

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

REPORT OF EXAMINATION OF THE
SAFETY PROPERTY AND CASUALTY INSURANCE COMPANY

Boston, Massachusetts

As of December 31, 2018

NAIC GROUP CODE 00188

NAIC COMPANY CODE 12808

EMPLOYER ID NUMBER 20-5985347

SAFETY PROPERTY AND CASUALTY INSURANCE COMPANY

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

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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

May 6, 2020

The Honorable Gary D. Anderson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, and other applicable statutes, an examination has been made of the financial condition and affairs of

SAFETY PROPERTY AND CASUALTY INSURANCE COMPANY

at its home office located at 20 Custom House Street, Boston, MA 02110. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Safety Property and Casualty Insurance Company (“Company” or “SPCIC”) was last examined as of December 31, 2013 by the Massachusetts Division of Insurance (“Division”). The current examination was also conducted by the Division and covers the five-year period from January 1, 2014 through December 31, 2018, 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 Safety Insurance Group (“SIG”) were also examined and separate Reports of Examination have been issued:

Safety Insurance Company (“SIC”)
Safety Indemnity Insurance Company (“SIIC”)

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 175, Section 4, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company is audited annually by PricewaterhouseCoopers LLP (“PwC”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for calendar years 2014 through 2018. A review and use of the Certified Public Accountants’ work papers was made to the extent deemed appropriate and effective.

The INS Companies (“INS”) were engaged by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division’s examination staff. The assistance included a review of accounting records, information systems, investments and actuarially determined loss and loss adjustment expense reserves, as well as other significant actuarial estimates.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings identified during the examination.

COMPANY HISTORY

The Company was organized and incorporated on December 5, 2006, under the laws of the Commonwealth of Massachusetts, as a stock company titled “Safety Property and Casualty Insurance Company”. It commenced business on January 1, 2007. As a licensed property and casualty insurer, the Company is subject to the provisions of Massachusetts General Law (“M.G.L.”), Chapter 175, Section 4 and other Massachusetts insurance laws.

The Company writes homeowners and commercial automobile insurance at ultra-preferred rates. It is authorized to write the following lines of insurance coverage: fire, ocean & inland marine, boiler (no inspection), accidents – all kinds, liability other than auto, auto liability, glass, water damage and sprinkler leakage, elevator property damage and collision, burglary, robbery, theft, repair – replacement, stock companies (extension of coverage), reinsurance except life, comprehensive motor vehicle & aircraft, and personal property floater.

SIC, its insurance affiliates, owns 100 % of the outstanding shares of the Company. SIG, the Delaware holding corporation, owns 100% of the issued and outstanding shares of SIC. Control of SIC was acquired by SIG as a result of a statutory merger that occurred on October 16, 2001, between Safety Merger Company, Inc. and Thomas Black Corporation (“TBC”). As a result of the 2001 merger, SIG was indirectly owned, through its wholly owned direct subsidiary, TBC. The 2001 merger was approved by the Division on October 12, 2001. On March 31, 2004, TBC merged with and into SIG with SIG being the corporation surviving the merger. Upon the formation of SPCIC, on December 2006, the Company became part of the same insurance company holding system as SIC and SIIC.

SPCIC is a member of the Massachusetts Insurers Insolvency Fund and is assessed a proportionate share of the obligations and expenses of the Insolvency Fund in connection with an insolvent insurer. Massachusetts law requires that insurers licensed to do business in Massachusetts participate in the Massachusetts Insurers Insolvency Fund.

Capital Stock

In 2006, SIC purchased 175,000 no par value shares of the Company for a price of \$1.75 million and at the same time, made a capital contribution of \$7.3 million to its newly formed subsidiary. On December 4, 2014, the articles of organization were amended by unanimous consent of the Board of Directors (“Board”) to change the authorized capital stock from 175,000 shares of no par value common stock to 175,000 shares of common stock with a par value of \$20.00 per share. This resulted in a change in Capital Stock from \$1,150,000 to \$3,504,000.

Safety Property and Casualty Insurance Company

Dividends

The Company paid no stockholder dividends during the examination period. There were no declared and unpaid dividends as of December 31, 2018.

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board 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.

Articles of Organization and Bylaws

The bylaws and articles of organization and amendments thereto were reviewed. The Company's bylaws were adopted on November 16, 2006. The Company complied with M.G.L. Chapter 175, Sections 50 & 50B by filing the bylaws with the Division. During the examination period, on December 4, 2014, the Board voted to amend the articles of organization to change the value of the 175,000 shares of common stock from no par value to \$20.00 par value per share.

Board of Directors

According to the bylaws, the "business of the company shall be managed by the directors who may exercise all of the powers of the Company as are not by law, the articles of organization or these bylaws required to be otherwise." The Board shall consist of at least five and no more than seven members. Directors shall be elected by a plurality of the votes cast at annual meetings of the stockholders and each director so elected shall hold office until the next annual meeting of stockholders and thereafter until a successor is duly elected and qualified, or until his sooner resignation or removal. Any director may resign at any time upon notice to the Company. Directors need not be stockholders.

Safety Property and Casualty Insurance Company

At December 31, 2018, the Company's Board was comprised of the following directors:

<u>Name of Director</u>	<u>Title</u>
George Michael Murphy	President and Chief Executive Officer
William Joseph Begley, Jr.	Vice President, Chief Financial Officer and Treasurer
James David Berry	Vice President of Underwriting and Secretary
Steven Albert Varga	Vice President of Management Information Systems
David Ernest Krupa	Vice President of Property Claims
Paul Jorge Narciso	Vice President of Casualty Claims
John Patrick Drago	Vice President of Marketing
Ann Marie McKeown	Vice President of Insurance Operations

*William J. Begley, Jr, Vice President, CFO, and Secretary retired effective March 1, 2020. Christopher T. Whitford, Controller of the Company has been appointed as Vice President, CFO and Secretary, effective March 2, 2020.

Oversight of the SIG Board of Directors

SPCIC is under the oversight of the SIG Board of Directors ("SIG Board"). The SIG Board meets quarterly and upon special request as needed, to discuss Company's performance, objectives and results. The SIG Board consists of seven members and three classes, each class serves three years, with terms of office of the respective classes expiring in successive years. The SIG Board appointed various committees to assist in the oversight of its subsidiaries. They include an Audit Committee, a Compensation Committee, a Nominating & Governance Committee and an Investment Committee. Additionally, the SPCIC Board, is also considered SIG Board's Executive Committee, which meets on a weekly basis to review and discuss the operations of the Company.

Officers

According to the Company's bylaws, the Board shall elect the officers of the Company. The officers of the Company shall be the President, the Treasurer, the Secretary, and such other officers and agents, with duties and powers, as the Board may in its discretion determine. The President, the Treasurer, and the Secretary shall be elected annually by the directors at their first meeting following the annual meeting of stockholders; other officers may be chosen by the directors at such meeting or at any other meeting. The term of office for each officer shall be one year or until respective successors are elected and qualified or until earlier resignation or removal. An officer may but need not be a director or stockholder and no officer shall be a director solely by virtue of being an officer.

The bylaws state that the President shall be the Chief Executive Officer of the Company. Except as otherwise voted by the Board, the President shall preside at all meetings of the stockholders and of the Board at which he is present. The President shall have such duties and powers as are commonly incident to the office and such duties and powers as the Board shall from time to time designate. In addition to what is defined explicitly in the bylaws, the Company's officers shall have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as from time to time may be conferred by the Board. Except as otherwise required or prohibited by law, any two or more offices may be held by the same person.

