



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

REPORT OF EXAMINATION OF THE

MIIA PROPERTY AND CASUALTY GROUP, INC.

Boston, Massachusetts

As of June 30, 2018

EMPLOYER ID NUMBER 04-2925648

MIIA PROPERTY AND CASUALTY GROUP, INC.

TABLE OF CONTENTS

Page

Salutation	1
Scope of Examination	2
Summary of Significant Findings of Fact	2
Group History	3
General	3
Dividends	3
Participation Credits	4
Management and Control	4
Board of Trustees Minutes	4
Articles of Organization and Bylaws	4
Board of Trustees	4
Officers	5
Affiliated Companies	6
Organizational Chart	6
Transactions and Agreements with Affiliates	6
Administrator	6
Territory and Plan of Operation	7
Reinsurance	7
Assumed Reinsurance	7
Ceded Reinsurance	7
Financial Statements	9
Statement of Assets, Liabilities, Surplus and Other Funds	10
Statement of Assets, Liabilities, Surplus and Other Funds (continued)	11
Statement of Income	12
Reconciliation of Capital and Surplus	13
Analysis of Change in Financial Statements Resulting From Examination	14
Comments on Financial Statement Items	14
Subsequent Events	15
Summary of Recommendations	15
Signature Page	16



COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • Toll free (877) 563-4467
<http://www.mass.gov/doi>

CHARLES D. BAKER
GOVERNOR

KARYN E. POLITO
LIEUTENANT GOVERNOR

MIKE KENNEALY
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

EDWARD A. PALLESCHI
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

GARY D. ANDERSON
COMMISSIONER OF INSURANCE

February 26, 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 40M, Section 6, an examination has been made of the financial condition and affairs of

MIIA PROPERTY AND CASUALTY GROUP, INC.

at its home office located at One Winthrop Square, Boston, Massachusetts 02110. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

MIIA Property and Casualty Group, Inc. (“Group” or “MIIA P&C”) was last examined as of June 30, 2014, by the Massachusetts Division of Insurance (“Division”). The current examination was also conducted by the Division and covers the four-year period from July 1, 2014 through June 30, 2018, including any material transactions and/or events occurring subsequent to the examination date and noted in 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 Group by obtaining information about the Group, including corporate governance, identifying and assessing inherent risks within the Group, and evaluating system controls and procedures used to mitigate those risks.

All accounts and activities of the Group were considered in accordance with the modified 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 Group’s financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 40M, Section 6, 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 Group.

The Group is audited annually by Johnson Lambert LLP (“CPA”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Group’s financial statements for calendar years 2015 through 2018. The review and use of the CPA work papers were made to the extent deemed appropriate and effective.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings identified during the examination. The Group has complied with the previous examination recommendation to calculate and record the reinsurance recoverable in accordance with the reinsurance agreements.

GROUP HISTORY

General

Under the Laws of the Commonwealth of Massachusetts, the Group was incorporated and commenced business on July 1, 1987, as a non-profit organization to provide a program of property and casualty coverage for cities, towns, and other governmental entities which were members in good standing of Massachusetts Municipal Association ("MMA"), a non-profit, non-partisan association of cities and towns in Massachusetts. The Group received a Certificate of Approval from the Commissioner of Insurance as a self-insurance group organized under and subject to Massachusetts General Law ("MGL") Chapter 40M. Section 1 of this statute stipulates that such a group shall not be subject to the provisions of the insurance laws and regulations of the Commonwealth except as otherwise provided by this particular Chapter.

Prior to the incorporation of the Group, MMA also had established MIIA Workers' Compensation Group Inc. ("MIIAWC"). MIIAWC was incorporated on February 18, 1986, and commenced business on July 1, 1986, as a workers' compensation self-insurance group regulated pursuant to Sections 25E through 25U of MGL Chapter 152 and to Massachusetts Regulation 211 CMR 67.00. MIIAWC had been a non-profit organization providing a program of workers' compensation coverage and risk management services for the cities, towns, and other governmental entities that were members in good standing of MMA. In July of 1998, MIIAWC merged into the Group and the Group became the surviving entity, assuming all MIIAWC's obligations while continuing to offer the workers' compensation coverages in addition to its lines of other property and casualty coverages under the Certificate of Approval issued by the Commissioner pursuant to MGL Chapter 40M.

