

**COMMONWEALTH OF MASSACHUSETTS**

**OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION**

**DIVISION OF INSURANCE**

***REPORT OF EXAMINATION OF THE***

**NORFOLK AND DEDHAM MUTUAL FIRE INSURANCE COMPANY**

**Dedham, Massachusetts**

**As of December 31, 2019**

**NAIC GROUP CODE 0144**

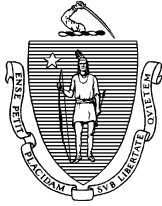
**NAIC COMPANY CODE 23965**

**EMPLOYER ID NUMBER 04-1675920**

# **NORFOLK AND DEDHAM MUTUAL FIRE INSURANCE COMPANY**

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

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**GARY D. ANDERSON**  
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, an examination has been made of the financial condition and affairs of

**NORFOLK AND DEDHAM MUTUAL FIRE 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.

## **SCOPE OF EXAMINATION**

The Norfolk and Dedham Mutual Fire Insurance Company (“Company” or “Norfolk”) 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:

Dorchester Mutual Insurance Company (“Dorchester”)  
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.

## **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 February 12, 1825 under the laws of the Commonwealth of Massachusetts as Norfolk Mutual Fire Insurance Company and commenced business on July 1, 1825. The present title was adopted on July 1, 1837.

Effective August 6, 1953, the Company assumed the management of the affairs and business of the West Newbury Mutual Fire Insurance Company (“West Newbury”). In 1982, the Company capitalized the Newbury Corporation (“Newbury”), which was incorporated under Massachusetts’s laws on July 14, 1967. Effective January 1, 1995, the Dorchester Mutual Insurance Company and the Groveland Mutual Insurance Company became affiliated with the Company. On October 20, 1999, the Company sold 100 shares of Newbury to West Newbury and 100 shares to Dorchester.

Effective June 14, 2001, the Fitchburg Mutual Insurance Company became affiliated with the Company. On August 1, 2001, the Company sold 100 shares of Newbury to Fitchburg, leaving it with a 97% interest.

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, West Newbury merged into Dorchester and on November 29, 2004, the Groveland Mutual Insurance Company was dissolved.

In March of 2009, Dorchester acquired an additional 1,406 shares of Newbury and Fitchburg acquired 2,247 shares, as authorized by their respective Board of Directors (“Board”).

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%.

## Norfolk & Dedham Mutual Fire 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.

## Norfolk & Dedham Mutual Fire Insurance Company

As of 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>
Joel Patrick Murray	President and CEO
Thomas F. Alighieri	Treasurer
David N. Cote	Secretary
Erin M. Cummings	Assistant Corporate Secretary

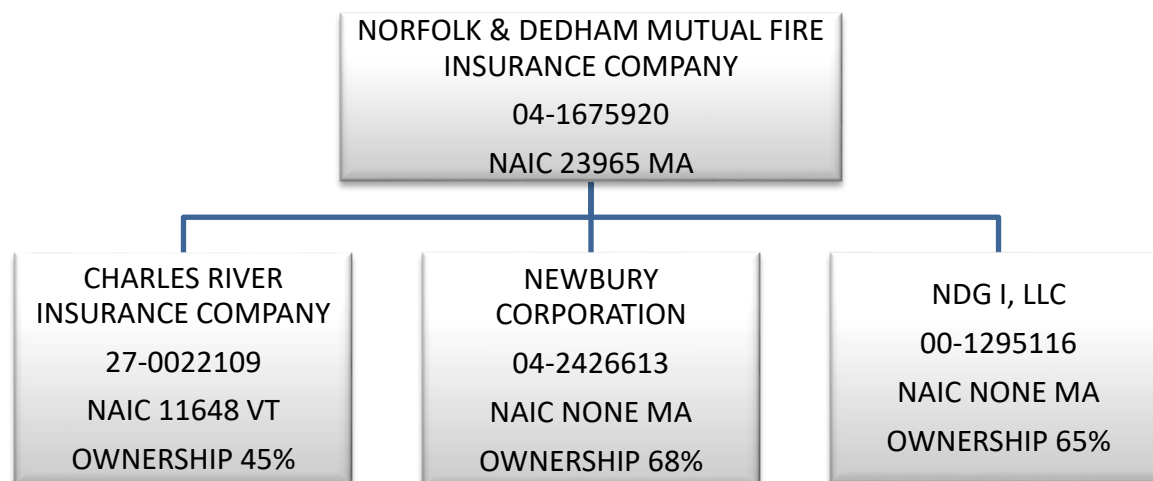
### Affiliated Companies

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.

## Norfolk & Dedham Mutual Fire 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 8,400 shares of Newbury's common stock representing a 68% 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.



## Norfolk & Dedham Mutual Fire 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 \$9,750,000 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 Company 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 Arkansas, Connecticut, Massachusetts, Missouri, New Hampshire, New Jersey, New York, Pennsylvania, and Rhode Island. The Company's principal lines of business are homeowners' multiple peril, commercial multiple peril, farm owners' multiple peril, private passenger and commercial auto and workers' compensation insurance. Additionally, the Company is surplus lines eligible in 35 states but as of year-end 2019, the Group had not yet written any excess and surplus lines business. The Company reported \$180,644,297 of direct premium written in 2019, with \$172,277,599 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 examination for calendar year 2015. There were no regulatory actions reported within the past five years. A statutorily required comprehensive examination 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 Dorchester. 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%.

### **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 Commonwealth Automobile Reinsurers, 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.