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The officers of the Company as of December 31, 2018 were as follows:

<u>Name of Officer</u>	<u>Title</u>
George Michael Murphy	President and Chief Executive Office
William Joseph Begley Jr.	Vice President, Chief Financial Officer and Treasurer
James David Berry	Vice President of Underwriting and Secretary
John Patrick Drago	Vice President of Marketing
David Ernest Krupa	Vice President of Property Claims
Ann Marie McKeown	Vice President of Insurance Operations
Paul Jorge Narciso	Vice President of Casualty Claims
Stephen Albert Varga	Vice President of Management Information Systems

*William J. Begley, Jr, Vice President, CFO, and Secretary retired effective March 1, 2020. Christopher T. Whitford, Controller of the Company has been appointed as Vice President, CFO and Secretary, effective March 2, 2020.

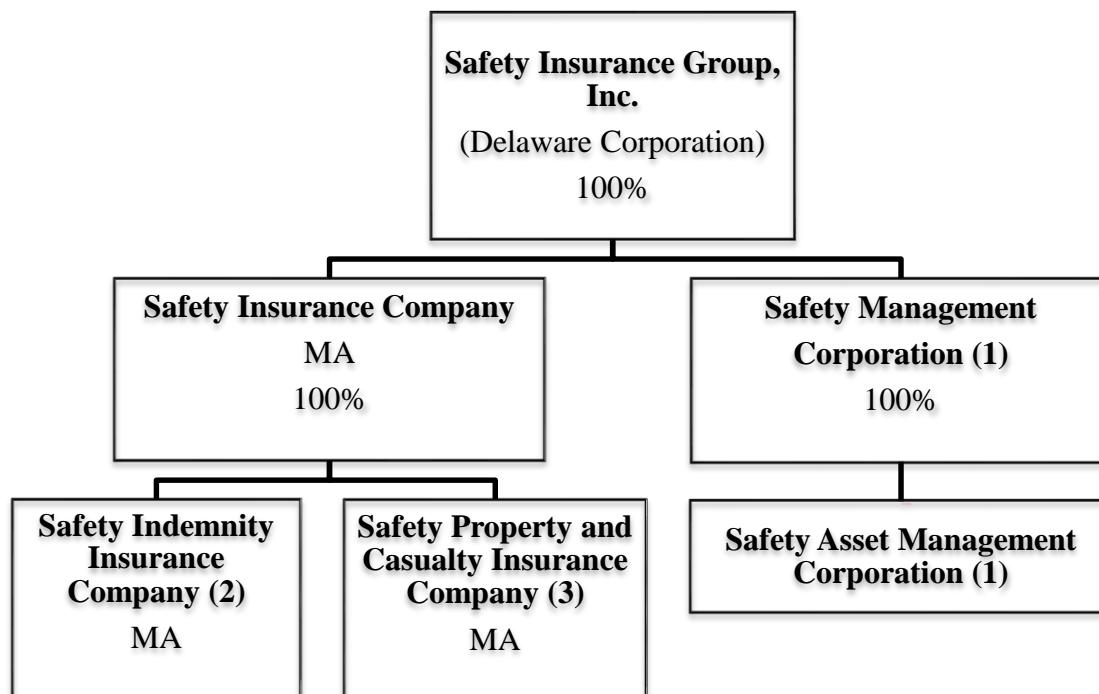
Affiliated Companies

As stated in the Insurance Holding Company System Form B and Form C as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L., Chapter 175, Section 206C and Regulation 211 CMR 7.00. Ultimate control of the holding Company system is held by the owners of SIG, a Delaware corporation, the sole business of which is ownership of the Group.

Safety Property and Casualty Insurance Company

Organization Chart

At December 31, 2018, the following reflects the organizational structure of SPCIC and its subsidiaries, affiliated and controlled entities:



Notes:

- (1) Represents inactive non-insurance company subsidiaries
- (2) SIIC became part of the same insurance company holding system as SIC, upon the formation of SIIC, which occurred in May 1989. SIC owns 100% of the outstanding shares of SIIC.
- (3) SPCIC became part of the same insurance company system as SIC, upon formation of SPCIC, which occurred in December 2006. SIC owns 100% of the outstanding shares of SPCIC.

