



**THE 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, 2009**

**NAIC GROUP CODE 0144**

**NAIC COMPANY CODE 23965**

**EMPLOYER'S ID NO. 04-1675920**

**For Informational Purposes Only**

# 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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COMMISSIONER OF INSURANCE

May 25, 2011

The Honorable Joseph Torti, III, Chairman  
Financial Condition (E) Committee, NAIC  
Deputy Director and Superintendent of  
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The Honorable Mila Kofman, Secretary  
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The Honorable Joseph G. Murphy  
Commissioner of Insurance  
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1000 Washington Street Suite 810  
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Honorable Commissioner Murphy and Superintendents Torti and Kofman:

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. The following report  
thereon is respectfully submitted.

## SCOPE OF EXAMINATION

The Norfolk and Dedham Mutual Fire Insurance Company (hereinafter referred to as "Company" or "Norfolk") was last examined as of December 31, 2004 under the association plan of the *National Association of Insurance Commissioners* ("NAIC") by the Massachusetts Division of Insurance ("Division"). The current association plan examination was also conducted by the Division and covers the period from January 1, 2005 through December 31, 2009, 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 and Dedham Group were also examined and separate Reports of Examination have been issued:

Dorchester Mutual Insurance Company  
Fitchburg Mutual 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 2009 activity; however, transactions both prior and subsequent hereto 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 was audited annually by PricewaterhouseCoopers LLP for the years 2005 and 2006 and by UHY LLP for the years 2007 through 2009. In April 2010, Marcum LLP acquired the New England branches of UHY LLP. All firms are independent certified public accounting firms. The firms expressed unqualified opinions on the Company's financial statements for the calendar years 2005 through 2009. A review and use of the certified public accountants' work papers was made to the extent deemed appropriate and effective. An independent certified public accounting and actuarial firm, KPMG LLP, was retained by the Division to evaluate the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2009. 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 company has complied with the recommendations of the prior exam.

## HISTORY

### General

The Company, a mutual 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, 1937, following the Company's consolidation with the Dedham Mutual Fire Insurance Company, which was incorporated under Massachusetts laws on February 11, 1837.

On 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 ("Dorchester") and the Groveland Mutual Insurance Company ("Groveland") 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 ("Fitchburg") became affiliated with the Company. On August 1, 2001, the Company sold 100 shares of Newbury to Fitchburg, leaving it with a 97% interest.

Effective January 1, 2003, the Company entered into an inter-company pooling arrangement with Dorchester and Fitchburg. Under the current agreement, Fitchburg and Dorchester cede 100% of net written premiums (after other third party cessions), losses, loss adjustment expenses and underwriting expenses to the Company, which retains 68% of the consolidated result and retro cedes 13% to Dorchester and 19% to Fitchburg.

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

In March of 2009, Dorchester acquired an additional 1,406 shares of Newbury and Fitchburg acquired 2,247 from the board of directors. This brings the ownership of Newbury in agreement with the inter-company pooling agreement percentages; with Norfolk having a 68% ownership, Dorchester 13% and Fitchburg 19%.

As of January 1, 2010, the companies formed an alliance with Rockingham Mutual Insurance Company ("Rockingham") and Rockingham Casualty Company ("Rockingham Casualty"), Virginia domiciled companies. As part of the alliance, Rockingham entered into an inter-company pooling agreement, management services agreement and a Class "A" shareholders agreement. Effective December 31, 2010, the alliance was terminated and all agreements were amended to terminate them.

# Norfolk and Dedham Mutual Fire Insurance Company

## Growth of the Company

The growth of the Company for the years 2005 through 2009 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>Net Premiums Written</u>	<u>Surplus</u>
2009	\$270,593,792	\$90,761,948	\$143,212,500
2008	240,199,057	92,528,348	114,579,632
2007	253,826,981	94,704,913	114,078,740
2006	234,925,857	88,955,006	100,644,879
2005	217,611,731	83,243,303	107,771,137

## Management

### *Annual Meeting*

In accordance with the by-laws, the annual meeting of the Company is held on the second Wednesday in March. Ten members, represented either in person or by a proxy duly dated, executed, returned, and recorded in accordance with the general laws of Massachusetts, shall constitute a quorum for the transaction of business at any meeting of the members. The minutes indicate that a quorum was obtained at each annual meeting held during the examination period.