On December 6, 2011, the Group incorporated a wholly-owned subsidiary, MIIA Reinsurance Company ("MIIA Re"), a Vermont domiciled captive reinsurance entity. MIIA Re was formed to reinsure a portion of the Group's risks. The Group capitalized MIIA Re with an initial \$5,000,000 contribution.

Dividends

The Board of Trustees ("Board") authorized dividends to be paid to the workers' compensation members during the period of examination. The Group paid the following dividends during the four-year period of the examination:

- The Group paid dividends of \$511,630 to workers' compensation members in 2015.
- The Group paid dividends of \$499,331 to workers' compensation members in 2016.
- The Group paid dividends of \$536,405 to workers' compensation members in 2017.
- The Group paid dividends of \$426,389 to workers' compensation members in 2018.

MIIA Property and Casualty Group, Inc.

Participation Credits

The Board authorized participation credits available to both property & casualty and workers' compensation members upon renewal of their policies in the next fiscal year. The participation credits in practice are recognized and applied against the premium amount receivable by the Group from each renewing member. In the Group's annual statement, the provision for participation credits not yet applied was reported as an aggregate write-in liability for amounts payable to policyholders. The Group's unapplied participation credits during the four-year period of the examination are the following:

- The Group's unapplied participation credits of \$4,716,142 to members in 2015.
- The Group's unapplied participation credits of \$3,828,971 to members in 2016.
- The Group's unapplied participation credits of \$4,031,858 to members in 2017.
- The Group's unapplied participation credits of \$4,466,938 to members in 2018.

MANAGEMENT AND CONTROL

Board of Trustees Minutes

The minutes of meetings of the Board of Trustees and its Committees for the period under examination were read and they indicated that all meetings were held in accordance with the Group's bylaws and the Laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board.

Articles of Organization and Bylaws

The articles of organization and bylaws of the Group were reviewed. There were no changes to the articles of organization and bylaws during the examination period. Further, the Group has been in compliance with the articles of organization and bylaws.

Board of Trustees

According to the bylaws, the Group's business shall be managed by a Board of Trustees which may excise all the powers of the Group. The Board shall consist of the following persons: the Executive Director of MMA, the Treasurer of MIIA P&C, each ex-officio; and six voting Delegates of Class W, which are cities and towns members, nominated in accordance with Section 4, article III of the bylaws. At each annual meeting, three voting delegates of Class W shall be elected for a two-year term to serve until his or her successor is elected. At June 30, 2018, the Group's Board consisted of the following individuals:

MIIA Property and Casualty Group, Inc.

<u>Name of Director</u>	<u>Title</u>
Paul Cohen (Chair)	Town Manager, Chelmsford
Geoffrey Beckwith	Chief Executive Officer & Executive Director of MMA, Inc., President & Chief Executive Officer of MIIA, Inc. and MIIA P&C Group, Inc.
Stanley Corcoran	Executive Vice President MIIA Inc. & MIIA P&C Group, Inc.
Christopher Clark	Town Administrator, Harwich
William Keegan	Town Manager, Foxborough
Blythe Robinson	Executive Director, Wellesley
Kim Roy	Selectman, Halifax
Kenneth Walto	Town Manager, Dalton

Budget Committee

The Budget Committee was established by the Board to provide oversight and input to the annual budget process. The President plus three members appointed by the President and approved by the board, shall serve on the Budget Committee. The committee appointments for 2018 were: Kim Roy, Geoffrey Beckwith, Rocco Longo and Paul Cohen.

Investment Committee

The Investment Committee was established by the Board to provide oversight and input on investments and the investment policy. The President, Executive Vice President plus three members appointed by the President and approved by the Board shall serve on the Investment Committee. The committee appointments for 2018 were: Geoffrey Beckwith, Stanley Corcoran, Paul E. Cohen, Rocco Longo and William Keegan.

