



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

REPORT OF EXAMINATION OF THE
PILGRIM INSURANCE COMPANY

Boston, Massachusetts

As of December 31, 2007

NAIC GROUP CODE 0415

NAIC COMPANY CODE 21750

EMPLOYERS ID NO. 04-3002627

PILGRIM INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
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April 24, 2009

The Honorable Alfred W. Gross, Chairman
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The Honorable Nonnie S. Burnes
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Commonwealth of Massachusetts
Office of Consumer Affairs and Business Regulation
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Honorable Commissioners:

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 the

PILGRIM INSURANCE COMPANY
Boston, MA

at its home office located at 27-43 Wormwood Street, Suite 300, Boston, Massachusetts, 02110.
The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Pilgrim Insurance Company (hereinafter referred to as “the Company”) was last examined as of December 31, 2002 under the association plan of the *National Association of Insurance Commissioners* (“NAIC”) by the Massachusetts Division of Insurance (the “Division”). The current association plan examination was also conducted by the Division, and covers the period from January 1, 2003 through December 31, 2007, including any material transactions and/or events occurring subsequent to the examination date as noted during the course of this examination.

Concurrent with this examination, the following insurance affiliates in the Plymouth Rock Company Insurance Group were also examined and separate Reports of Examination have been issued:

Plymouth Rock Assurance Corporation
Bunker Hill 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 Examiner’s Handbook, the examination standards of the Division and with Massachusetts General Laws (“M.G.L.”). The principal focus of the examination was 2007 activity, however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

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

The Company is audited annually by PricewaterhouseCoopers LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2003 through 2007. 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 firm, Ernst & Young LLP, was retained by the Division to evaluate the adequacy of the Company’s loss and loss adjustment expense reserves as of December 31, 2007. 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.

HISTORY

General

The Company, a stock company, was incorporated on July 6, 1987 under the laws of the Commonwealth of Massachusetts and commenced business on March 24, 1988. The Company is authorized to issue policies for fire, marine, accident & health, workers' compensation, automobile liability and physical damage, other liability, glass, water damage and sprinkler damage, theft and reinsurance.

Effective May 25, 2005, the Company amended its Certificate of Authority to remove Fidelity and Surety Insurance coverage, bringing the Company in compliance with the minimum capital and surplus requirement contained within M.G.L. c.175 s.48.

Capital Stock

The Company's Articles of Organization authorized the Company to issue 19,000 shares of common stock with a par value of \$50.00 per share in accordance with M.G.L. c.175 s.48. The \$150.00 initial capitalization consisted of \$50.00 of capital and \$100.00 of paid-in surplus.

SRB Corporation owns all the issued and outstanding shares of common stock of the Company. As of December 31, 2007, the Company had issued 19,000 shares of common stock with an aggregate par value of \$950,000.

Dividends to Stockholders

The Company declared and paid the following dividends to its stockholder during the examination period:

2005	\$2,000,000
2006	1,500,500
2007	1,000,160

There were no declared but unpaid dividends as of December 31, 2007. In addition, the Company did not declare or pay any extraordinary dividends during the examination period.

Pilgrim Insurance Company

Growth of the Company

The growth of the Company for the years 2003 through 2007 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>
2003	\$ 28,255,305	\$ 0	\$ 6,427,850
2004	34,902,401	0	9,393,532
2005	35,685,469	0	9,271,319
2006	37,346,149	0	10,787,705
2007	34,396,059	0	10,219,920

Management

Annual Meeting

In accordance with the bylaws, the annual meeting of the stockholders of the Company ("Annual Meeting") is scheduled to be held on the third Tuesday of May. A majority in interest of all stock issued and outstanding and entitled to vote at the meeting shall constitute a quorum. By consent of its sole stockholder in lieu of the Annual Meeting, the Company has elected its Directors each year.

Board of Directors

The bylaws provide that the business and affairs of the Company shall be managed by the Board of Directors except as otherwise provided by the Articles of Organization, by law, or by the bylaws. The Board of Directors shall consist of not fewer than five Directors with the number to be determined at each Annual Meeting by vote of the stockholders. Each Director shall hold office until the next Annual Meeting. Upon death, removal, or resignation, his or her successor shall be elected by either the stockholders or the Directors.

At December 31, 2007 the Board was comprised of seven Directors, which is in compliance with the bylaws.

Directors duly elected and serving at December 31, 2007, with address and business affiliations, follow:

<u>Director</u>	<u>Business Affiliation</u>
Hal Belodoff Newton, MA	President The Plymouth Rock Company

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Frederick C. Childs Cambridge, MA	Vice President SRB Corporation
Dennis A. DiMarzio Readville, MA	Retired
Paula W. Gold Boston, MA	Vice President and Chief Regulatory Counsel Plymouth Rock Assurance Corporation
Eric L. Kramer Jamaica Plain, MA	Chief Knowledge Officer Plymouth Rock Assurance Corporation
Eugene J. Meyung Charlottesville, VA	Retired
Ellen S. Wilcox Byfield, MA	President Pilgrim Insurance Company

The bylaws do not specify the number of meetings of Directors to be held during a year. The minutes of the Board of Directors meetings indicate that meetings were held four times per year during the examination period. At any meeting of the Board, a majority of the Directors then in office (but not less than four) shall constitute a quorum. The minutes indicate that a quorum was present at all meetings of the Board of Directors held during the examination period.

Officers

The bylaws provide that the officers of the Company shall be a President, a Treasurer, a Secretary, and such other officers as the Board of Directors may elect or appoint. Pursuant to the bylaws, the officers of the Company shall be elected by the Board of Directors at its first meeting after the Annual Meeting. If any office becomes vacant, the Board of Directors may elect a successor.

The elected officers and their respective titles at December 31, 2007 follow:

<u>Name</u>	<u>Title</u>
Hal Belodoff	Chairman
Ellen S. Wilcox	President; Secretary
Frederick C. Childs	Treasurer
Louis C. Palomeque	Vice President, Claims
Barry O. Tagen	Vice President, Underwriting

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Conflict of Interest Procedures

The Company has adopted a policy statement pertaining to conflicts of interest in accordance with Question 13 of the General Interrogatories of the Annual Statement. The Company has an established procedure for the disclosure to the Board of Directors of any material interest or affiliation on the part of any officer or director which conflicts or is likely to conflict with his or her official duties.

Annually, each officer and director completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed, and no discrepancies were noted in the responses to the General Interrogatories regarding conflicts of interest as reflected in the Company's 2007 Annual Statement.

Corporate Records

Articles of Organization and Bylaws

The bylaws and Articles of Organization and amendments thereto were read. There were no changes to the bylaws or Articles of Organization since the prior examination.

Disaster Recovery and Business Continuity

The Company provides 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.

Minutes of Meetings of the Board of Directors

The minutes of meetings of the Board of Directors for the period under examination were read. The minutes 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 reported at each meeting of the Board of Directors.

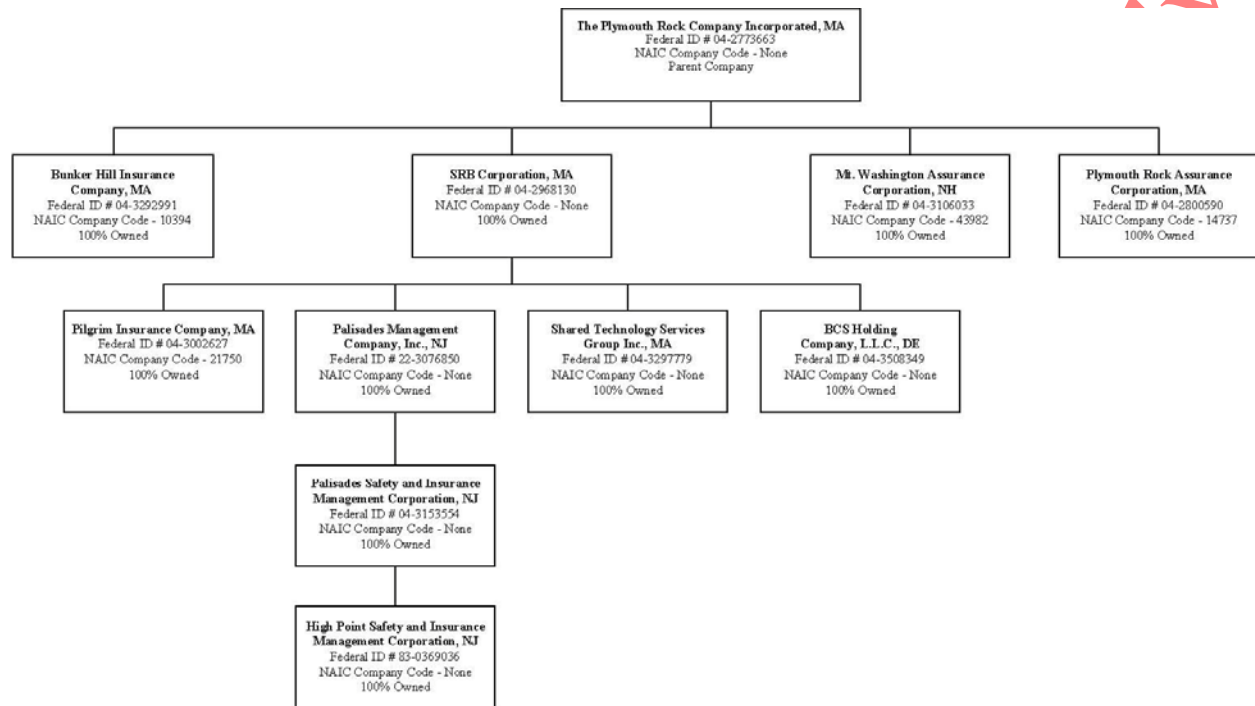
The minutes of the June 23, 2004 Board of Directors meeting noted that the prior Report of Examination as of December 31, 2002 was reviewed and accepted by the Board.