Transactions and Agreements with Subsidiaries and Affiliates

Administrative Services Agreement

SIC and SPCIC entered into an Administrative Service Agreement effective on January 1, 2007, pursuant to which SPCIC receives certain administrative and managerial services from SIC, as compensation for which SPCIC pays the actual costs and expenses incurred by SIC for providing such services.

Consolidated Tax Allocation Agreement

A Second Amended and Restated Tax Sharing Agreement dated April 15, 2015 was executed by and among SIG, SIC, SIIC, SPCIC, Safety Management Corporation and Safety Asset Management Corporation. This amended agreement was executed based on a suggestion from the

Safety Property and Casualty Insurance Company

Division to update the identity of SIG and the subsidiaries, as the previous agreement did not list all subsidiaries by name. This agreement provides that SIG will file a consolidated federal income tax return and consolidated foreign, state and local tax returns, as applicable and as permitted for the parties to the agreement. Each subsidiary shall pay to SIG an amount determined as if such subsidiary had filed its own separate tax return. Each subsidiary shall pay such amount to SIG on the last date that SIG is required to make final payment of income taxes without incurring any penalties or additions.

TERRITORY AND PLAN OF OPERATION

The Company is licensed and writing business in Massachusetts, New Hampshire and Maine. The Company became licensed to write business in Massachusetts, New Hampshire and Maine in 2007, 2008 and 2016 respectively. In 2018, the Company reported direct premium(s) of \$24,317,682 in Massachusetts, \$698,706 in New Hampshire, and \$5,343 in Maine.

Treatment of Policyholders – Market Conduct

The Commonwealth of Massachusetts has called three Market Conduct examination over the past five years. There have been no regulatory actions reported within the past five years. A statutorily required comprehensive examination was conducted as of April 25, 2014.

A statutorily required comprehensive examination was called on March 11, 2019, that has yet to begin. A limited-scope Market Conduct Annual Statement examination was called on October 29, 2019, to review complaints for the period of January 1, 2011 through December 31, 2015, and the period of January 1, 2016 through December 31, 2017. A full scope examination dated October 11, 2018 was completed on February 10, 2020. No applicable concerns or violations were found.

REINSURANCE

Ceded Reinsurance

Effective January 1, 2018, the Company purchased four layers of excess catastrophe reinsurance providing coverage for property losses in excess of \$50,000,000 up to a maximum of \$665,000,000 of ultimate net loss per loss occurrence. The lines of business covered are commercial multiple peril (Section I), allied lines, fire, homeowners multiple peril (Section I), inland marine, and automobile physical damage (excluding collision).

The reinsurers' co-participation was as follows:

<u>Layers</u>	<u>Co-Participation</u>	
	<u>Percentage</u>	<u>Amount</u>
First layer	50%	\$ 50,000,000
Second layer	80%	\$ 50,000,000
Third layer	80%	\$250,000,000
Fourth layer	80%	\$265,000,000

Effective since January 1, 2015, the Company purchased from Swiss Re a casualty excess of loss reinsurance coverage for large casualty losses in automobile, homeowners, business owners, and commercial package lines of business in excess of \$2,000,000 up to \$10,000,000 per loss occurrence.

Effective January 1, 2015, the Company purchased from Swiss Re an excess of loss reinsurance coverage for large personal and commercial umbrella liability losses in excess of \$1,000,000 up to a maximum of \$10,000,000 per loss occurrence. The Company also has a retention of 5% of the loss in excess of \$1,000,000 per loss occurrence.

Through a reinsurance intermediary, the Company purchased property excess of loss reinsurance coverage via various Lloyds of London Underwriters and various United States, European and Bermuda Companies for large property losses in excess of \$2,000,000 up to a maximum of \$20,000,000 per risk per loss.

The Company has a quota share agreement with the Hartford Steam Boiler Inspection and Insurance Company effective August 1, 2010, under which it cedes 100% of the premiums and losses for equipment breakdown coverage up to \$50,000 for business owner policies and commercial package policies and a service line failure with coverage up to \$10,000.