Audit Committee

The Audit Committee was established by the Board to provide selection and oversight of audit services. Three members appointed by the President and approved by the Board shall serve on the Audit Committee. The committee appointments for 2018 were: Kenneth Walto, Greg Federspiel and Blythe Robinson.

Officers

Officers of the Group as of June 30, 2018, were as follows:

<u>Name of Officers</u>	<u>Title</u>
Geoffrey C. Beckwith	President
Christopher Bailey	Secretary/Clerk*
Stanley Corcoran	Treasurer

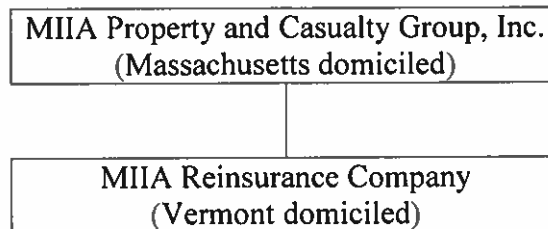
*Ann Ludlow retired on August 25, 2015. She was succeeded by Christopher Bailey effective on January 21, 2016. During the interim period Martin Willis-Jackson, the accounting and finance manager of the Group, was the acting Secretary.

MIIA Property and Casualty Group, Inc.

Affiliated Companies

The Group is not required to file an Insurance Holding Group System Form B with the Division and it is not subject to the registration requirements of MGL Chapter 175, Section 206C and 211 CMR 7.00. However, MIIA Reinsurance Company is the only wholly-owned captive subsidiary of the Group; it was formed and incorporated in Vermont in December 2011.

Organizational Chart



Transactions and Agreements with Affiliates

MIIA Reinsurance Company, the wholly-owned captive subsidiary of the Group, assumes reinsurance on the Group's property, automobile liability, general liability, employee benefit liability and umbrella lines of business.

The Group entered into an unsecured and uncollateralized demand note agreement with MIIA Re. This note allows these funds to become part of the Group's investment portfolio, in order to maximize investment income returns for MIIA Re. As of June 30, 2018, the balance of the Note was \$17.75 million with the note bearing interest at an annual rate of 3.05% which is payable on demand.

Administrator

Since its formation, the Group has retained Massachusetts Interlocal Insurance Association, Inc. ("MIIA, Inc.") as its designated administrator to handle day-to-day activities on behalf of the Group in accordance with the terms of a written administrative services agreement. By such agreement, MIIA, Inc. is obligated to provide, or arrange for the provision of, appropriate office space, equipment, and supplies subject to the approval of the Group, qualified staff to operate the Group, and such specialized services as may be required from time to time by the Group. MIIA, Inc. also prepares periodic reports for the Group's Board regarding claims, payments made by the Group, investments of the Group's assets, loss history, and such other reports as the Board may reasonably request. In addition, MIIA, Inc. arranges for research and development activities and other insurance services such as loss control and claims administration services for the self-

MIIA Property and Casualty Group, Inc.

insurance entities. MIIA, Inc. has no employees and it contracts with MMA to provide the administrative staff and facilities in order for MIIA, Inc. to fulfill its contractual obligations with the Group.

MIIA, Inc. outsources investment advice and services for investment of the Group's assets. It also outsources underwriting of coverages, risk management analysis, surveys, and processing of the Group's claims to other third-party administrators relative to specific functions. In the period of examination, Aon Risk Services of Massachusetts, Inc., was being used to manage the Group's workers' compensation claims while Cabot Risk Strategies, LLC. was being used for the Group's property and liability lines and marketing of the workers' compensation line. Both service organizations are engaged by contract and are subject to regular reporting and review by the Group or its designated professional performance evaluators.

Coterminous with the administrative service agreement, the Group and MIIA Health Benefit Trust, another MIIA entity, have an agreement for Additional Payment to MIIA, Inc. Under this agreement, the Group and MIIA Health Benefit Trust agree to pay an additional amount to MIIA, Inc. for the administrative services provided.

TERRITORY AND PLAN OF OPERATION

The Group is licensed only in Massachusetts. It is a self-insurance group that provides programs of property and casualty coverages including workers' compensation coverage for Massachusetts cities, towns, and other governmental entities which are members in good standing of MMA. In addition to insurance coverages, the Group provides risk management services with an emphasis on loss control and loss management.