## **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

Norfolk & Dedham Mutual Fire Insurance Company

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

<b>Assets</b>	<b>Per Annual Statement</b>
Bonds	\$ 286,582,129
Common stocks	88,589,051
Properties occupied by the Company	1,886,199
Cash and short-term investments	23,093,149
Other Invested assets	23,867,740
Subtotals, cash and invested assets	424,018,268
Investment income due and accrued	2,948,252
Premiums and considerations:	
Uncollected premiums and agents' balances	5,044,272
Deferred premiums, agents' balances and installments	40,602,366
Reinsurance:	
Amounts recoverable from reinsurers	4,337,480
Other amounts receivable under reinsurance contracts	7,318,706
Current federal and foreign income tax recoverable and interest thereon	2,410
Receivables from parent, subsidiaries and affiliates	353,573
Aggregate write-ins for other than invested assets	12,075,225
Total Assets	\$ 496,700,552

Norfolk & Dedham Mutual Fire Insurance Company

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

	Per Annual Statement
<b>Liabilities</b>	
Losses	\$ 100,948,058
Reinsurance payable on paid losses and loss adjustment expenses	2,597,968
Loss adjustment expenses	17,294,834
Commissions payable, contingent commissions and other similar charges	8,569,356
Other expenses	3,754,260
Taxes, licenses and fees	785,167
Current federal and foreign income taxes	1,595,902
Net deferred tax liability	1,666,464
Borrowed money	30,256,140
Unearned premiums	86,373,534
Advance premium	3,427,505
Ceded reinsurance premiums payable	1,509,430
Funds held by company under reinsurance treaties	28,938
Provision for reinsurance	11,963
Derivatives	401,286
Payable for securities	498
Aggregate write-ins for liabilities	685,300
Total Liabilities	<u>259,906,603</u>
Unassigned funds (surplus)	<u>236,793,949</u>
Surplus as regards policyholders	<u>236,793,949</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 496,700,552</u>

Norfolk & Dedham Mutual Fire Insurance Company

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

	<u>Per Annual Statement</u>
<b>Underwriting Income</b>	
Premiums earned	\$ 164,657,853
<b>Deductions:</b>	
Losses incurred	81,192,688
Loss adjustment expenses incurred	12,463,241
Other underwriting expenses incurred	63,954,076
Total underwriting deductions	<u>157,610,005</u>
Net underwriting gain	<u>7,047,848</u>
<b>Investment Income</b>	
Net investment income earned	9,609,568
Net realized capital gains	<u>5,118,940</u>
Net investment gain	<u>14,728,508</u>
<b>Other Income</b>	
Net gain from agents' premium balances charged off	1,338,284
Finance and service charges not included in premiums	1,107,962
Aggregate write-ins for miscellaneous income	<u>600,360</u>
Total other income	<u>3,046,606</u>
Net income before dividends to policyholders	24,822,962
Federal and foreign taxes incurred	<u>4,082,860</u>
<b>Net income</b>	<u><u>\$ 20,740,102</u></u>

Norfolk & Dedham Mutual Fire Insurance Company

**Reconciliation of Capital and Surplus  
For Each Year in the Five-Year Period Ended December 31, 2019**

	2019	2018	2017	2016	2015
Capital and surplus					
December 31 prior year	\$206,777,666	\$209,270,401	\$193,693,050	\$177,270,708	\$182,005,440
Net income	20,740,102	9,194,490	10,288,614	11,806,759	3,415,676
Change in net unrealized					
capital gains or (losses)	8,903,234	(11,005,587)	6,564,790	5,560,083	(7,528,103)
Change in net deferred income tax	400,840	(676,758)	340,711	694,726	436,763
Change in nonadmitted assets	(26,843)	(4,880)	(48,294)	(18,232)	12,381
Change in provision for reinsurance	(1,050)	-	81,530	(20,994)	(71,449)
Change in surplus notes	-	-	(1,650,000)	(1,600,000)	(1,000,000)
Net change in capital and surplus for the year	<u>30,016,283</u>	<u>(2,492,735)</u>	<u>15,577,351</u>	<u>16,422,342</u>	<u>(4,734,732)</u>
Capital and surplus, December 31, current year	<u>\$236,793,949</u>	<u>\$206,777,666</u>	<u>\$209,270,401</u>	<u>\$193,693,050</u>	<u>\$177,270,708</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>\$100,948,058</b>
<b>Loss Adjustment Expenses</b>	<b>\$ 17,294,834</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 \$118.243 million as of December 31, 2019 were above the Appointed Actuary’s Actuarial Central Estimate by approximately 5.2%.

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 \$118.243 million was within the INS range of reasonable estimates from \$99.203 million to \$127.521 million. The INS Actuarial Central Estimate (“ACE”) of the net loss and LAE reserve of \$111.179 million was lower than the Company’s net carried reserves of \$118.243 million by \$7.064 million, or 6.0% of reserves. The Company’s gross carried loss and LAE reserves of \$181.204 million falls within the INS range of reasonable estimates of \$151.499 million and \$195.160 million. The INS ACE of \$169.977 million was lower the Company’s gross carried reserves of \$181.204 million by \$11.227 million, or 6.2% of reserves.



## Norfolk & Dedham Mutual Fire 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	99,203	111,179	127,521	118,243	(19,040)	(7,064)	9,278
Gross	151,499	169,977	195,160	181,204	(29,705)	(11,227)	13,956

### **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**

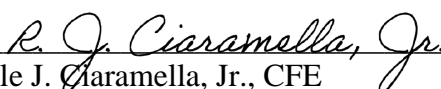
There were no recommendations for the Company.

**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. Ciaramella, Jr., CFE  
Supervising Examiner  
Commonwealth of Massachusetts  
Division of Insurance