



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

***REPORT OF EXAMINATION***

**OF THE**  
**QUINCY MUTUAL FIRE INSURANCE COMPANY**  
**QUINCY, MASSACHUSETTS**

**As of DECEMBER 31, 2004**

**N.A.I.C. GROUP CODE 1275**

**N.A.I.C. COMPANY CODE 15067**

**EMPLOYER ID NUMBER 04-1752900**

# QUINCY MUTUAL FIRE INSURANCE COMPANY

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For Information Purposes Only



# COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

## DIVISION OF INSURANCE

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COMMISSIONER OF INSURANCE

February 13, 2006

The Honorable Alfred W. Gross  
Chairman, Financial Condition (E) Committee, NAIC  
Commissioner of Insurance  
The Commonwealth of Virginia  
State Corporation Commission  
Bureau of Insurance  
Post Office Box 1157  
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The Honorable Julianne M. Bowler  
Secretary, Northeastern Zone, NAIC  
Commissioner of Insurance  
The Commonwealth of Massachusetts  
Office of Consumer Affairs and Business Regulation  
Division of Insurance  
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Honorable Commissioners:

Pursuant to your instructions and in accordance with Massachusetts General Law ("MGL"), Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

### QUINCY MUTUAL FIRE INSURANCE COMPANY

at its home office located at 57 Washington Street, Quincy, Massachusetts 02169. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

Quincy Mutual Fire Insurance Company ("Company") was last examined as of December 31, 1999, under the association plan of the National Association of Insurance Commissioners ("NAIC") by the Massachusetts Division of Insurance ("Division"). The current association plan examination also was conducted by the Division and it covers the period from January 1, 2000, through December 31, 2004, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of this examination.

This examination was conducted at the same time and in conjunction with the statutory financial condition examination made by the Maine Bureau of Insurance on the Company's subsidiary, Patrons Oxford Insurance Company ("POIC") of Auburn, Maine.

The examination was conducted in accordance with standards established by the Financial Condition (E) Committee of the NAIC Financial Condition Examiners Handbook, with the examination standards of the Division, and with the General Laws of Massachusetts. The principal focus of the examination was 2004 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 ("PwC"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2000 through 2004. A review and use of PwC's workpapers were made to the extent deemed appropriate and effective.

The Division retained the consulting actuarial services of KPMG LLP ("KPMG"), an independent certified public accounting firm, to evaluate the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2004. An evaluation of the adequacy and effectiveness of controls over electronic data processing systems was done to determine the level of reliance to be placed on summary information generated by the data processing systems.

For a summary of findings contained within this Report, refer to the "Notes to the Financial Statements".

### **Status of Findings from the Prior Examination**

This examination included a review to verify the current status of exception conditions commented upon in the Report of Examination as of December 31, 1999. It was determined that the Company has addressed satisfactorily all outstanding items of comment.

**HISTORY****General**

The Company was organized under the laws of the Commonwealth of Massachusetts in March 1851 and commenced business in May 1851. As a licensed property and casualty insurer, the Company writes personal and commercial insurance through a network of independent agents. In 1995, the Company organized Program Managers, Inc., later renamed Quincy Mid-Atlantic, Inc., to operate as a branch office of the Company writing commercial line products in New Jersey and Pennsylvania.

In August 1996, the Company formed a holding company subsidiary, Quincy Investment Holding Corporation ("QIHC"), which subsequently purchased two insurance agencies.

In December 1997, the Company acquired control of POIC by the acquisition of all of POIC's issued and outstanding capital stock. It entered into a reinsurance pooling agreement with its subsidiary whereby POIC cedes to the Company the business arising out of its insurance operations on and after January 1, 1998; the Company then retains approximately 99% and POIC assumes the retrocession of almost 1% of the total of such amounts and the Company's homeowners and private passenger automobile business.

The Company had formed a new branch office in London, England, and in January 1999, began to assume reinsurance of property risks not located in the United States of America. Effective April 2002, the Company ceased writing new and renewal business through this branch office and by June 2005 settled all open claims associated with this venture.

The Company currently is licensed to conduct business in the following states: Massachusetts, New Jersey, Rhode Island, Connecticut, New York, New Hampshire, Pennsylvania, Vermont, Maine, and Ohio; however, it does not actively write business in Ohio.

**Growth of the Company**

The growth of the Company for the years 2000 through 2004 is shown in the following schedule which was prepared from information in the Company's annual statements:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
2004	\$ 1,029,302,672	\$ 496,168,877	\$ 533,133,795
2003	884,524,414	451,658,636	432,865,778
2002	760,407,525	402,193,021	358,214,504
2001	780,336,463	378,342,568	401,993,895
2000	807,672,092	275,597,082	532,075,010

## QUINCY MUTUAL FIRE INSURANCE COMPANY

### Management

#### Annual Meeting

In accordance with the Bylaws, the Annual Meeting of the Company is held on the first Wednesday in February in each year. Ten Members of the Company constitute a quorum; a Member is each person or entity insured by the Company whose policy has not expired. The minutes indicate that a quorum was obtained at each annual meeting held in the examination period.

#### 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 Incorporation or by a valid policyholder agreement. The Board of Directors shall consist of not fewer than seven or not more than twelve Directors with the number determined at each annual meeting by resolution of the policyholders or at a special meeting called for that purpose. A majority of Directors shall be residents of Massachusetts. As of each annual meeting, no less than half of the Board shall be Independent Directors (those who are not employed by the Company and who the Board shall determine have no material relationship with the Company).

The Directors are divided into four classes of not more than three Directors each. The term of office of the Directors of one class only expires each year, and successors are chosen by ballot at the annual meeting of Members for a four-year term or until successors are elected and qualified.

At December 31, 2004, the Board was composed of eight Directors, which is in compliance with the Company's Bylaws.

Directors duly elected and serving at December 31, 2004, with addresses and business affiliations, are as follows:

<u>Director</u>	<u>Business Affiliation</u>	<u>Residence</u>
Karl Layng Briggs	Chairman of the Board, Quincy Mutual Fire Insurance Company	Hingham, Massachusetts
+ James Dudley Asher	President, Television and Radio Broadcasting Corp.	South Weymouth, Massachusetts
+ Karl Douglas Briggs	President and Chief Executive Officer, Quincy Mutual Fire Insurance Company	Hingham, Massachusetts
Alexander Gordon Clark	President, The Vulcan Company	Norwell, Massachusetts
+ Forrest Russell Cook, Jr.	Retired President and Chief Executive Officer, South Shore Bank	Sharon, New Hampshire
+ Kevin Michael Meskell *	Executive Vice President and Secretary, Quincy Mutual Fire Insurance Company	Weymouth, Massachusetts

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( continued from preceding page )

<u>Director</u>	<u>Business Affiliation</u>	<u>Residence</u>
Arthur P. Murphy	Managing Partner, Murphy, Hesse, Toomey, and Lehane	Milton, Massachusetts
+ John Michael Sheskey	President, John M. Sheskey & Associates, Inc.	Hingham, Massachusetts

\* New elected since prior examination.

+ Also serves on the Board of subsidiary, POIC.

Many of the Directors listed above simultaneously held similar positions on the Board of the Company's subsidiary, POIC. Early in 2005, Mr. K. L. Briggs ceased being active in his position as Chairman of the Board of Directors and Mr. K. M. Meskell ceased being Secretary to the Company.

The Bylaws specify that the February meeting of the Board of Directors shall be held on the same day as the annual meeting of the Company's Members; otherwise, they do not specify the number of meetings to be held during a year. The minutes indicated that a quorum was obtained for all meetings of the Board of Directors held during the examination period.

The Board of Directors appointed an Executive Committee, an Investment Committee, and an Audit Committee in accordance with the Bylaws. The purpose and membership of each committee at December 31, 2004, are as follows:

*Executive Committee*

The Executive Committee is comprised of not less than three Directors who are Independent Directors, in addition to the Chairman of the Board and the President. The Executive Committee is empowered to act on behalf of the Board between meetings and is charged with the duty of general supervision between regular meetings of the Board over the business operations, financial affairs, and corporate governance of the Company. It reports to each meeting of the Board all deliberations and decisions it made since the last meeting of the Board. The Board of Directors shall annually appoint an Independent Director as Chairman of the Executive Committee, who shall be deemed for all purposes to be the Lead Director of the Company. Directors serving on this Committee at December 31, 2004, are as follows:

Forrest R. Cook, Jr., Chairman	
K. Douglas Briggs	Karl L. Briggs
Alexander G. Clark	Arthur P. Murphy

*Investment Committee*

The Investment Committee is comprised of not less than three Directors in addition to the President and the Treasurer. It is empowered to act on behalf of the Board on matters involving the general supervision over the investment or loaning of funds of the Company. In addition to the powers specifically set forth in the Bylaws, the Investment Committee shall have such further powers and perform such other duties as the Board may from time to time prescribe. The Investment Committee shall report to each regular meeting of the Board all transactions carried



QUINCY MUTUAL FIRE INSURANCE COMPANY

out by the Committee since the last regular Board meeting. Directors serving on this Committee at December 31, 2004, are as follows:

Karl L. Briggs, Chairman  
K. Douglas Briggs  
James D. Asher

Alexander G. Clark  
Forrest R. Cook, Jr.  
Thomas A. Harris

*Audit Committee*

The Audit Committee is comprised of not less than three Directors, a majority of whom qualify as Independent Directors. The Chairman of the Audit Committee, who shall be an Independent Director, shall be elected annually by members of this Committee. The Audit Committee is empowered to act on behalf of the Board on matters concerning general supervision and oversight of corporate accounting, the financial reporting processes and internal control systems of the Company, and the quality and integrity of the Company's financial statements. It shall engage the Company's outside auditor, monitor its independence and performance, and meet privately as appropriate with the outside auditor; it is authorized to directly engage on the Company's behalf such accountants, counsel, or other professionals as it believes necessary and appropriate. In addition, it shall have such further powers and perform such other duties as the Board may from time to time prescribe. The Audit Committee shall meet not less than four times each fiscal year, shall report its activities as appropriate to the Board, and shall adopt a written charter. In October 2003, the Audit Committee updated its charter; previously, the Audit Committee had consisted of the entire Board of Directors but now consists of three Independent Directors. Directors serving on this Committee at December 31, 2004, are as follows:

James D. Asher  
Alexander G. Clark      Forrest R. Cook, Jr.

Officers

The Bylaws of the Company provide that the officers of the Company shall be a President, a Treasurer, a Secretary, and such other officers as the Board of Directors deems necessary. Pursuant to the Bylaws, the officers of the Company are elected by the Board of Directors annually at the February meeting held on the same day as the annual meeting of the Company's Members; other officers may be chosen by the Directors at such meeting or at any other meeting. Vacancies among the offices may be filled and new offices may be created and filled by the Board of Directors or by the President to the extent authorized by the Board of Directors.

The elected and appointed officers and their respective titles at December 31, 2004, were the following:

<u>Name</u>	<u>Title</u>
* <i>d</i> Karl Douglas Briggs, CPA, CPCU	President and Chief Executive Officer
* <i>ds</i> Kevin Michael Meskell	Executive Vice President and Secretary
* Thomas Arthur Harris	Senior Vice President and Treasurer

QUINCY MUTUAL FIRE INSURANCE COMPANY

( continued from preceding page )

<u>Name</u>	<u>Title</u>
* Steven Harvey Briggs, AIC	Senior Vice President, Claims
* James Joseph Moran, Jr., Esq., CPCU	Senior Vice President and General Counsel
Harold Eugene Gerbis, Jr., CPCU	Vice President, Personal Lines Underwriting
Mark Anthony Giuliani	Vice President, Information Systems
* John F. Murphy, Jr., AIC	Vice President, Claims
Deborah Lusardi Pennisi	Vice President, Commercial Lines Underwriting
* Lu-Ann R. Smith	Vice President, Human Resources
William James Whitebone	Vice President, Marketing
Lisa Marie Schooley	Controller

\* Newly elected or promoted to office since prior examination.

*d* Also serves on the Board of subsidiary, POIC.

*s* Also serves as Secretary of subsidiary, POIC.

As indicated above, some of the Company's Officers simultaneously held positions in POIC. Subsequent to the date of examination, Senior Vice President and General Counsel J. J. Moran, Jr., assumed the additional role of Secretary in February 2005.

#### Conflict of Interest Procedure

The Company has a policy statement pertaining to conflict of interest. In support of its answer to Question 14 of Part 1 Common 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 or responsible employee which is in or is likely to conflict with his/her official duties. Annually, each officer or director or responsible employee completes a questionnaire disclosing any material conflicts of interests. The completed questionnaires were reviewed and no discrepancies were noted to contradict the Company's response to the General Interrogatory regarding conflicts of interests reported in the Company's 2004 Annual Statement.

#### Corporate Records

##### Articles of Incorporation and Bylaws

The Bylaws of the Company were read and were found to contain specific provision for the succession of Directors and Officers in event of an emergency.

##### Disaster Recovery and Business Continuity

The Company provides for continuity of management and operations in the event of a catastrophe or national emergency in accordance with MGL c. 175, ss. 180M through 180Q.

Board of Directors Minutes

The minutes of meetings of the Board of Directors and its Committees for the period under examination were read 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 at meetings of the Board of Directors.

The minutes of the Board of Directors meeting on October 25, 2001, recorded that the prior Report of Examination was reviewed and accepted by the Board.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

In the examination period, a few significant transactions involving the Company in acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance occurred, key of which are summarized as follows:

- ◆ On 30 November 2001, the Company acquired full ownership of Program Managers, Inc. ("PMI"), a New Jersey corporation, and entered into an agreement to provide certain management and data processing services thereto. In 1995, the Company had entered into a joint marketing venture (titled "Program Managers, Inc.") in New Jersey with First Indemnity of America to produce a full complement of "main street" commercial lines business including property, automobile, and workers' compensation in New Jersey. In 1998, the commercial products also began to be offered in Pennsylvania.
- ◆ On 20 December 2001, at a cost of \$5,950,425, the Company acquired 99.5% ownership of 121 South Main Street, LLC, a limited partnership in Rhode Island. Quincy Investment Holding Corporation ("QIHC"), a wholly owned subsidiary of the Company, also contributed \$31,950 for ownership of the remaining 0.5% of this limited partnership which invests in commercial real estate.
- ◆ On 1 February 2002, PMI changed its name to Quincy Mid-Atlantic, Inc. ("QM-A").
- ◆ Effective 1 April 2002, the Company ceased writing new and renewal business at a branch office in London, England. Through that office, established in January 1999, the Company had assumed reinsurance of non-USA property risks from alien reinsurers; most of this business was subject to retrocession to alien reinsurers. By 31 December 2004, only four claims in the course of settlement remained opened as the Company was still in the process of terminating its operations in the United Kingdom. These were settled during the first half of 2005.
- ◆ On 31 December 2002, the Company formed and licensed New Plymouth Insurance Agency, Inc. ("NPIA"), a Massachusetts corporation and wholly owned subsidiary of QIHC.
- ◆ On 28 February 2003, the Company formed and licensed sole ownership of Gardiner & Whiteley Insurance Agency, Inc., a Rhode Island corporation and wholly owned subsidiary of QIHC.

## QUINCY MUTUAL FIRE INSURANCE COMPANY

- ◆ In 2003, the Company formed and capitalized Quincy Andover, LLC, with \$10,532,000 to purchase interests in certain real estate partnerships.
- ◆ In 2003, the Company received proceeds of \$5,854,284 from the sale of its interests in PSCO Partners Limited Partnership, LLC.
- ◆ On 31 March 2004, the Company provided a ten-year loan of \$1.5 million to the Gardiner & Whiteley Insurance Agency, Inc., to purchase the customer list and other assets of the Harry J. Boardman Insurance Agency, Inc. Effective 7 May 2004, Gardiner & Whiteley Insurance Agency, Inc., changed its name to Gardiner, Whiteley, Boardman Insurance Agency, Inc. ("GWBIA"), a Rhode Island corporation.
- ◆ In 2004, PSCO Partners Limited Partnership Two, LLC was dissolved and assets totaling \$47,802,508 were transferred to the Company.
- ◆ In 2004, the Company made an additional capital contribution of \$14,138,565 to Quincy Andover, LLC, to purchase additional real estate interests.
- ◆ In 2004, the Company also made a capital contribution of \$4,240,000 to 1400 Hancock Street, LLC, to acquire certain real estate.

### Surplus Note

On 12 May 2004, the Company issued a floating rate (based on the three-month LIBOR rate) surplus note for \$50.0 million with a maturity date of June 17, 2034. The note is unsecured and is subordinate to all present and future indebtedness of the Company, policy claims, and prior claims against the Company, as provided by Massachusetts General Laws. This was voted by the Company's Board of Directors and appropriate filings were made with the Division. Issuance was approved by the Commissioner of Insurance of the Commonwealth of Massachusetts ("Massachusetts Commissioner").

All payments of principal and interest are subject to the prior approval of the Massachusetts Commissioner. Interest on the note is scheduled to be paid quarterly in March, June, September, and December of each year, beginning on September 17, 2004, to holders of record on the preceding quarter.

## **AFFILIATED COMPANIES**

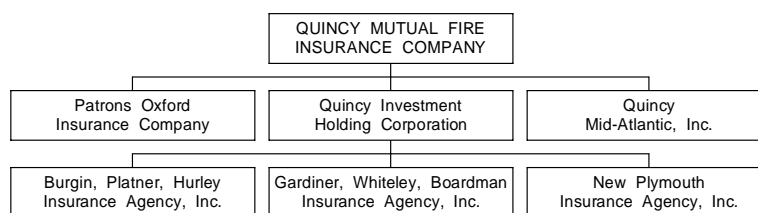
### Holding Company Filings

Per 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 MGL c. 175, s. 206C and Regulation 211 CMR 7.00. The Company is the ultimate controlling party of the group consisting of six entities, including two insurance and four non-insurance corporations.

## QUINCY MUTUAL FIRE INSURANCE COMPANY

### Organization Chart

The corporate organization of entities held by the Company at December 31, 2004, is represented as follows:



In addition to the entities displayed in the organization chart presented above, the Company had ownership interests in the following seven limited liability companies at December 31, 2004:

Name of Entity	State of Formation	Percentage Owned by Company	
1400 Hancock Street, LLC	Massachusetts	100.0%	
Quincy Andover, LLC	Massachusetts	100.0%	
121 South Main Street, LLC	Rhode Island	99.5%	*
Lexington Laconia, LLC	New Hampshire	90.0%	
Billerica Rangeway, LLC	Massachusetts	89.6%	
New Boston Street Venture, LLC	Massachusetts	50.0%	
The Property and Casualty Initiative, LLC	Massachusetts	1.3%	

\* The Company has direct ownership of 99.5% of 121 South Main Street, LLC, and indirect ownership of the remaining 0.5% through its subsidiary, QIHC.

### Transactions and Agreements with Subsidiaries and Affiliates

The three predominant cost-sharing agreements involving the Company are a management services agreement, a tax sharing agreement, and an inter-company reinsurance pooling agreement. Each is described briefly in the following summary:

#### *Management and Service Agreement*

The Company provides certain accounting, management, and other services to its subsidiary, POIC. In consideration of such services, POIC agreed to pay the costs and expenses incurred by the Company relative thereto.

#### *Cost Sharing Arrangement*

The Company has an inter-company pooling arrangement with its subsidiary, POIC, whereby the Company assumes all of POIC's business and then retrocedes to POIC a portion of such amounts combined with balances arising from its own homeowners and private passenger automobile

## QUINCY MUTUAL FIRE INSURANCE COMPANY

business; by the percentages listed in the agreement, the Company retains approximately 99% and POIC assumes the remaining balance (almost 1%) of such combined business.

### *Tax Sharing Agreement*

The Company participates in a written tax allocation agreement with its eligible subsidiaries. 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 balances are settled annually in the fourth quarter.

### **FIDELITY BONDS AND OTHER INSURANCE**

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with MGL c. 175, s. 60. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by other policies of insurance covering other insurable risks. Coverages were provided by insurers licensed in the Commonwealth of Massachusetts and were in force as of December 31, 2004.

### **PENSION AND INSURANCE PLANS**

The Company has a non-contributory, qualified, defined benefit plan covering substantially all full-time employees. Further, covering substantially all full-time employees, the Company has a qualified defined contribution 401(k) and profit-sharing plan under which the Company partially matches voluntary contributions of employee compensation; in addition, the Board of Directors may approve a profit sharing and performance bonus of up to seven per cent of an employee's annual compensation. The Company also has a deferred compensation plan for directors and officers. The Company provides other post-retirement health care benefits for certain employees and their spouses, who have retired from the Company and are not yet eligible for Medicare.

Company plans providing short and long term disability benefits, group accidental death and dismemberment insurance, contributory dental and medical coverage, and other health and life insurance benefits are offered to employees.

### **STATUTORY DEPOSITS**

The statutory deposit of the Company as of December 31, 2004, is as follows:

<u>Location</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Massachusetts	US Treasury Bond 8.125% due 2021	\$ 500,000	\$ 596,032	\$ 691,270



## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### Policy Forms and Underwriting Practices

The Company offers personal and commercial property and liability coverages utilizing policy forms, riders, and endorsements that are subject to the approval of the individual state insurance departments.

The Company's maximum retention limit, net of reinsurance, is \$2.5 million per risk.

### Territory and Plan of Operation

The Company is licensed to write business in the following ten states: Massachusetts, New Jersey, Rhode Island, Connecticut, New York, Pennsylvania, New Hampshire, Vermont, Maine, and Ohio; however, it does not actively write business in Ohio. All Certificates of Authority were current and in force.

The Company's principal lines of business are homeowners and automobile liability and physical damage provided to personal risks and motor vehicle, liability, and physical damage provided to commercial risks, through its appointed independent agents.

### Advertising and Sales Material

A review of the Company's marketing and sales material was performed to evaluate the representations made by the Company about its products. The Company's advertising was not found to have been the subject of criticism by a regulatory agency or body.

### Treatment of Policyholders

#### *Claim Settlement Practices*

Procedures performed in conjunction with the claims testwork indicated that the Company investigates and settles claims on a timely and equitable basis.

#### *Dividends to Policyholders*

The Company did not declare or pay any dividends to its policyholders in the period of examination.

**REINSURANCE**

In addition to participating in an inter-company reinsurance pooling arrangement, the Company has extensive programs with many reinsurers. The following briefly describes some of the major programs.

**Inter-Company Reinsurance Pooling Agreement**

Effective January 1, 1998, the Company began to participate in an inter-company reinsurance pooling agreement with its subsidiary, POIC, whereby POIC cedes to the Company the premiums, incurred losses, loss adjustment expenses, and underwriting and administrative expenses of all of POIC's policies in force on or issued or renewed after such effective date. The Company assumes these amounts and then retrocedes to POIC the specific, pre-agreed percentage (0.81%) of the total of such amounts and of similar amounts that arise from the Company's homeowners and private passenger automobile insurance business. The agreement is prospective in nature. Assets equaling the net change in liabilities as a result of such pooling arrangement were transferred between the pool participants.

Aggregate balances for gross premiums associated with reinsurance transactions are compared in summary below for each company at the examination dates the agreement has been effective.

<u>GROSS PREMIUMS</u>	<b>2 0 0 4</b>		<b>1 9 9 9</b>	
	Q.M.F.I.C.	P.O.I.C.	Q.M.F.I.C.	P.O.I.C.
Direct Business	\$308,601,647	\$31,137,557	\$174,508,074	\$17,914,045
Reinsurance Assumed from:				
Affiliates	31,137,557	1,893,631	17,914,045	1,228,951
Non-Affiliates	10,539,708	-	16,705,224	-
Reinsurance Ceded to:				
Affiliates	1,893,631	31,137,557	1,228,951	17,914,045
Non-Affiliates	25,205,285	-	12,006,113	-
Net Premiums Written	\$323,179,996	\$ 1,893,631	\$195,892,279	\$ 1,228,951

**London Branch Office Business**

Previously, the Company had a branch office in London, England, and effective January 1, 1999, had engaged in reinsuring international property risks not located in the United States of America. Through this office, it had assumed and retroceded the global business with authorized and unauthorized insurance companies. Because the majority of the alien reinsurers used as retrocessionaires were unauthorized carriers, the Company had established a liability under the provision for reinsurance to include the reserves and recoverables for all of the unauthorized companies instead of obtaining a letter of credit from the unauthorized insurers. The Company had mitigated its loss exposure for this business by carrying both per risk excess of loss and catastrophe coverages associated with such business. Effective April 2002, the Company ceased writing new and renewal business through this branch office and by the date of this examination,



in the process of discontinuing such overseas operation, it had settled almost all open claims associated with this venture; by June 2005, all such claims were settled.

### Assumed Reinsurance

#### *Involuntary Pools*

The Company participates in several involuntary pools and associations for property and motor vehicle risks of the states in which it is licensed. Among these, the Company is a servicing carrier for the residual market for motor vehicle insurance in Massachusetts, Commonwealth Automobile Reinsurers ("CAR"). It also accepts risks from property insurance underwriting associations in Connecticut, New Jersey, Pennsylvania, and Rhode Island; business from FAIR Plans, including those of Massachusetts and New York, is booked as direct business.

### Ceded Reinsurance

#### *Voluntary Pools*

The Company participates in the Associated Inland Marine and the Selected Insurance Risks pools. The former is a pool designed to write inland marine risks on a quota share basis among pool participants consisting of several mutual insurance companies in New England. The latter is a pool designed to write high quality, high value, commercial risks on a quota share basis also among several New England mutual insurance companies.

#### *Other Coverages*

The Company participated in a variety of treaties ceding reinsurance that limited, to some extent, its direct exposure. The Company has entered into certain excess of loss, quota share, facultative, and catastrophic treaties.

With General Reinsurance Corporation, the Company limits its exposure to \$1.0 million on an umbrella risk. It also has a facultative program to limit to \$1.5 million the net retention on commercial lines property business underwritten in Quincy.

The Company has facultative property coverage and excess umbrella coverage with American Reinsurance Company to protect the Company against property losses in excess of an underlying \$3.0 million reinsurance limit up to \$15.0 million on commercial lines business underwritten in New Jersey; the umbrella program covers exposures from \$6.0 million to \$10.0 million.

The Company purchased catastrophe excess of loss protection for losses in excess of \$20.0 million to a limit of \$290.0 million; the Company retains the first \$20.0 million and 10% of losses throughout the program.

### **SUBSEQUENT EVENTS**

As events subsequent to the date of examination, the following were noted:

- ◆ In April 2005, the Company allocated \$5,072,000 to Quincy Foxboro, LLC, a newly formed, wholly owned, limited liability company in Massachusetts, to purchase certain real estate.
- ◆ In October 2005, the Company realized a gain of approximately \$3.2 million through the \$8.0 million sale of real estate owned by its subsidiary, 1400 Hancock Street, LLC.
- ◆ Also in October 2005, the Company realized a gain of approximately \$12 million through the \$31.5 million sale of real estate owned by its subsidiary, 121 South Main Street, LLC.
- ◆ In December 2005, the Company issued a second surplus note of \$50.0 million with a term of thirty years. The note is 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. The Massachusetts Commissioner approved the issuance of the floating rate (based on the three-month LIBOR rate) surplus note with a maturity date of 15 December 2035.
- ◆ Also in December 2005, the Company realized a gain of approximately \$19 million through its sale of real estate partnership interests owned by its subsidiary, Quincy Andover, LLC.

### **ACCOUNTS AND RECORDS**

The internal control structure was discussed with management through questionnaires and through a review of work performed by the Company's independent certified public accountants. No material deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of 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's uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to annual statements. No material exceptions were noted.

In accordance with 211 C.M.R. 23.00, the books and records of the Company are audited annually by a firm of independent certified public accountants. Throughout the examination period, the Company was audited by PricewaterhouseCoopers LLP.

**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 December 31, 2004:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2004

Statement of Income for the Year Ended December 31, 2004

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2004

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QUINCY MUTUAL FIRE INSURANCE COMPANY

**Statement of Assets, Liabilities, Surplus and Other Funds  
As of December 31, 2004**

<b>Assets</b>	<b>As Reported by the Company</b>	<b>Examination Changes</b>	<b>Per Statutory Examination</b>	<b>Notes</b>
Bonds	\$ 373,607,762	\$ 0	\$ 373,607,762	
Preferred stocks	7,350,302		7,350,302	
Common stocks	496,190,043		496,190,043	
Mortgage loans on real estate: First liens	242,258		242,258	
Real estate: Properties occupied by the Company	13,405,174		13,405,174	
Cash and short-term investments	28,226,598		28,226,598	
Other invested assets	41,036,286		41,036,286	
Subtotals, cash and invested assets	960,058,423		960,058,423	
Investment income due and accrued	4,990,708		4,990,708	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	4,007,973		4,007,973	
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	51,318,815		51,318,815	
Reinsurance: Amounts recoverable from reinsurers	386,681		386,681	
Electronic data processing equipment	362,480		362,480	
Receivable from parent, subsidiaries, and affiliates	819,358		819,358	
Aggregate write-ins for other than invested assets:				
Cash value of life insurance policies	1,897,398		1,897,398	
Equities in pools and associations	5,460,835		5,460,835	
Total Assets	<u>\$1,029,302,672</u>	<u>\$ 0</u>	<u>\$1,029,302,672</u>	

QUINCY MUTUAL FIRE INSURANCE COMPANY

**Statement of Assets, Liabilities, Surplus and Other Funds  
As of December 31, 2004**

<b>Liabilities</b>	<b>As Reported by the Company</b>	<b>Examination Changes</b>	<b>Per Statutory Examination</b>	<b>Notes</b>
Losses	\$ 164,534,214	\$ 0	\$ 164,534,214	( 2 )
Reinsurance payable on paid loss and loss adjustment expenses	3,210,480		3,210,480	
Loss adjustment expenses	46,826,275		46,826,275	( 2 )
Commissions payable, contingent commissions, and other similar charges	12,692,912		12,692,912	
Other expenses	6,056,889		6,056,889	
Taxes, licenses, and fees	3,023,655		3,023,655	
Current federal and foreign income taxes	5,600,000		5,600,000	
Net deferred tax liability	71,382,276		71,382,276	
Unearned premiums	170,969,279		170,969,279	
Advance premiums	4,531,843		4,531,843	
Ceded reinsurance premiums payable	960,382		960,382	
Funds held by Company under reinsurance treaties	1,921,317		1,921,317	
Amounts withheld or retained by Company for account of others	3,950,073		3,950,073	
Provision for reinsurance	429,000		429,000	
Aggregate write-in for liabilities: Miscellaneous accruals	80,282		80,282	
<b>Total Liabilities</b>	<b>496,168,877</b>		<b>496,168,877</b>	
Surplus notes	50,000,000		50,000,000	
Unassigned funds (surplus)	483,133,795		483,133,795	
Surplus as regards policyholders	533,133,795		533,133,795	
<b>Total Liabilities, Capital, and Surplus</b>	<b>\$1,029,302,672</b>	<b>\$ 0</b>	<b>\$1,029,302,672</b>	

QUINCY MUTUAL FIRE INSURANCE COMPANY

**Statement of Income**  
**For The Year Ended December 31, 2004**

	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Premiums earned	\$ 310,455,902	\$ 0	\$ 310,455,902	
Deductions:				
Losses incurred	161,524,720		161,524,720	
Loss expenses incurred	34,051,158		34,051,158	
Other underwriting expenses incurred	111,882,509		111,882,509	
Total underwriting deductions	307,458,387	-	307,458,387	
Net underwriting gain	2,997,515	-	2,997,515	
Net investment income earned	23,446,203		23,446,203	
Net realized capital gains	10,405,201		10,405,201	
Net investment gain	33,851,404	-	33,851,404	
Net gain (loss) from agents' or premium balances charged off	(483,569)		(483,569)	
Finance and service charges not included in premiums	2,239,410		2,239,410	
Aggregate write-ins for miscellaneous income:				
Realized gain due to foreign exchange rates	11,437		11,437	
Total other income	1,767,278	-	1,767,278	
Net income before dividends to policyholders and before federal and foreign income taxes	38,616,197	-	38,616,197	
Dividends to policyholders	-		-	
Net income after dividends to policyholders but before federal and foreign income taxes	38,616,197	-	38,616,197	
Federal and foreign income taxes incurred	10,958,426		10,958,426	
Net Income	\$ 27,657,771	\$ 0	\$ 27,657,771	

QUINCY MUTUAL FIRE INSURANCE COMPANY

**Reconciliation of Capital and Surplus  
For Each Year in the Five Year Period Ended December 31, 2004**

	2004 *	2003	2002	2001	2000
Surplus as regards policyholders as of December 31, prior year	<u>\$ 432,865,778</u>	<u>\$ 358,214,504</u>	<u>\$ 401,993,895</u>	<u>\$ 532,075,010</u>	<u>\$ 531,262,055</u>
Net income	27,657,771	28,626,151	755,312	4,010,947	12,736,954
Change in net unrealized capital gains or (losses)	18,218,697	45,916,515	(50,126,381)	(39,274,406)	(12,817,781)
Change in net unrealized foreign exchange capital gain (loss)	432,363	176,309	(736,080)	181,431	442,514
Change in net deferred income tax	2,338,950	439,176	5,932,704	1,822,148	
Change in non-admitted assets	(463,764)	(1,554,117)	5,847,803	(521,750)	245,268
Change in provision for reinsurance	2,084,000	260,000	296,000	1,708,000	876,000
Change in surplus notes	50,000,000				
Cumulative effect of changes in accounting principles		100,468		(98,007,485)	
Change in excess of statutory over statement reserve					(670,000)
Aggregate write-ins for gains or (losses) in surplus:					
Reversal of additional minimum pension liability		686,771			
2001 audit adjustment to statement for federal tax accrual			500,000		
Adjustment for net pension asset non-admitted as of 1-1-2001			(6,248,749)		
Net change in surplus as regards policyholders for the year	<u>100,268,017</u>	<u>74,651,274</u>	<u>(43,779,391)</u>	<u>(130,081,115)</u>	<u>812,955</u>
Surplus as regards policyholders as of December 31, current year	<u><u>\$ 533,133,795</u></u>	<u><u>\$ 432,865,778</u></u>	<u><u>\$ 358,214,504</u></u>	<u><u>\$ 401,993,895</u></u>	<u><u>\$ 532,075,010</u></u>

\* Per Examination

**NOTES TO FINANCIAL STATEMENT****NOTE 1****LIABILITIES**

As of December 31, 2004, the Company reported total liabilities amounting to \$496,168,877. At no time in the examination period did the Company have borrowed money other than the surplus note issued in 2004.

In the normal course of business, the Company has been involved in litigation from time to time with insureds, claimants, and others. In the opinion of the Company, its ultimate liability, if any, associated with lawsuits arising from or related to insurance claims would not have a materially adverse financial effect upon the Company that could not be addressed through its usual business operations. Company officers indicated that they were not aware of any material contingent liabilities not already addressed. Consequently, other than allowances potentially inherent in prudent reserving methodologies for contract benefits and claim expenses, the Company has not maintained additional reserves to cover contingent liabilities.

**NOTE 2:**

<u>Losses</u>	<u>\$ 164,534,214</u>
<u>Loss Adjustment Expenses</u>	<u>\$ 46,826,275</u>

The Company's Board of Directors appointed as its actuary a principal consultant with the firm of PwC to render a Statement of Actuarial Opinion as of December 31, 2004, on the Company's loss and loss adjustment expense reserves. Among the items in the Statement of Actuarial Opinion, the appointed actuary specifically listed the following amounts:

<u>Actuarial Reserve Items for the Company as of December 31, 2004</u>		
	Net	Direct and Assumed
Reserve for Unpaid Losses	\$ 164,534,214	\$ 171,675,000
Reserve for Unpaid Loss Adjustment Expenses	46,826,275	47,376,000
Aggregate Total	\$ 211,360,489	\$ 219,051,000

After reviewing the above reserves and other items, the Company's appointed actuary concluded that, in his opinion, the amounts identified above:

- A. meet the requirements of the insurance law of Massachusetts,
- B. were computed in accordance with generally accepted actuarial standards and principles,
- C. make reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.



QUINCY MUTUAL FIRE INSURANCE COMPANY

As part of the examination, the Division engaged the consulting actuarial services of KPMG LLP. The consulting actuaries for the Division reviewed the analyses performed by the Company's appointed actuary, performed an independent analysis of the loss and loss adjustment expense reserves carried by the Company and by POIC, such review conducted separately on each insurer, and rendered an actuarial opinion on the reasonableness of the reserves carried by the Company and by POIC as of December 31, 2004.

KPMG reported that as of December 31, 2004, the Company recorded statutory-based loss and loss adjustment expense reserves, gross of reinsurance recoverables, of \$219.1 million. Based on its own independent review, KPMG estimated the Company's gross loss and loss adjustment expense liabilities as of December 31, 2004, at \$224.9 million, with a range of reasonable gross loss and loss adjustment expense reserves which spans from a low of \$204.7 million to a high of \$241.0 million. In the opinion of KPMG, the gross loss and loss adjustment expense reserves carried by the Company as of December 31, 2004, make reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company.

The following table summarizes KPMG's reserve ranges, KPMG selected point estimate reserve, and the Company's carried loss and loss adjustment expense reserves as of December 31, 2004.

<i>( 000 omitted )</i> Reserve Category	Low End of Range	KPMG Selection	High End of Range	Company Carried
Gross Loss Reserves	\$ 164,290	\$ 181,132	\$ 194,340	\$ 171,675
Gross D&CCE Reserves *	29,978	31,846	33,799	32,028
Gross A&OE Reserves #	10,383	11,930	12,861	15,348
Total Gross Reserves	<u>\$ 204,651</u>	<u>\$ 224,908</u>	<u>\$ 241,000</u>	<u>\$ 219,051</u>

\* D&CCE Reserves = Defense and Cost Containment Expense Reserves

# A&OE Reserves = Adjusting and Other Expense Reserves

KPMG reported that as of December 31, 2004, the Company recorded statutory-based loss and loss adjustment expense reserves, net of reinsurance recoverables, of \$211.4 million. Based on its own independent review, KPMG estimated the Company's net loss and loss adjustment expense liabilities as of December 31, 2004, at \$215.0 million, with a range of reasonable net loss and loss adjustment expense reserves which spans from a low of \$196.9 million to a high of \$229.8 million. In the opinion of KPMG, the net loss and loss adjustment expense reserves carried by the Company as of December 31, 2004, make reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company.

The following table summarizes KPMG's reserve ranges, KPMG selected point estimate reserve, and the Company's carried loss and loss adjustment expense reserves as of December 31, 2004.

QUINCY MUTUAL FIRE INSURANCE COMPANY

Net Loss and Loss Adjustment Expense Reserves

<i>( 000 omitted )</i> Reserve Category	Low End of Range	KPMG Selection	High End of Range	Company Carried
Net Loss Reserves	\$ 157,236	\$ 172,146	\$ 184,203	\$ 164,534
Net D&CCE Reserves *	29,345	31,011	32,761	31,541
Net A&OE Reserves #	10,338	11,880	12,806	15,286
Total Net Reserves	<u>\$ 196,919</u>	<u>\$ 215,037</u>	<u>\$ 229,770</u>	<u>\$ 211,361</u>

\* D&CCE Reserves = Defense and Cost Containment Expense Reserves

# A&OE Reserves = Adjusting and Other Expense Reserves

KPMG noted that the Company's loss and loss adjustment expense reserves as of December 31, 2004, are stated gross of salvage and subrogation recoverables and gross of expected interest income associated with the time value of money. In the course of analyses, KPMG used several accepted loss reserving methods and procedures to derive reserve estimates and to construct ranges. KPMG gave consideration to the relative strengths and weaknesses of each of the methods in deriving the KPMG selected point estimate within the range. KPMG noted that the range of reasonable reserve estimates does not reflect all possible outcomes; rather, it is a range that has been constructed using alternative methodologies and assumptions that KPMG believed to be reasonable. KPMG stated its analyses were performed using accepted loss and loss expense reserving methods in conformance with sound actuarial practices and principles and that KPMG introduced assumptions and judgments that it considered appropriate in the circumstances.

In its Report, KPMG similarly detailed POIC's reserve position to the above presentation for loss and loss adjustment expense liabilities as of December 31, 2004. Whereas KPMG demonstrated that the Company's reserve position was conservative and that participation in the inter-company reinsurance pooling agreement had distribution percentages of more than 99% for the Company and less than 1% for POIC, the summary of analyses for POIC is not contained in this Report.

**CONCLUSION**

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

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

Ravinder S. Chana, CFE, CFSA, CGFM  
Linh Ngu  
Yvette P. Smith

Insurance Examiner III  
Insurance Examiner II  
Insurance Examiner II

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Richard D. Looney, AFE, CIE  
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