REINSURANCE

Assumed Reinsurance

The Group does not assume reinsurance.

Ceded Reinsurance

The Group uses reinsurance as a way to limit its exposure to losses. Below is a summary of the various reinsurance agreements.

The property reinsurance program has coverage up to \$500 million composed of five layers as follows:

- | | |
|-----------------|--|
| 1 st | \$500,000 deductible with an annual aggregate of \$1.5 million
\$25 million limit |
| 2 nd | \$75 million xs \$25 million |
| 3 rd | \$200 million xs \$100 million |

MIIA Property and Casualty Group, Inc.

4 th	\$100 million xs \$300 million
5 th	\$100 million xs \$400 million

The Group is reinsured for terrorism up to \$500 million with three layers of coverage as follows:

1 st	\$100 million xs \$250,000
2 nd	\$300 million xs \$100 million
3 rd	\$100 million xs \$400 million

For boiler & machinery coverage, there is a \$100 million per accident limit, \$3 million builders risk limit, \$250,000 expediting limit and \$500,000 limit on hazardous substance and water damage. The reinsurance contract has different deductibles based on type of loss. There is a separate facultative certificate for the Town of Falmouth.

For the liability coverages, auto, general and employee benefits; MIIA cedes claims in excess of \$500,000 up to \$1 million per occurrence, subject to a maximum annual retention of \$500,000 per occurrence with a \$10 million annual aggregate.

For the workers' compensation coverage the reinsurance limit is the statutory limits for workers' compensation and \$2 million for employers' liability, both have a \$750,000 retention.

For professional liability coverage, the Group has reinsurance agreement, with a self-insured retention of \$250,000 the reinsurer has \$750,000 limit per occurrence, per member; with a maximum limit of \$10 million each occurrence/each wrongful act.

The Group has a quota share umbrella agreement for professional liability, general liability, auto liability, employee benefit liability and employers' liability. The limits of liability are up to \$10 million for each occurrence, for each member, and \$10 million annual aggregate, per each member. Retention is at \$1 million each occurrence, \$3 million annual aggregate for each member.

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Group with the Division and present the financial condition of the Group for the period ending June 30, 2018. The financial statements are the responsibility of the Group's management. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Statement of Assets, Liabilities, Surplus and Other Funds as of June 30, 2018

Statement of Income for the Year Ended June 30, 2018

Reconciliation of Capital and Surplus for Each Year in the Four-Year Period Ended June 30, 2018

MIIA Property and Casualty Group, Inc.

Statement of Assets, Liabilities, Surplus and Other Funds
As of June 30, 2018

	Per Annual Statement
ASSETS	
Bonds	\$203,969,455
Common Stocks	59,702,092
Cash, cash equivalents and short-term investments	11,398,820
Aggregate write-in for invested asset:	
Investment in LLC	478,461
Subtotals, cash and invested assets	<u>275,548,828</u>
Investment income due and accrued	1,127,584
Reinsurance:	
Amounts recoverable from reinsurers	7,451,097
Receivables from parent, subsidiaries and affiliates	2,022,503
Aggregate write-ins for other than invested assets	<u>191,704</u>
Total Assets	<u>\$286,341,716</u>

MIIA Property and Casualty Group, Inc.

Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of June 30, 2018

	Per Annual Statement
LIABILITIES	
Losses	\$111,781,563
Loss adjustment expenses	21,399,708
Other expenses	2,129,288
Dividends declared and unpaid:	
Policyholders	839,941
Amounts withheld or retained by company for account of others	144,996
Provision for reinsurance	1,976,036
Payable to parent, subsidiaries, and affiliates	17,750,000
Aggregate write-ins for liabilities:	
Payable to policyholders	4,466,938
Total Liabilities	<u>160,488,470</u>
Unassigned funds (surplus)	<u>125,853,246</u>
Surplus as regards policyholders	<u>125,853,246</u>
Total Liabilities, Surplus and Other Funds	<u>\$286,341,716</u>

MIIA Property and Casualty Group, Inc.

