancies were noted in the responses to the General Interrogatories regarding conflicts of interest as reflected in the Company's 2010 Annual Statement.

Corporate Records

Articles of Organization and By-laws

The by-laws and Articles of Organization and amendments thereto were read. During the examination period, there were no changes to the by-laws or the Articles of Organization.

Disaster Recovery and Business Continuity

The Company does provide for the continuity of management and operation in the event of a catastrophe or national emergency in accordance with M.G.L. c.175 ss.180C-180Q.

Board of Directors Minutes

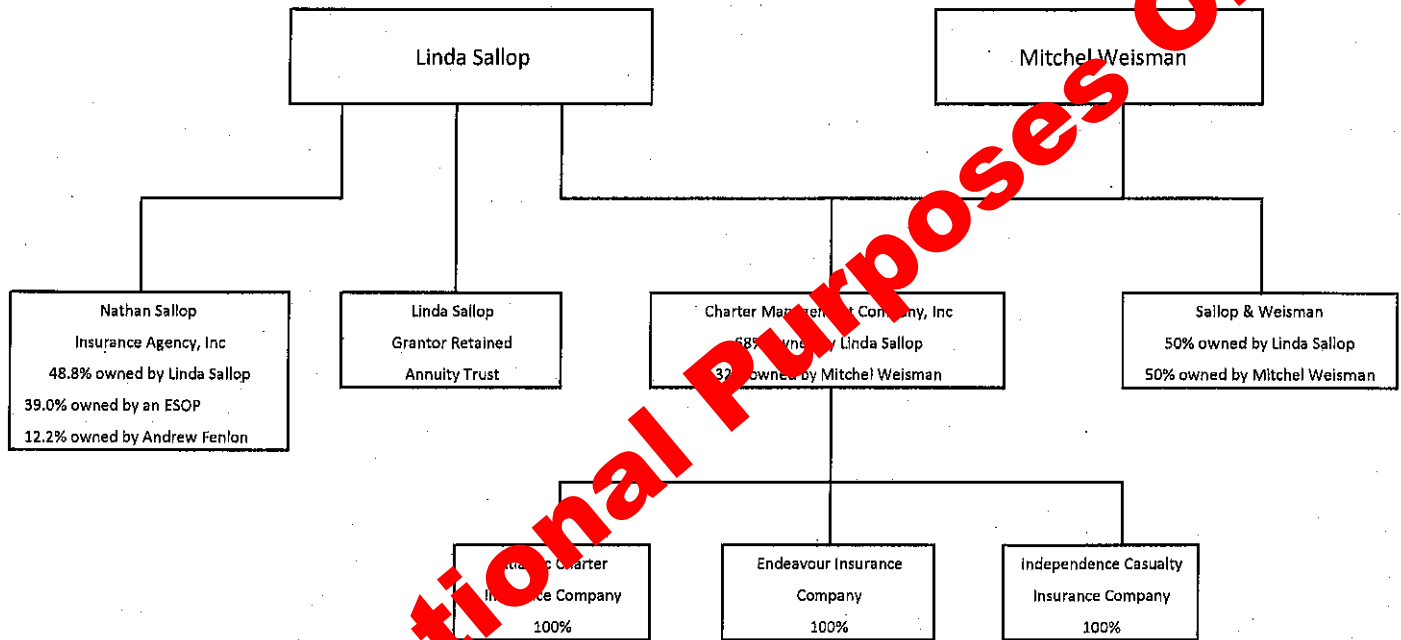
The minutes of the board of directors and committee meetings for the period under statutory examination were read. The minutes indicated that all meetings were held in accordance with the Company's by-laws and the laws of the Commonwealth of Massachusetts. Activities of the committees were ratified at each meeting of the board of directors.

The minutes of the board of directors do not indicate that the prior Report of Examination as of December 31, 2005 was reviewed by the board.

Independence Casualty Insurance Company

AFFILIATED COMPANIES

Per Form B, as filed with the Massachusetts Division of Insurance, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L. c.175, s206C of the Massachusetts General Laws and Regulation 211 CMR 7.00. Charter Management Company, Inc. is the "ultimate controlling person".



Independence Casualty Insurance Company

Transactions and Agreements with Parent and Affiliates

Service Agreement

Per the terms of a written services agreement effective January 1, 2002, the Company receives management, general administrative, underwriting, claims, financial accounting and other services from its parent company, CMC. Under the terms of the agreement, the Company shall pay to CMC 100% of the actual costs and expenses incurred by CMC on behalf of the Company.

Inter-Affiliate Reinsurance Agreement

The Company has a quota share reinsurance agreement with ACIC whereby the Company cedes all of the business written by the Company to ACIC.

Tax Sharing Agreement

The Company participates in a written tax allocation agreement entered into as of May 4, 2004, with three affiliates, CMC, ACIC, and EIC. Per such agreement, CMC collects from or refunds to its participating subsidiaries the amount of taxes or benefits by an allocation method based upon the respective tax liability of each member computed as if a separate return were filed in accordance with the Internal Revenue Code.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with M.G.L. c.175 s.60. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by purchasing policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2010.

PENSION AND OTHER INSURANCE PLANS

All company personnel are actually employees of CMC. As employees of CMC, they are offered various insurance plans including health, dental, life and disability.

CMC sponsors a defined contribution plan in which employees may elect to participate. CMC may match the employee contribution upon approval of the board of directors.

STATUTORY DEPOSITS

| <u>Location</u> | <u>Description of Deposit</u> | <u>Value</u> |
|-----------------|-------------------------------|------------------|
| New Hampshire | Cash | \$500,000 |
| Total | | <u>\$500,000</u> |

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed to write workers' compensation and employers' liability in Massachusetts and New Hampshire. The company writes business through brokers and independent agents.

Treatment of Policyholders – Market Conduct

During the financial examination, the Division's Market Conduct Department initiated a comprehensive market conduct examination of the Company for the period January 1, 2010 through December 31, 2010. The market conduct examination was called pursuant to authority in Massachusetts General Laws (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 of the firm of Rudmose & Noller Advisors, LLC were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins.

The basic business areas reviewed under the market conduct examination are Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Services, Underwriting and Rating, Claims, in addition to an assessment of the Company's internal control environment. Once this market conduct examination was completed a report on the Comprehensive Market Conduct Examination of the Company for the period January 1, 2010 through December 31, 2010 was issued and became a public document.

REINSURANCE

The Company has a limited program of reinsurance. It assumes no reinsurance but it accepts its statutorily imposed residual market obligations from MaWCARP. The Company cedes all of its business to its affiliate, ACIC. The following briefly describes the major features of the Company's reinsurance activity.

Inter-Affiliate Reinsurance Agreement

Effective June 15, 2004, the Company began to participate in a 100% quota share reinsurance agreement with ACIC whereby the Company cedes to ACIC all of its premiums, losses, loss adjustment expenses, and underwriting expenses of insurance risks underwritten or assumed on or after such effective date. By such agreement, ACIC agreed to be solely responsible for the servicing and administration of such business and bears all costs associated with performing such servicing. The agreement is prospective in nature.

Independence Casualty Insurance Company

Assumed Reinsurance

Involuntary Pool

As a licensed insurer, the Company has statutorily mandated participation in MaWCARP, the residual market mechanism for workers' compensation insurance in the Commonwealth of Massachusetts. MaWCARP bases the distributions of its operating results on a policy year basis and allocates its financial results among insurers in the property and casualty industry in proportion to their respective voluntary writings. The Company has exercised its option to fulfill its statutory obligation to MaWCARP by becoming a voluntary direct assignment carrier which is assigned its estimated share of MaWCARP values in the form of specific risks in lieu of a percentage of MaWCARP's overall results. The Company retains the underwriting risk of such policies and is responsible for their claims, loss adjustment expenses, and underwriting expenses.

SUBSEQUENT EVENTS

In September 2011, John Gray, retired Senior Vice President of General Re became a member of the board of directors.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent certified public accountants. No material differences were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the Information Technology environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the Information Technology controls. No material deficiencies were noted.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2010 annual statement. No material exceptions were noted.

The books and records of the Company are audited annually by Ernst & Young LLP, independent Certified Public Accountants, in accordance with 211 CMR 23.00.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts and by the *National Association of Insurance Commissioners* as of December 31, 2010:

Statement of Assets, Liabilities and Surplus and Other Funds as of December 31, 2010

Underwriting and Investment Exhibit Statement of Income for the Year Ended
December 31, 2010

Reconciliation of Capital and Surplus For the Five Year Period Ended
December 31, 2010

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Independence Casualty Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2010

| Assets | Per Company | Examination Changes | Per Statutory Examination | Note |
|---|----------------|------------------------|------------------------------|------|
| Bonds | \$ 3,148,234 | \$ 0 | \$ 3,148,234 | |
| Cash and short term investments | 654,348 | | 654,348 | |
| Subtotal cash and invested assets | 3,802,582 | 0 | 3,802,582 | |
| Investment income due and accrued | 54,850 | | 54,850 | |
| Total Assets | \$ 3,857,432 | 0 | \$ 3,857,432 | |
| Liabilities | | | | |
| Losses | \$ 0 | \$ 0 | \$ 0 | 1 |
| Loss adjustment expenses | 0 | | 0 | 1 |
| Taxes, licenses and fees | 1,526 | | 1,526 | |
| Current federal and foreign income tax | 12,085 | | 12,085 | |
| Total liabilities | 13,611 | 0 | 13,611 | |
| Common capital stock | 3,000,000 | 0 | 3,000,000 | |
| Unassigned funds | 843,821 | | 843,821 | |
| Surplus as reported to policyholders | 3,843,821 | 0 | 843,821 | |
| Total Liabilities and Capital and Surplus | \$ 3,857,432 | \$ 0 | \$ 857,432 | |

Independence Casualty Insurance Company

Underwriting and Investment Exhibit Statement of Income For the Year Ended December 31, 2010

| | Per Company | Examination Changes | Per Statutory Examination | Note |
|--|-------------------|------------------------|------------------------------|------|
| Net investment income earned | \$ 131,335 | \$ 0 | \$ 131,335 | |
| Net realized capital gains | 10,198 | | 10,198 | |
| Net investment gain | <u>141,533</u> | <u>0</u> | <u>141,533</u> | |
| Net income before dividends to policyholders | 141,533 | | 141,533 | |
| Dividends to policyholders | <u>0</u> | | <u>0</u> | |
| Net income before federal taxes | 141,533 | 0 | 141,533 | |
| Federal and foreign taxes incurred | <u>12,085</u> | | <u>12,085</u> | |
| Net Income | <u>\$ 129,448</u> | <u>\$ 0</u> | <u>\$ 129,448</u> | |

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Loss and Loss Adjustment Expense Reserves

The Division retained the consulting actuarial services of Milliman, Inc. to provide an independent actuarial review of the loss and loss adjustment expense reserves carried by the company. The consulting actuaries from Milliman noted that the Company cedes 100% of its loss and loss adjustment expense reserves to ACIC; thus, they concluded that the Company's carried net reserve of zero dollars is appropriate. On a gross basis, the following table summarizes Milliman's reserve ranges and selected point estimate reserve, and the Company's carried reserves as of December 31, 2010:

Loss & Loss Adjustment Expense Reserves as of December 31, 2010
(000's omitted)

| Reserve Category | Low | Milliman Indicated Selected | High | Carried |
|---------------------------------------|--------|--------------------------------|--------|---------|
| <i><u>Gross of Reinsurance</u></i> | | | | |
| Losses and Defense & Cost Containment | 13,775 | 15,306 | 17,602 | |
| Adjusting & Other | 3,550 | 4,124 | 4,985 | |
| Total Loss & Expense | 17,325 | 19,340 | 22,587 | 20,913 |

Milliman's review indicates the carried gross Loss and LAE reserves as of December 31, 2010 fall within a range of reasonableness.

ACKNOWLEDGEMENT

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 is hereby acknowledged:

Richard Looney, Financial Examiner III
Carla Mallqui, Financial Examiner II
Steven Tsimitsos, Financial Examiner II



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