### *Board of Directors*

The by-laws of the Company provide that the directors may exercise all powers of the Company except as otherwise provided by law or the by-laws of the Company. The board of directors 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.

At December 31, 2009, the board was comprised of ten directors, which is in compliance with the Company's by-laws.

Norfolk and Dedham Mutual Fire Insurance Company

Directors duly elected and serving at December 31, 2009, with business affiliations, follow:

<u>Director</u>	<u>Business Affiliation</u>
Francis T. Hegarty, Jr.	President and Chief Executive Officer of the Company
Robert R. Copt	Senior Vice President, Thalimer/Cushman & Wakefield
Stephen A. Fine	President, The Biltrite Company
James F. Gerrity, III	President, Gerrity Company
Kristen F. Giarusso	Partner, Brown Brothers Harriman & Company
Joseph A. Giovino	President, Giocon, Inc.
Ann B. Keeler	Chief Financial Officer, Bridgewater College
Thornton C. Melton, Jr.	Member Manager, The Melton Group
Gregory L. Petrini	CEO, Petrini Corporation
Michael J. Shea	Executive Vice President and Chief Financial Officer, MacGray, Inc.

The by-laws do not specify the number of meetings of directors to be held during the year. The minutes of the board of directors indicate that meetings were held on a regular basis. A majority of but not less than five directors constitutes a quorum and the minutes indicate that a quorum was obtained at all meetings of the board during the examination period.

The board of directors appointed a Finance Committee, an Audit Committee, a Building and Real Estate Committee and a Corporate Governance Committee in accordance with the by-laws. The purpose and membership of each committee at December 31, 2009 are as follows:

*Finance Committee*

The Finance Committee is comprised of not less than three or more than five members of the board of directors. Subject to the direction of the board of directors, it provides general supervision over the investment funds of the Company. The Finance Committee shall report to each regular meeting of the board of directors all transactions authorized by them since the last regular meeting. Directors serving on this Committee at December 31, 2009, are as follows:

Stephen A. Fine  
Kristen F. Giarusso  
Joseph A. Giovino

Francis T. Hegarty, Jr.  
Thornton C. Melton



*Audit Committee*

The Audit Committee is comprised of at least three members with at least one of whom shall be experienced in the field of auditing and/or accounting. No member shall be an officer or employee of the Company, nor have any business directly or indirectly with the Company that could influence a decision or interfere with the independent judgment used in fulfilling his/her responsibilities. The responsibility of the Audit Committee is to monitor the integrity of the Company's financial reporting process and related internal controls for all accounting, insurance, investment and legal functions. Directors serving on the Committee at December 31, 2009 are as follows:

Robert R. Copty  
Stephen A. Fine

Gregory L. Petrini  
Michael J. Shea

*Building and Real Estate Committee*

The Building and Real Estate Committee is comprised of at least three members with one member, if possible, having real estate or property management experience. No member shall have business directly or indirectly with the Company that could influence a decision or interfere with the independent judgment used in fulfilling his/her responsibilities. The responsibility of the Building and Real Estate Committee is to supervise all buildings and grounds owned, leased or rented to the Company which is not held for investment purposes. Directors serving on the Committee at December 31, 2009 are as follows:

James F. Gerrity, III  
Francis T. Hegarty, Jr.  
Gregory L. Petrini

*Corporate Governance Committee*

The Corporate Governance Committee is comprised of at least four members with no member having direct or indirect business with the Company that could influence his/her decisions or independence while exercising judgment in fulfilling their responsibilities. The committee's responsibilities include assuring that the board of directors is appropriately constituted and capable of fulfilling its fiduciary responsibilities to policyholders while providing review and oversight on all corporate governance matters. Directors serving on this Committee at December 31, 2009 are as follows:

James F. Gerrity, III  
Kristen F. Giarusso  
Joseph A. Giovino

Francis T. Hegarty, Jr.  
Thornton C. Melton  
Gregory L. Petrini



## Norfolk and Dedham Mutual Fire Insurance Company

### *Officers*

The by-laws of the Company provide that the officers of the Company shall be a President; a Secretary, a Treasurer, and such other subordinate officers as the directors may elect or appoint. The President shall be the Chief Executive Officer of the Company and will preside at all meetings of the members and of the board of directors in the absence of an elected Chairperson.

The elected officers and their respective titles at December 31, 2009 follow:

<u>Name</u>	<u>Title</u>
Francis T. Hegarty, Jr.	President, Chief Executive Officer and Director
Gerard T. McDermott	Executive Vice President and Treasurer
William N. Menefee	Executive Vice President
David N. Cote	Secretary

### Conflict of Interest Procedures

The Company has adopted a policy statement relating to conflicts of interest in accordance with Question 16 of the General Interrogatories to 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.

Annually, each officer and director completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed, and one discrepancy was noted. A family member of the President has had an ownership interest in an insurance agency since 2005 that does business with the Company. This was disclosed in 2009 only. It should be disclosed in all years in which the related party relationship exists. This is included in the Comments and Recommendations section of the report.

### Corporate Records

#### *Articles of Organization and By-laws*

The by-laws and Articles of Organization and amendments thereto were read. During the exam period, there was one amendment to the by-laws. The amendment included three items: the board is to be composed of not less than seven directors; a director may be a director of any other company affiliated with or a member of the same insurance company group and the board shall be divided into no more than four classes.

*Disaster Recovery and Business Continuity*

The Company does provide for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L. c.175 ss.180M-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 April 25, 2006 board meeting note that a copy of the Report of Examination as of December 31, 2004 was provided to the directors and that the directors executed an affidavit acknowledging receipt of the report.

*Surplus Notes*

The Company issued 30-year surplus notes of \$12,000,000 at 7.8% in 2004. These notes are unsecured and subordinate to all present and future indebtedness of the Company, policy claims and prior claims against the Company as provided by Massachusetts General Laws. Issuance was approved by the Commissioner of Insurance.

All payments of interest and principal are subject to the prior approval of the Commissioner. No sinking fund payments may be made for the first five years.

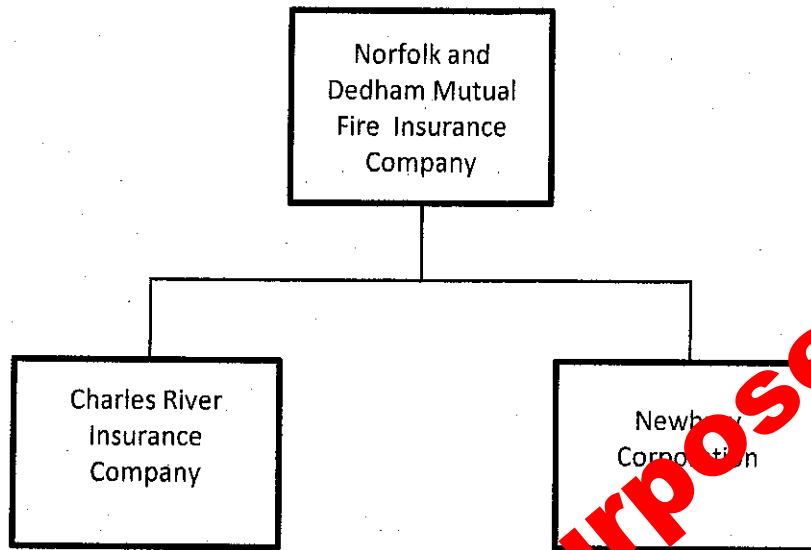
Interest on the notes is scheduled to be paid on March 15, June 15, September 15 and December 15 of each year, beginning in 2004, to the holders of record.

During the exam period interest payments have been made by the Company. These payments were approved by the Commissioner of Insurance.

**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, s.206C of the Massachusetts General Laws and Regulation 211 CMR 7.00.

Organization Chart



Transactions and Agreements with Subsidiaries and Affiliates

Pooling Agreement

The majority of all inter-company transactions is 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 is detailed further in the reinsurance section of this report.)

Management Agreement with Newbury Corporation

The Company has a 68% interest in Newbury. Newbury provides managerial, technical and clerical services to the Company and charges the Company a fee based on a percentage of net premiums written.

## 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, 2009.

## PENSION, STOCK OWNERSHIP AND OTHER INSURANCE PLANS

All Company personnel are actually named employees of Newbury Corporation. All employees of Newbury, employees are offered various insurance plans, including life, AD&D, long term disability, health and dental. These plans are offered to all full time employees.

Newbury has a non-contributory, defined benefit pension plan covering substantially all its employees. Pension benefits are based on years of service and the employee's highest compensation for five consecutive years during the last ten years of employment. The company's funding and accounting policies are to contribute the minimum amount required.

Newbury also offers a 401(k) incentive plan (Profit Incentive and Employees' Savings Plan) for which substantially all employees are eligible after six months of service.

The directors of the Company participate in a restricted stock incentive plan with shares of Newbury being awarded based on the increase in surplus of the Company.

## STATUTORY DEPOSITS

<u>Location</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Massachusetts	Citibank IIS Money Market Dep A/C #15	—	\$ 550,062	\$ 550,062
New Hampshire	Columbia FDS Ser Tr	—	58,438	58,438
New Jersey	U.S. Treasury Note 4.125% Due 8/15/10	\$ 300,000	300,102	307,020
Total		<u>\$ 300,000</u>	<u>\$ 908,702</u>	<u>\$ 915,620</u>

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory and Plan of Operation

The Company is licensed to write various property and casualty lines of business in Massachusetts, Connecticut, Maine, New Hampshire, New Jersey, New York, Pennsylvania and Rhode Island. The Company has not written any direct premium in Connecticut, New Jersey and Pennsylvania during the examination period. The Company's principal lines of business are private passenger auto liability and physical damage, commercial multiple peril and non-owners multiple peril. 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. (This pooling arrangement is explained in further detail in the reinsurance section of this report.)

### Treatment of Policyholders – Market Conduct

During the financial examination of the Company, the Division's Market Conduct Department initiated a comprehensive market conduct examination of the Company for the period January 1, 2009 through December 31, 2009. The market conduct examination was called pursuant to authority in Massachusetts General Laws Chapter (M.G.L. c.) 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 from 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 that are being reviewed under this 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 is completed, a report on the Comprehensive Market Conduct Examination of the Company for the period January 1, 2009 through December 31, 2009 will be issued and become available as a public document.

## REINSURANCE

### Pooling Agreement

The Company participates in an inter-company reinsurance pooling agreement with Fitchburg and Dorchester. Under the terms of the agreement, 100% of the Company's net premiums, losses and underwriting expenses are pooled. The Company may cede business on an excess of loss, quota share or facultative basis prior to pooling.

As of December 31, 2009 the pooling percentages are Norfolk & Dedham 68%, Fitchburg 12% and Dorchester 13%.

### Assumed Reinsurance

In addition to its participation in the inter-company pool whereby it assumes 68% of the pool total, other business assumed by the Company is from the Commonwealth Automobile Reinsurers ("CAR"), which until March 31, 2009 was the state's automobile reinsurance facility. As an issuer of private passenger and commercial automobile lines of business in Massachusetts, the Company participates as a servicing carrier for CAR. The Company will continue to assume business from CAR until runoff is completed.

Other pools that the Company participates in are the Massachusetts and Rhode Island FAIR plans, Selected Insurance Risk ("SIR") plan and associated Inland Marine. SIR stopped writing new and renewal business July 1, 2009. The Company will continue to assume business from SIR until runoff is completed.

### Massachusetts Automobile Insurance Plan

In 2008, Massachusetts went to managed competition and established the Massachusetts Automobile Insurance Plan ("MAIP") for those individuals unable to obtain private passenger automobile insurance in the voluntary market. MAIP will eventually replace CAR. Under MAIP, individuals are assigned directly to an insurance company. The transition period was from April 1, 2009 to March 31, 2009. Beginning with policies effective after March 31, 2009, all personal automobile business is eligible for MAIP and can no longer be ceded to CAR. The policies are included in direct business of the company.

### Ceded Reinsurance

As noted previously, the Company may reinsure risks prior to pooling, and as a member of the Norfolk & Dedham Group, the Company participates as a named insured in the reinsurance program managed and administered by the Company. Each treaty/contract reviewed contained an insolvency clause in accordance with MGL c. 175 s. 20A.

Norfolk and Dedham Mutual Fire Insurance Company

The following table illustrates the Company's ceded reinsurance program:

Business Covered	Limit and Retention
<u>Property</u>	
Equipment Breakdown	100% reinsured
Multiple Line Facultative Binding	Personal Lines Property xs \$2.0 million Special acceptance up to \$7.0 million
Excess Treaty	\$2.0 million xs \$2.0 million
Commercial Facultative	Commercial Lines Property \$11.0 million xs \$4.0 million Special acceptance xs \$15.0 million
<u>Casualty</u>	
Employment Practices Liability	100% reinsured
Umbrella Quota Share Auto Facultative	Commercial & Personal \$5.0 million xs \$2.0 million Commercial only 100% of \$5.0 million xs \$5.0 million
Excess of Loss Treaty Clash	\$10.0 million xs \$5.0 million with \$5.0 million MAOL
Excess of Loss Treaty Workers Compensation Only	\$2.5 million xs \$2.5 million \$5.0 million xs \$5.0 million \$5.0 million xs \$10.0 million
<u>Property and Casualty</u>	
Aggregate Excess of Loss	\$5.0 million xs 85% net earned premium
Clash Treaty	\$4.0 million xs \$5.0 million
<u>Catastrophe</u>	
Layer 1	20.25% of \$10 million xs \$10 million
Layer 2	41.83% of \$30 million xs \$20 million
Layer 3	41.83% of \$50 million xs \$50 million
Layer 4	68.61% of \$125 million xs \$100 million
Layer 5	46.66% of \$25 million xs \$225 million
3 yr @ 7/07 \$90 million xs \$10 million	14.75% of \$90 million xs \$10 million
2 yr @ 7/09 \$90 million xs \$10 million	4.25% of \$90 million xs \$10 million
3 yr @ 7/09 \$90 million xs \$10 million	5.75% of \$90 million xs \$10 million
2 yr @ 7/08 \$80 million xs \$20 million	13.17% of \$80 million xs \$20 million
3 yr @ 7/08 \$80 million xs \$20 million	15.25% of \$80 million xs \$20 million
2 yr @ 7/09 \$125 million xs \$100 million	19.8% of \$125 million xs \$100 million
3 yr @ 7/09 \$125 million xs \$100 million	6.6% of \$125 million xs \$100 million
2 yr @ 7/09 \$25 million xs \$225 million	26.67% of \$25 million xs \$225 million
3 yr @ 7/09 \$25 million xs \$225 million	26.67% of \$25 million xs \$225 million



## SUBSEQUENT EVENTS

As of January 1, 2010, the companies entered into an alliance with Rockingham Mutual Insurance Company and Rockingham Casualty Company, Virginia domiciled companies. Rockingham entered into an inter-company pooling agreement, a management services agreement and a Class "A" shareholders agreement. Under the inter-company pooling agreement, premiums, losses and expenses are ceded 100% to the pool; the pool members then assume back a specified percentage of the pool. The percentages are Norfolk 53%, Rockingham 20%, Fitchburg 16% and Dorchester 11%. The agreement is prospective; losses and loss adjustment expenses prior to 2010 are not included in the pool.

Newbury did provide managerial services to Rockingham. All employees of Rockingham became employees of Newbury effective January 1, 2010. Rockingham did acquire shares of Newbury under the Class "A" shareholder agreement. Three directors of Rockingham became directors of Norfolk, two Rockingham directors became directors of Dorchester and three Rockingham directors became directors of Fitchburg. In turn, two directors of the Norfolk and Dedham Group of companies became directors of Rockingham.

Effective December 31, 2010, the alliance was terminated. The inter-company pooling agreement, management services agreement and Class "A" shareholders agreement were amended to terminate the agreements. The Rockingham directors resigned from the boards of Norfolk, Dorchester and Fitchburg. The Norfolk, Dorchester and Fitchburg directors resigned from the board of Rockingham.

Beginning in January 2010, Norfolk began to assume business from non-affiliated companies. The Company decided to assume business that would provide geographic diversity and be profitable. A reinsurance intermediary that the Company has had a relationship with for 20 years was utilized to obtain the assumed business. Norfolk will only assume business that the Company is knowledgeable about. The companies that the Company will assume from will be experts in the type of business assumed and the ceding company will maintain an interest in the business assumed. In 2010, the Company assumed approximately \$3,000,000 of business; this amount will increase in 2011. In addition, in 2011 the Company became a licensed reinsurer in Arkansas.

## 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 2009 annual statement. No material exceptions were noted.

The books and records of the Company were audited for the years 2005 to 2006 by PricewaterhouseCoopers and for the years 2007 through 2009 by UHY, LLP, both independent certified public accountants, in accordance with 211 CMR 23.00. In April 2010, Marcum LLP acquired the New England branches of UHY LLP.

### 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, 2009:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2009

Underwriting and Investment Exhibit Statement of Income for the Year Ended December 31, 2009

Reconciliation of Capital and Surplus, For the Financial Year Period Ended December 31, 2009

Norfolk and Dedham Mutual Fire Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2009

Assets	Per Company	Examination Changes	Per Statutory Examination	Notes
Bonds	\$ 166,878,711	\$ 0	\$ 166,878,711	
Common stocks	62,748,260		62,748,260	
Real estate	1,182,326		1,182,326	
Cash and short term investments	5,779,470		5,779,470	
Other Invested Assets	497,862		497,862	
Subtotal cash and invested assets	237,086,629	0	237,086,629	
Investment income due and accrued	1,771,241		1,771,241	
Premiums and considerations:				
Uncollected premiums	345,178		345,178	
Deferred premiums	20,202,634		20,202,634	
Reinsurance:				
Amounts recoverable from reinsurers	3,350,425		3,350,425	
Other amounts receivable under reinsurance contracts	298,872		298,872	
Net deferred tax asset	1,674,121		1,674,121	
Aggregate write-ins for other than invested assets	5,864,692		5,864,692	
TOTAL ASSETS	\$ 270,593,792	\$ 0	\$ 270,593,792	

Norfolk and Dedham Mutual Fire Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2009

Liabilities	Per Company	Examination Changes	Per Statutory Examination	Notes
Losses	\$ 38,768,467	\$ 0	\$ 38,768,467	1
Reinsurance payable on paid loss and loss adjustment expenses	1,944,614		1,944,614	
Loss adjustment expenses	14,039,101		14,039,101	1
Commissions Payable	3,340,616		3,340,616	
Other expenses	723,503		723,503	
Taxes, licenses and fees	1,115,006		1,115,006	
Current federal and foreign income tax	7,539,332		7,539,332	
Unearned premiums	50,834,899		50,834,899	
Advance premiums	2,147,831		2,147,831	
Ceded reinsurance premiums payable	320,783		320,783	
Amounts withheld for account of others	1,805,008		1,805,008	
Drafts outstanding	31,020		31,020	
Payable to parent, subsidiaries and affiliates	3,838,774		3,838,774	
Aggregate write-ins for liabilities	931,338		931,338	
Total liabilities	127,380,292	0	127,380,292	
Surplus notes	12,000,000		12,000,000	
Unassigned funds	131,213,500		131,213,500	
Total surplus	143,213,500		143,213,500	
TOTAL LIABILITIES AND SURPLUS	\$ 270,593,792	\$ 0	\$ 270,593,792	

Norfolk and Dedham Mutual Fire Insurance Company

Underwriting and Investment Exhibit Statement of Income the Year Ended December 31, 2009

	Per Company	Examination Changes	Per Statutory Examination	Notes
Premiums earned	\$ 91,224,469	\$ 0	\$ 91,224,469	
Deductions				
Losses incurred	34,822,919		34,822,919	
Loss adjustment expenses incurred	10,322,141		10,322,141	
Other underwriting expenses incurred	41,207,195		41,207,195	
Aggregate write-ins for underwriting deductions	1,691		1,691	
Total underwriting deductions	86,353,946	0	86,353,946	
Net underwriting gain (loss)	4,870,523	0	4,870,523	
Net investment income earned	5,694,134		5,694,134	
Net realized capital gains (losses)	13,910,267		13,910,267	
Net investment gain (loss)	19,604,401	0	19,604,401	
Net gain or (loss) from agents' or premium balances charged off	(37,195)		(37,195)	
Finance and service charges not included in premium	1,270,512		1,270,512	
Aggregate write-ins for miscellaneous income	233,954		233,954	
Total other income	1,467,271	0	1,467,271	
Net income before dividends to policyholders	25,942,195		25,942,195	
Dividends to policyholders	-		-	
Net income before federal taxes	25,942,195	0	25,942,195	
Federal and foreign taxes incurred	2,644,150		2,644,150	
Net income	\$ 23,298,045	\$ 0	\$ 23,298,045	

# Norfolk and Dedham Mutual Fire Insurance Company

## Reconciliation of Capital and Surplus For the Five Year Period Ended December 31, 2009

	2009	2008	2007	2006	2005
Capital and Surplus, December 31, prior year	\$ 114,573,682	\$ 130,078,740	\$ 120,644,879	\$ 107,771,136	\$ 97,794,136
Net income	23,298,045	5,205,694	6,560,483	7,423,031	6,133,689
Change in net unrealized capital gains or (losses)	6,889,094	(19,998,608)	2,327,561	4,438,899	(4,190,456)
Change in net deferred income tax	(1,540,490)	(729,084)	572,886	930,430	2,346,730
Change in nonadmitted assets	(6,831)	16,940	(27,069)	3,386	5,109
Change in provision for reinsurance				5,000	(1,000)
Aggregate write-ins for gains and losses in surplus					5,735,751
Net change in capital and surplus for the year	28,639,818	(15,505,058)	13,881	12,873,743	10,066,823
Capital and Surplus, December 31, current year	\$ 143,213,500	\$ 114,573,682	\$ 130,078,740	\$ 120,644,879	\$ 107,771,136

## NOTES TO THE FINANCIAL STATEMENTS

**Note 1: Loss and Loss Adjustment Expense Reserves**

The Division retained the services of KPMG LLP to provide an actuarial evaluation of the Loss and Loss Adjustment Expense reserves recorded by the company. The table below shows the findings resulting from their actuarial evaluation of the Group on both a net of reinsurance and gross of reinsurance basis.

**Loss & Loss Adjustment Expense Reserves as of December 31, 2009**

Reserve Category	Low	KPMG Indicated Selected	High	Carried
<u>Net of Reinsurance</u>				
Losses	46,701,000	52,411,000	59,625,000	57,012,448
Defense & Cost Containment	10,319,000	10,779,000	11,358,000	4,307,735
Adjusting & Other	8,108,000	10,359,000	12,435,000	16,338,000
Total Loss & Expense	65,038,000	73,599,000	83,418,000	77,658,183
<u>Gross of Reinsurance</u>				
Losses	41,779,000	60,368,000	68,065,000	103,739,000
Defense & Cost Containment	12,557,000	13,044,000	13,685,000	8,059,000
Adjusting & Other	8,018,000	10,359,000	12,435,000	27,894,000
Total Loss & Expense	74,754,000	83,771,000	94,185,000	139,692,000

The reserves carried by the Group exceed the high end of the range as determined by KPMG LLP by \$4,507,000 on a gross basis. On a net basis the reserves are in the range as determined by KPMG LLP.



Norfolk and Dedham Mutual Fire Insurance Company

The table below shows the findings resulting from their actuarial evaluation of the reserves by individual company on both a net of reinsurance and gross of reinsurance basis.

**Loss & Loss Adjustment Expense Reserves as of December 31, 2009**

Reserve Category	KPMG Indicated			
	Low	Selected	High	Carried
<u>Net of Reinsurance</u>				
Norfolk & Dedham	44,226,000	50,047,000	56,724,000	52,800,566
Dorchester	8,455,000	9,568,000	10,844,000	10,095,562
Fitchburg	12,357,000	13,984,000	15,849,000	14,555,053
Total	65,038,000	73,599,000	83,418,000	77,658,183
<u>Gross of Reinsurance</u>				
Norfolk & Dedham	50,833,000	56,964,000	61,678,000	82,813,000
Dorchester	9,718,000	10,890,000	12,244,000	18,311,000
Fitchburg	14,203,000	15,916,000	17,895,000	38,568,000
Total	74,754,000	83,770,000	94,185,000	139,692,000

The reserves carried by each company in the group exceed the high end of the range as determined by KPMG LLP by \$11,767,000 for Norfolk, \$6,067,000 for Dorchester and \$20,673,000 for Fitchburg on a gross basis. On a net basis the reserves are in the range as determined by KPMG LLP.

In KPMG's opinion, the loss and loss adjustment expense reserves carried by the Group as of December 31, 2009 do not make reasonable provision for all unpaid loss and loss adjustment expense obligations of the Group. In KPMG's opinion, direct and assumed loss and loss adjustment expense reserves carried by the Group as of December 31, 2009 do not make reasonable provision for the unpaid loss and loss adjustment expense obligations of the Group.

## COMMENTS AND RECOMMENDATIONS

A family member of the President has had an ownership interest in an insurance agency that does business with the Company since 2005. This was only disclosed in the conflict of interest statement for 2009. It should be disclosed in the conflict of interest statements in all years in which the related party relationship exists.

It is recommended that conflicts of interest be disclosed in the conflict of interest statements for all years in which a conflict exists.

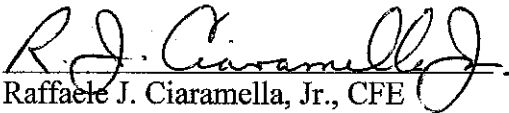
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**ACKNOWLEDGEMENT**

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company to all the examiners during the course of the examination.

The assistance rendered by the following Massachusetts Division of Insurance examiners who participated in this examination is hereby acknowledged:

Linda Dow, Financial Examiner II  
Brian Knowlton, Financial Examiner II  
Carla Mallqui, Financial Examiner II

  
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Commonwealth of Massachusetts  
Division of Insurance

  
Maria Gannon, CFE  
Examiner-In-Charge  
Commonwealth of Massachusetts  
Division of Insurance