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. The Plymouth Rock Company Incorporated is the "ultimate controlling person" for ten entities, including four insurance and six non-insurance corporations.

Pilgrim Insurance Company

Organization Chart



Transactions and Agreements with Subsidiaries and Affiliates

Management & Service Agreement

The Company receives and provides certain accounting, management and other services from and to its affiliates. Fees charged for these services are negotiated annually.

Tax Sharing Agreement

The Company participates in a tax allocation agreement with its eligible affiliates. The allocation method is based upon the respective tax liability of each member computed as if a separate return were filed, in accordance with the Internal Revenue Code. Inter-company tax balances are settled quarterly and after the tax filing is made in September.

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 coverage exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by 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, 2007.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offers various insurance plans, including group and family life, dental and health coverage, and long-term disability to all full-time employees. The Company offers a Savings and Investment Plan under Section 401(k) of the Internal Revenue Code. The plan, which is a defined contribution plan, covers all participating employees of the Company beginning with the month following the date of employment.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting Practices

The Company offers primarily automobile coverage utilizing policy forms, riders and endorsements that are subject to the approval of the individual state insurance departments.

Territory and Plan of Operations

The Company is licensed to write business in Massachusetts only.

The Company operates as a servicing company specializing in servicing automobile coverage. All written premiums are serviced on behalf of client companies (and an affiliate of the Company) and most are ceded 100% to Commonwealth Automobile Reinsurers ("CAR") an involuntary automobile reinsurance pool. Services provided by the Company include policy processing, billing, risk selection, claim management, loss management, loss prevention, insurance administration, accounting, and reporting.

Advertising and Sales Material

The Company does not advertise to the general public.

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, 2007 through December 31, 2007. The market conduct examination was called pursuant to authority in M.G.L. c.175 s.4.

The market conduct examination is being 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 Eide Bailly were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Regulation Handbook, the market conduct examination 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, 2007 through December 31, 2007 will be issued and become available as a public document.

REINSURANCE

Ceded Reinsurance

Pools and Facilities

The company has client agreements with a number of insurance companies ("Clients") to provide policy processing, billing, risk selection, claim management, loss prevention, insurance administration, accounting, and reporting to help them fulfill their obligations as servicing carriers for CAR. The Company also provides services relating to policies written through exclusive representative producers, which are either ceded to CAR or retained by the client company.

In addition to its business ceded to CAR, the Company cedes voluntary commercial motor vehicle business to an affiliate, Plymouth Rock Assurance Corporation. The Company also services exclusive representative producer private passenger automobile business for a client. The majority of this business is ceded to CAR.

ACCOUNTS AND RECORDS

The internal controls 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 Systems environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the information systems 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 2007 Annual Statement. No material exceptions were noted.

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

For Information Purposes Only

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, 2007.

Statement of Assets, Liabilities, and Surplus and Other Funds as of December 31, 2007

Underwriting and Investment Exhibit Statement of Income for the Year Ended
December 31, 2007

Reconciliation of Capital and Surplus, For the Five Year Period Ended
December 31, 2007

For Information Purposes Only

Pilgrim Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2007

	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Assets				
Bonds	\$ 10,493,823	\$ 0	\$ 10,493,823	
Common stocks	1,941,414		1,941,414	
Cash and short-term investments	(1,646,193)		(1,646,193)	
Other invested assets	1,975,179		1,975,179	
Subtotals, cash and invested assets	12,764,223		12,764,223	
Investment income due and accrued	256,709		256,709	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	1,432,129		1,432,129	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	12,602,364		12,602,364	
Amounts recoverable from reinsurers	3,484,157		3,484,157	
Net deferred tax asset	401,689		401,689	
Electronic data processing equipment	167,676		167,676	
Receivable from parent, subsidiaries and affiliates	6,216		6,216	
Aggregate write-ins for other than invested assets	3,280,896		3,280,896	
Total Assets	<u>\$ 34,396,059</u>	<u>\$ 0</u>	<u>\$ 34,396,059</u>	

Pilgrim Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2007

	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Liabilities				
Loss adjustment expenses	\$ 1,960,452	\$ 0	\$ 1,960,452	(1)
Other expenses	3,037,334		3,037,334	
Taxes, licenses and fees	14,374		14,374	
Current federal and foreign income taxes	395,694		395,694	
Ceded reinsurance premiums payable	14,338,197		14,338,197	
Payable to parent, subsidiaries and affiliates	762,834		762,834	
Aggregate write-ins for liabilities	3,667,254		3,667,254	
Total Liabilities	24,176,139		24,176,139	
Common capital stock	950,000		950,000	
Gross paid in and contributed surplus	1,958,122		1,958,122	
Unassigned funds (surplus)	7,311,798		7,311,798	
Surplus as regards policyholders	10,219,920		10,219,920	
Total Liabilities, Capital and Surplus	\$ 34,396,059	\$ 0	\$ 34,396,059	

Pilgrim Insurance Company

Underwriting & Investment Exhibit Statement of Income the Year Ended December 31, 2007

	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Premiums earned	\$ 0	\$ 0	\$ 0	
Deductions:				
Loss expenses incurred	4,896,739		4,896,739	
Other underwriting expenses incurred	17,718,131		17,718,131	
Aggregate write-ins for underwriting deductions	(21,591,659)		(21,591,659)	
Total underwriting deductions	1,023,211		1,023,211	
Net underwriting gain (loss)	(1,023,211)		(1,023,211)	
Net investment income earned	910,926		910,926	
Net realized capital gains (losses)	120,822		120,822	
Net investment gain (loss)	1,031,748		1,031,748	
Finance and service charges not included in premiums	857,320		857,320	
Aggregate write-ins for miscellaneous income	2,387		2,387	
Total other income	859,707		859,707	
Net income before dividends to policyholders and before federal and foreign income taxes	868,244		868,244	
Federal and foreign income taxes incurred	571,882		571,882	
Net Income	\$ 296,362	\$ 0	\$ 296,362	

Pilgrim Insurance Company

Reconciliation of Capital and Surplus
For the Five Year Period Ended December 31, 2007

	2007	2006	2005	2004	2003
Capital and surplus, December 31, prior year	\$ 10,787,705	\$ 9,271,319	\$ 9,393,532	\$ 6,427,851	\$ 4,622,426
Net income	296,362	2,720,794	2,957,993	2,959,412	1,908,049
Change in net unrealized capital gains or (losses)	131,503	295,835	(277,988)	-	-
Change in net deferred income tax	437,657	133,353	321,360	(23,891)	(259,677)
Change in nonadmitted assets	(433,147)	(133,546)	(1,123,448)	30,160	157,053
Dividends to stockholders	(1,000,160)	(1,500,050)	(2,000,130)	-	-
Net change in capital and surplus for the year	(567,785)	1,516,386	(122,213)	2,965,681	1,805,425
Capital and surplus, December 31, current year	<u>\$ 10,219,920</u>	<u>\$ 10,787,705</u>	<u>\$ 9,271,319</u>	<u>\$ 9,393,532</u>	<u>\$ 6,427,851</u>

NOTES TO FINANCIAL STATEMENTS

Note 1: Loss and Loss Adjustment Expense Reserves:

The Division retained the services of Ernst & Young LLP to provide an actuarial evaluation of the reasonableness of Loss and Loss Adjustment Expense (“LAE”) reserves recorded by the Company. The table below shows the findings resulting from their actuarial evaluation of the Company on both a net of reinsurance and gross of reinsurance basis.

Net of Reinsurance (\$000's)				
	<u>Company Carried</u>	<u>Low</u>	<u>Ernst & Young Indicated Point</u>	<u>High</u>
Total	\$1,960	\$1,730	\$1,870	\$2,011
Gross of Reinsurance (\$000's)				
	<u>Company Carried</u>	<u>Low</u>	<u>Ernst & Young Indicated Point</u>	<u>High</u>
Total	\$61,079	\$53,479	\$57,666	\$61,853

Net of Reinsurance Conclusion:

Ernst & Young’s indicated net reserve range for Loss and LAE is \$1.7 million to \$2.million. As the recorded net reserve of \$2.0 million falls within this range we have accepted it as a reasonable provision in the aggregate for the Company’s unpaid Loss and LAE obligations as of December 31, 2007.

Gross of Reinsurance Conclusion:

For all categories combined, Ernst & Young’s indicated gross reserve range for Loss and LAE is \$53.5 million to \$61.9 million. The recorded gross reserve of \$61.1 million falls within this range we have accepted it as a reasonable provision in the aggregate for the Company’s unpaid loss and LAE obligations as of December 31, 2007.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Company.

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

Daniel R. Dowd, Financial Examiner II
Guangping Wei, Financial Examiner II

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