Statement of Income
For the Year Ended June 30, 2018

	Per Annual Statement
Premiums earned	<u>\$ 68,339,585</u>
Deductions:	
Losses Incurred	37,713,393
Loss adjustment expenses incurred	16,447,910
Other underwriting expenses incurred	<u>7,872,807</u>
Total underwriting deductions	<u>62,034,110</u>
Net underwriting gain	<u>6,305,475</u>
Net investment income earned	5,886,333
Net realized capital gains or (losses) less capital gains tax	<u>2,494,622</u>
Net investment gain/(loss)	<u>8,380,955</u>
Aggregate write-ins for miscellaneous income	154,898
Net income before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes	14,841,328
Dividends to policyholders	<u>500,000</u>
Net income, after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes	<u>14,341,328</u>
Net income	<u><u>\$ 14,341,328</u></u>

MIIA Property and Casualty Group, Inc.

Reconciliation of Capital and Surplus
For Each Year in the Four-Year Period Ended June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Surplus as regards policyholders, June 30, prior year	\$ 110,296,822	\$ 105,084,119	\$ 94,607,009	\$98,171,727
Net income/(loss)	\$ 14,341,328	\$ (2,973,685)	8,268,003	4,024,295
Change in net unrealized capital gains or (losses) less capital gains tax	3,644,879	7,849,090	1,883,181	(7,532,138)
Change in non-admitted assets	(453,747)	337,298	325,926	(56,874)
Change in provision for reinsurance	(1,976,036)	-	-	-
Change in surplus as regards policyholders for the year	<u>15,556,424</u>	<u>5,212,703</u>	<u>10,477,110</u>	<u>(3,564,717)</u>
Surplus as regards policyholders, June 30, current year	<u>\$ 125,853,246</u>	<u>\$ 110,296,822</u>	<u>\$ 105,084,119</u>	<u>\$94,607,010</u>

ANALYSIS OF CHANGE IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

As a result of examination work performed, an adjustment was identified in the financial statement.

Analysis of Change		
	Receivable from Parent, Subsidiaries and Affiliates	Other Expenses
Balance at June 30, 2018	\$2,022,503	\$2,129,288
Decrease	1,150,832	1,150,832
Balance at June 30, 2018 after adjustment	\$ 871,671	\$ 978,456

COMMENTS ON FINANCIAL STATEMENT ITEMS

Receivable from Parent, subsidiaries and affiliates

An intercompany payable was incorrectly classified as Other Expense instead of Receivable from Parent, Subsidiaries and Affiliates. This resulted in both accounts being overstated. The net amount, \$106,785, of both accounts before and after adjustment is the same. There was no effect on Surplus.

Loss and Loss Adjustment Expense Reserves

The Division has relied on the analysis performed by the Group's actuary, Willis Towers Watson ("Willis"), to review the reasonableness of the loss and loss adjustment expense reserves of the Group as of June 30, 2018. 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 Standards of Practice adopted by the Actuarial Standards Board.

The table below summarizes a comparison of Willis's indicated net unpaid loss and ALAE and the amount recorded by the Group (000's omitted):

Indicated Net Unpaid Loss & ALAE as of June 30, 2018					Indicated Unpaid ULAE
	Expected	65% Confidence Level	70% Confidence Level	75 % Confidence Level	
Willis	\$117,829	\$123,957	\$127,598	\$131,415	\$6,500
Group	126,382	126,382	126,382	126,382	6,800
Over/(Under)	\$ 8,553	\$ 2,425	\$ (1,216)	\$ (5,033)	\$ 300

SUBSEQUENT EVENTS

Effective July 1, 2018, the Group started offering its members cyber liability protection, which is a new line of business for the Group. This coverage is reinsured one hundred percent.

The Group is adopting a new general ledger system expected to be up and running fiscal year 2020.

SUMMARY OF RECOMMENDATIONS

There were no significant recommendations noted by the examination team for improvement 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 Group during the examination.



Carla Mallqui, CFE
Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance



Maria Gannon, CFE
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance