THE 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, 2010 with update to June 30, 2011

EMPLOYER ID NUMBER 04 - 2925648

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October 23, 2012

The Honorable Joseph G. Murphy
Commissioner of Insurance
The Commonwealth of Massachusetts
Office of Consumer Affairs and Business Regulation
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Section 6 of Chapter 40M of Massachusetts General Laws ("MGL"), 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. (herein after referred to as "MIIA" or "Group") was last examined by the Massachusetts Division of Insurance ("Division") as of June 30, 2007. The present examination of the Group was conducted by the Division and covers transactions of the Group from July 1, 2007, to June 30, 2010, and updated to June 31, 2011, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of the examination.

The examination was conducted in accordance with standards established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee as well as with the procedures prescribed by the current NAIC Financial Condition Examiners Handbook, with the requirements of examination standards of the Division, and with the General Laws of Massachusetts. The principal focus of the examination was activity for the period July 1, 2010, to June 30, 2011; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

In addition to a review of the financial condition of the Group, the examination included a review of the Group's business policies and practices, corporate records, reinsurance treaties, conflict of interest policy, fidelity bonds and other insurance, disaster recovery plan, treatment of policyholders, and other pertinent matters to provide reasonable assurance that the Group 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 Group has been audited annually by Carrion, Carron & Rosen, LLP ("CCR"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Group's financial reports for the four years under examination. Review and use of the certified public accountants' audit reports were made to the extent deemed appropriate. Subsequent to fiscal year 2011, the independent auditor for MIIA, CCR, was acquired by another audit firm, Grant Thornton, on December 1, 2011. With this acquisition, Grant Thornton was scheduled to carry on the independent audit. This Report of Examination is written on an exception basis.

HISTORY

General

Under the Laws of the Commonwealth of Massachusetts, MIIA Property and Casualty Group, Inc., was incorporated and commenced business on July 1, 1987, as a nonprofit organization to provide a program of property and casualty coverage for cities, towns, and other governmental entities which were members in good standing of the Massachusetts Municipal Association ("MMA"), a nonprofit, nonpartisan 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 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.

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Prior to the period of examination, the Group merged with another public self-insurance group, MIIA Workers' Compensation Group Inc. ("MIIAWC"). MIIAWC had incorporated on February 18, 1986, and had 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 nonprofit 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 was merged into the Group and this latter organization, as the surviving entity, assumed MIIAWC's obligations and continued the programs of workers' compensation coverages in addition to its line of other property and casualty coverages under the Certificate of Approval issued by the Commissioner pursuant to MGL Chapter 40M.

Growth of the Group

The following exhibit, compiled from the Group's financial reports as of June 30 for the listed years, indicates the growth of the Group from 2007 through 2011.

Year	Admitted Assets	Liabilities	Surplus	Premiums Earned
2011	$182,905,066	$93,920,999	$88,984,067	$39,031,786
2010	174,382,820	87,069,693	87,313,127	40,256,188
2009	159,644,801	73,937,342	85,707,459	43,608,802
2008	157,856,519	60,209,644	97,646,875	46,202,815
2007	151,334,129	59,339,238	91,994,891	42,890,804

TERRITORY AND PLAN OF OPERATION

The Group 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 Massachusetts Interlocal Insurance Association, Inc., ("MIIA, Inc."). As of June 30, 2011, the Group had 314 participants in its property and casualty program and 307 participants in its workers' compensation program. Activities of these two major programs are tracked in two separate pools of data experience. In addition to insurance coverages, the Group provides risk management services with an emphasis on loss control and loss management.

Upon joining the Group, Members sign an agreement which outlines the rights and responsibilities for both the Member and the Group. Under the agreement, the Group provides risk management services and financial protection against Members' losses as defined in the certificates of coverage. A Member has the right to terminate its membership or a portion of its coverage with at least thirty days prior written notice to the Group. The Group may terminate the agreement upon thirty days notice for failure to pay amounts due, or upon sixty days notice for failure to comply with terms of the agreement.

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The Group retains certain levels of risk and acquires excess insurance coverage for risk levels above its retention. Members assume a minimum deductible of $1,000 on buildings and contents and $500 for automobile physical damage losses. For automobile liability losses, Members have the option of deductibles, with premiums adjusted accordingly.

Since its formation, the Group has retained 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 of Trustees regarding claims, payments made by the Group, investments of the Group's assets, loss history, and such other reports as the Board of Trustees 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-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. Because the Group itself has no direct employees, it makes no specific provision for employee benefit or pension plans.

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.

MANAGEMENT

Corporate Records

The By-Laws of the Group which were amended and restated after the merger with MIIAWC, define Members of the Group to be those cities and towns in Massachusetts which are members in good standing of MIIA, Inc. and other public entities located in Massachusetts which are members in good standing of MIIA. The By-Laws provide that any such city, town, or other public entity shall have applied for membership in the Group, shall participate in self-insurance programs offered by the Group, shall pay such entry fee and premiums as specified in accordance with the By-Laws, and have been accepted as a Member by the Group's Board of Trustees.

The By-Laws also specify that the Group shall have three classes of membership: (a) Class W Members are cities and towns; (b) Class X Members are MIIA and MMA only; and (c) Class Y Members are those Members which are not eligible for Class W or Class X membership.

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Such distinctions among membership classes are significant in that voting rights for the Group attach only to Members in Class W. The By-Laws stipulate that all voting rights, including without limitation the right to elect Trustees, the right to amend the Group's Articles of Organization, and the right to amend the By-Laws, shall be exercised solely by Class W Members. Each Voting Member shall have one vote, which may be voted only by its defined Voting Delegate. On all matters, the affirmative vote of a majority of the Voting Delegates present at a meeting in which a quorum exists shall be required for any action of the Members. The By-Laws explicitly state that Class X and Class Y Members shall have no voting rights.

Annual Meeting

In accordance with the Group's By-Laws, the annual meeting of the Members of the Group is held each year at such time and place as the Board of Trustees may designate. Attendance by individuals designated as Voting Delegates representing 15% of Members holding voting rights constitutes a quorum for the transaction of business at any meeting of the Members. The minutes indicated the annual meetings of Members were held each year and that a quorum was obtained at each such meeting throughout the examination period.

Board of Trustees

The Group's By-Laws as amended specify that the Group shall be managed by a Board of Trustees which may exercise all the powers of the Group, except as otherwise provided by law, the Articles of Organization, or the By-Laws. Currently, the By-Laws require that at each annual meeting, three Voting Delegates of Class W, which is composed of cities and towns, shall be elected for a two-year term and shall serve until his or her successor is elected. At June 30, 2011, the Board of Trustees was composed of nine persons, who are identified as follows with their professional affiliations:

Name of Trustee	Professional Affiliation
Ira Singer, Chairman	Town Administrator, Middleton
Geoffrey Beckwith	President and Executive Director, MMA
Stanley J. Corcoran	Treasurer and Executive Vice President, MIIA
Mary Patricia Flynn	Board of Selectmen, Town of Falmouth
Wayne Marquis	Town Manager, Danvers
David Kalton	Chair of the Select Board, Town of Chesterfield
Colleen Corona*	Board of Selectman, Town of Easton
Jean Kitchen*	Town Administrator, Southborough
Rocco Longo	Town Administrator, Marshfield

* Subsequently changed. Currently not on the board due to retirement, change of town, or step-down.

The By-Laws also specify that the Board of Trustees shall meet not less than four times during each year to transact such business as may come before it, that an annual meeting shall be held immediately following the annual meeting of the Members to select officers for the ensuing year and to conduct such other business as may be appropriate. At any meeting of the Trustees, a majority of the Trustees then in office constitutes a quorum. The minutes of meetings of the Board of Trustees

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for the period under examination were read and indicated that all meetings were held in accordance with the Group's By-Laws and the Laws of the Commonwealth of Massachusetts.

Committees

According to the Group's By-Laws, whenever a committee or task force is authorized by the Board of Trustees, the President shall appoint the members of such committee, subject to the approval of the Board. The following committees were in effect as of June 30, 2011:

Investment Committee

Wayne Marquis
Geoffrey C. Beckwith
Stanley J. Corcoran
Rocco Longo
Ira Singer

Nominating Committee**

Geoffrey Beckwith
Rocco Longo
Wayne Marquis

** Subsequent to examination, the nominating committee members have been Geoffrey Beckwith, Jean Jensen, and David Kielson.

Budget Committee

Wayne Marquis
Geoffrey C. Beckwith
Ira Singer
Pat Flynn

Audit Committee**

Buzz Stapczynski
David Kielson

** There was a vacancy on the Audit Committee in 2011. That vacancy was filled by Colleen Corona in 2012.

Officers

The Group's By-Laws enumerate the Officers of the Group shall be a Chairman of the Board, a President, a Clerk, a Treasurer, and such other officers as the Board of Trustees may from time to time appoint. The Chairman of the Board shall be the Chairman of the Board of Directors of the Massachusetts Interlocal Insurance Association, Inc., and the President shall be the Executive Director of the Massachusetts Municipal Association. The Clerk shall be a resident of the Commonwealth of Massachusetts. The Group's By-Laws also specify that the Trustees at their annual meeting shall elect all officers, with the exception of the President, to hold office at the pleasure of the Board of Trustees. At June 30, 2011, the Officers of the Group were the following:

Name of Officer	Title	Professional Affiliation
Ira Singer	Chairman	Chairman of the Board of Directors, MIIA, Inc.
Geoffrey Beckwith	President	President and Executive Director, MMA
Ann G. Ludlow	Clerk, Secretary	Health Benefits Trust Manager, MIIA, Inc.
Stanley J. Corcoran	Treasurer	Treasurer and Executive Vice President, MIIA, Inc.

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Conflict of Interest Procedures

Members of the Board of Trustees file with the Group and with their respective municipalities a disclosure form addressing their participation on the Board. This declaration form includes the exemption for such service as permitted a municipal employee under Section 19 of MGL Chapter 268A. The Group also observes and actively informs its Members of a conflict of interest policy and related Massachusetts statutes (especially Section 6C of MGL Chapter 180) addressing good faith performance of duties by directors and officers. Whereas its Members are municipalities and other government entities and its trustees are public officials, the Group currently does not require annual disclosure forms to be signed and filed with the Group in addition to other forms already filed.

As noted previously, the Group has no direct employees. However, the Group has indicated that it is willing to adopt such a policy for MMA staff dedicated to MIIA and is having discussions to that effect with MMA.

Disaster Recovery

The Group has a formal disaster recovery plan for the continuity of its business operations in the event of a disaster.

FIDELITY BONDS AND OTHER INSURANCE

Item 3, subsection B, Section 4 of MGL, Chapter 40M, requires a fidelity bond for the administrator of a public employer self-insurance group. The Group itself, its Administrator, and MMA are specifically defined as named insureds in a commercial crime policy which includes among other coverages, blanket coverage for employee dishonesty. The amount of the Group's fidelity bond is within the suggested minimum amount as recommended by the NAIC. In addition, the Group has further protected its interests with other commercial policies covering other insurable risks usual and customary for this form of organization and business operations. All coverages are provided by insurers licensed in Massachusetts.

REINSURANCE

The Group does not assume any reinsurance. The Group uses ceded reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Group as direct insurer of the risks reinsured. The Group does not reflect reinsured risks as liabilities unless it is probable that those risks will not be recovered from reinsurers.

According to Item 1 in Subsection B, Section 4 of MGL Chapter 40M, a public employer self-insurance group shall maintain specific and aggregate excess insurance and each such group shall maintain aggregate excess insurance in a minimum amount equal to two million dollars.

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To comply with the cited statute, the Group was reinsured under various reinsurance agreements. As of June 30, 2011, the Group was reinsured for property claims and motor vehicle physical damage in excess of $150,000 up to $300,000,000 per occurrence. The Group was also reinsured for individual automobile and general liability claims in excess of $500,000 up to contract limits of one million dollars per occurrence, with a per Member aggregate limit of three million dollars per year, and for 100% of umbrella limits in excess of those limits. The Group also was reinsured for individual professional liability claims in excess of $250,000 per occurrence. The Group participated in a workers' compensation excess of loss reinsurance agreement for Statutory Limits in excess of $500,000 self insured retention per occurrence. It also participated in an employer's liability excess of loss agreement for amounts of $500,000 in excess of $500,000 for a total of $1,000,000 per occurrence. Subsequent to fiscal year 2011, on December 6, 2011, the Group formed a captive domiciled in Vermont to gain access to the property and casualty reinsurance market. The captive retains a quota share of 10% of the first property layer reinsurance.

ACCOUNTS AND RECORDS

The trial balance, general ledger, annual statements, and annual reports provided by the Group were reviewed for the examination period. Internal control methods used by the Group in recording income and disbursements also were examined. Cumulative monthly balances were posted to the general ledger. This review revealed that the Group appears to maintain adequate controls and subsidiary records to support the general ledger accounts.

The Group is classified as tax exempt for federal and state taxes as defined in Section 115 of the Internal Revenue Code and therefore carries no provision for taxes in its financial statements.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and the NAIC as of June 30, 2011:

Statement of Assets, Liabilities, Surplus and Other Funds as of June 30, 2011
Statement of Income for the Year Ended June 30, 2011
Statement of Capital and Surplus for the Year Ended June 30, 2011
Reconciliation of Capital and Surplus for Each Year in the Four Year Period Ended June 30, 2011

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Statement of Assets, Liabilities, Surplus and Other Funds
As of June 30, 2011

	As Reported by the Group	Examination Changes	Per Statutory Examination	Notes
Assets				
Bonds	$156,902,991	$ -	$156,9[illegible]	
Common stocks	22,305,125		22,3[illegible]	
Cash and short-term investments	4,616,995		4,616,995	
Receivables for securities	1,145,841		1,145,841	
Aggregate write-ins for invested assets:				
Investment in LLC	478,461		478,461	
Subtotals, cash and invested assets	185,449,413		185,449,413	
Investment income due and accrued	934,877		934,877	
Premiums and considerations:				
Uncollected premiums and agents balances	(5,96[illegible]38[illegible]	5,960,384	-	(1)
Reinsurance:				
Amounts recoverable from reinsurers	[illegible]418,760		2,418,760	
Aggregate write-ins for other than invested assets:				
Other receivables	62,400		62,400	
Total Assets	$182,905,066	$5,960,384	$188,865,450	
Liabilities, Surplus and Other Funds				
Losses	$70,487,570	$ -	$70,487,570	
Loss adjustment expenses	16,214,027		16,214,027	
Other expenses	1,125,783		1,125,783	
Dividends declared and unpaid - p[illegible]ders	802,186		802,186	
Ceded reinsurance premiums p[illegible]ble	2,215,023		2,215,023	
Amounts withheld or retaine[illegible] company	86,066		86,066	
Payable for securities	2,990,344		2,990,344	
Members' payable	-	5,960,384	5,960,384	(1)
Total liabilities	93,920,999	5,960,384	99,881,383	
Unassigned surplus	88,984,067		88,984,067	
Surplus as regards policyholders	88,984,067	-	88,984,067	
Total liabilities and surplus	$182,905,066	$5,960,384	$188,865,450	

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Statement of Income
For the Year Ended June 30, 2011

	As Reported by the Group	Examination Changes	Per Statutory Examination	Note
Premiums earned	$39,031,786	$ -	$39,031,786	
Deductions:				
Losses incurred	34,720,208		34,720,208	
Loss adjustment expenses incurred	11,585,568		11,585,5[illegible]	
Other underwriting expenses incurred	6,203,337		6,2[illegible]37	
Total underwriting deductions	52,509,113	-	5[illegible]13	
Net underwriting gain or (loss)	(13,477,327)	-	([illegible]7,327)	
Net investment income earned	6,193,445		6,193,445	
Net realized capital gains (losses) less capital gains tax of $....0	3,870,172		3,870,172	
Net investment gain or (loss)	10,063,617	-	10,063,617	
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(3,413,710)		(3,413,710)	
Dividends to policyholders	500,000		500,000	
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(3,913,710)	-	(3,913,710)	
Federal and foreign income taxes incurred	-		-	
Net Income	$(3,913,710)	$ -	$(3,913,710)	

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Statement of Capital and Surplus
For the Year Ended June 30, 2011

	As Reported by the Group	Examination Changes	Per Statutory Examination	Note
Surplus as regards policyholders – June 30 prior year	$87,313,127	$ -	$87,313,127	
Net income	(3,913,710)		(3,913,710)	
Change in net unrealized capital gains or (losses) less capital gains tax	5,486,495		5,486,495	
Change in nonadmitted assets	98,155		98,155	
Change in surplus as regards policyholders for the year	1,670,940		1,670,940	
Surplus as regards policyholders - June 30	$88,984,067	-	$88,984,067	

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Reconciliation of Capital and Surplus Account
For Each Year in the Four Year Period Ended June 30, 2011

As of June 30	*Exam Year* 2011	*Exam Year* 2010	2009	2008	*Prior Exam* 2007
Surplus as Regards Policyholders, beginning of year	**$87,313,127**	**$85,707,459**	**$97,646,875**	**$91,994,891**	**$77,126,736**
Net Income	(3,913,710)	(630,641)	(14,[illegible]9)	9,319,014	13,264,573
Change in Unrealized Capital Gains (Losses)	5,486,495	2,250,013	[illegible]46,352	(4,571,262)	2,714,933
Change in Nonadmitted Assets	98,155	(13,[illegible])	18,041	(30,110)	(177,009)
Change in Provision for Reinsurance			-	934,342	(934,342)
Change in Surplus as Regards Policyholders for the Year	1,670,940	1,605,668	(11,939,416)	5,651,984	14,868,155
Surplus as Regards to Policyholders, end of year	**$8[illegible]984,067**	**$87,313,127**	**$85,707,459**	**$97,646,875**	**$91,994,891**

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NOTES TO FINANCIAL STATEMENTS

NOTE 1:

The negative amount of uncollected premiums and agents' balances in course of collection per MIIA's annual statement is due to discretionary additional discounts ("participation credits") awarded to each member and voted on by the Board of Trustees. The large balance is simply a function of the timing of the award of the credits; therefore, the examiners have determined that the amount represents the liability to the members and a reclassification of an amount of $5,960,38[illegible] necessary. However, it is noted that the policy-holders' surplus will not be influenced by this reclassification.

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ACKNOWLEDGMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Group during the examination.

Wei

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Examiner-in-Charge
The Commonwealth of Massachusetts
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