Assumed Reinsurance

Other than mandatory pools and associations, the Company does not assume reinsurance from non-affiliated companies; its reinsurance is limited to an Intercompany Pooling Agreement.

Safety Property and Casualty Insurance Company

Intercompany Pooling Agreement

SIC and its wholly owned subsidiaries SIIC and SPCIC entered into an Intercompany Pooling Agreement effective January 1, 2011, covering all lines of business underwritten by the companies. SIIC and SPCIC cede 100% of their direct net liability under all direct insurance business written to SIC; and then SIC retrocedes the pooled results to the participants based on their percentage share of the pool. SIC retains 90% of the pooled business, SIIC assumes 7% of the pool, and SPCIC assumes 3% of the pool. SIC, SIIC and SPCIC reinsure certain risks with other insurance organizations for the purpose of limiting their exposure to catastrophic occurrences that could produce large losses, primarily in their homeowner line of business.

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2018. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2018.

Statement of Income for the Year Ended December 31, 2018.

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2018.

Safety Property and Casualty Insurance Company

**Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2018**

	Per Annual Statement
Assets	
Bonds	\$43,335,152
Cash, cash equivalents and short-term investments	2,149,530
Subtotals, cash and invested assets	<u>45,484,682</u>
Investment income due and accrued	228,610
Premiums and considerations:	
Uncollected premiums and agents' balances	153,862
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,610,150
Net deferred tax asset	603,518
Aggregate write-ins for other than invested assets	106,608
Total assets	<u><u>\$49,187,429</u></u>

Safety Property and Casualty Insurance Company

Statement of Assets, Liabilities, Capital and Surplus (Continued)
As of December 31, 2018

	Per Annual Statement
Liabilities	
Losses	\$12,517,021
Loss adjustment expenses	1,772,621
Commissions payable, contingent commissions and other similar charges	792,422
Unearned premiums	12,042,169
Advance premiums	218,551
Total liabilities	<u>27,342,784</u>
 Common Capital Stock	 3,500,000
Gross paid in and contributed surplus	5,550,000
Unassigned funds (surplus)	<u>12,794,645</u>
Surplus as regards policyholders	<u>21,844,645</u>
Total liabilities, surplus and other funds	<u>\$49,187,429</u>

Safety Property and Casualty Insurance Company

Statement of Income
For the Year Ended December 31, 2018

	Per Annual Statement
Underwriting Income:	
Premiums earned	\$23,447,608
Deductions:	
Losses incurred	12,657,888
Loss adjustment expenses incurred	1,907,505
Other underwriting expenses incurred	7,380,313
Total underwriting deductions	<u>21,945,707</u>
Net underwriting gain (loss)	<u>1,501,901</u>
Investment Income:	
Net investment income earned	1,171,934
Net investment capital gains (losses) less capital gains tax of \$ (282)	(1,061)
Net investment gain	<u>1,170,873</u>
Other Income:	
Finance and service charges not included in premiums	139,265
Total other income	<u>139,265</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	2,812,039
Dividends to policyholders	<u>0</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	2,812,039
Federal and foreign income taxes incurred	590,364
Net income	<u><u>\$2,221,675</u></u>

Safety Property and Casualty Insurance Company

Reconciliation of Capital and Surplus
For Each Year in the Five-Year Period Ended December 31, 2018

	2018	2017	2016	2015	2014
Capital and surplus, December 31 prior year	\$19,626,345	\$18,815,196	\$17,570,447	\$18,664,274	\$17,541,925
Net income (loss)	2,221,675	1,189,101	1,242,490	(1,120,660)	1,098,779
Change in net unrealized capital gains or (losses)	(2,658)	0	0	0	0
Change in net deferred income tax	9,282	(392,485)	4,731	28,895	21,023
Change in nonadmitted assets	0	4,534	(2,473)	(2,601)	2,547
Capital adjustments: Paid In	0	0	0	0	1,750,000
Surplus adjustments: Paid In	0	0	0	0	(1,750,000)
Net change in capital and surplus for the year	2,228,300	801,150	1,244,748	(1,093,826)	1,122,349
Capital and surplus, December 31 current year	<u>\$21,844,645</u>	<u>\$19,616,345</u>	<u>\$18,815,196</u>	<u>\$17,570,447</u>	<u>\$18,664,274</u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE
EXAMINATION**

There have been no changes made to the financial statements as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

As a result of the examination, no adverse findings, or changes to the financial statements were identified.

Note 1 - Summary of Loss and Loss Adjustment Expense Reserves (“loss and LAE Reserves”)

Losses	\$12,517,021
Loss Adjustment Expenses	\$ 1,772,621

The Division engaged INS to review the reasonableness of the loss and LAE reserves of the Company as of December 31, 2018. The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the Standard of Practice adopted by the Actuarial Standards Board.

INS performed an analysis of the loss and LAE reserves evaluated as of December 31, 2018 on a gross and ceded basis using data included in the Appointed Actuary’s Actuarial Report. With regard to comparisons to the estimates derived by the Company’s Appointed Actuary, PwC, INS noted that as of December 31, 2018, the Company carried net loss and LAE reserves within the Appointed Actuary’s range of reasonable reserve estimates. The Company carried net loss and LAE reserves of approximately \$14.3 million as of December 31, 2018 were above the Appointed Actuary’s Actuarial Central Estimate by approximately 7.5%.

INS found that the methodologies and assumptions employed by the Appointed Actuary in the Actuarial Report were reasonable. INS found the Company’s carried loss and LAE reserves as of December 31, 2018 were reasonable.

The table below shows that the SPCIC net carried reserves of \$14.290 million was within the INS range of reasonable estimates from \$11.465 million to \$14.996 million. The INS Actuarial Central Estimate (“ACE”) of the net loss and LAE reserves of \$13.044 million was lower than the SPCIC carried reserve of \$14.290 million by \$1.246 million, or 8.7% of reserves. The SPCIC gross carried loss and LAE reserves of \$17.541 million falls within the INS range of estimates of gross loss and LAE reserves of \$14.224 million to \$18.544 million. The INS ACE of \$16.117 million was lower than the SPCIC gross carried reserves of \$17.541 million by \$1.424 million, or 8.1% of reserves.

Safety Property and Casualty Insurance Company

The table below summarizes a comparison of INS's range of reasonable estimates for loss and LAE reserves to the Company's carried loss and LAE reserves as of December 31, 2018.

Summary of Indicated Reserves (\$000s)							
	INS Estimate				Difference		
	Low	Central	High	SPCIC Carried	Low	Central	High
Net	11,465	13,044	14,996	14,290	(2,825)	(1,246)	706
Gross	14,224	16,117	18,544	17,541	(3,317)	(1,424)	1,003

SUBSEQUENT EVENTS

Subsequent to December 31, 2018, the Company reduced its property excess of loss reinsurance coverage for large property losses in excess of \$2,000,000 from up to a maximum of \$20,000,000 per risk per loss coverage in 2018 to up to a maximum of \$10,000,000 per risk per loss coverage in 2019. The Company then added a layer of facultative reinsurance coverage providing an additional coverage of up to \$10,759,499 in excess of the \$10,000,000 per risk per loss coverage provided under the excess of loss reinsurance coverage.

In March 2020 the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there was significant uncertainty on the effect that the pandemic would have on the insurance industry, economy, and society at large. Any impact to the Company will take time to assess and will be specific to the class and mix of business they underwrite. The Division will continue to monitor how the pandemic might impact the Company.

SUMMARY OF RECOMMENDATIONS

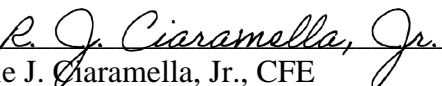
As a result of the examination, no recommendations were identified.

SIGNATURE PAGE

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

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

Carla Mallqui, CFE, Financial Examiner II
Steven Tsimtsos, CFE, Financial Examiner II



Raffaele J. Ciaramella, Jr., CFE
Supervising Examiner & Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance