



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

DIVISION OF INSURANCE

**REPORT OF EXAMINATION OF
THE PREMIER INSURANCE COMPANY OF MASSACHUSETTS**

Westborough, Massachusetts

As of December 31, 2010

NAIC GROUP CODE 3548

NAIC COMPANY CODE 12850

EMPLOYERS ID NO. 04-3175569

For Informational Purposes Only

THE PREMIER INSURANCE COMPANY OF MASSACHUSETTS

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COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

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COMMISSIONER OF INSURANCE

May 29, 2012

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street
Boston, MA 02110-2208

Honorable Commissioner,

Pursuant to your instruction and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs as of December 31, 2010, of

THE PREMIER INSURANCE COMPANY OF MASSACHUSETTS

Westborough, Massachusetts

at its home office located at One Research Drive, Westborough, MA, 01581-0730. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Premier Insurance Company of Massachusetts (hereinafter referred to as "the Company") was last examined as of December 31, 2005 by the Massachusetts Division of Insurance (the "Division"). The current examination was also conducted by the Division and covers the five-year period from January 1, 2006 through December 31, 2010, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the NAIC Financial Condition (E) Committee and prescribed by the current NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify 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. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations. All accounts and activities of the company were considered in accordance with the risk-focused examination process.

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 bond and other insurance, employees' pension and benefits plans, disaster recovery plans, 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 KPMG LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2006 through 2010. A review and use of the Certified Public Accountants' workpapers were made to the extent deemed appropriate and effective. An independent actuarial consulting firm, Milliman was retained by the Division to evaluate the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2010. Additionally, the Division reviewed the adequacy and effectiveness of the IT systems controls to determine the level of reliance to be placed on the information generated by the data processing systems.

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

HISTORY

General

The Company was incorporated on January 1, 1993 under the laws of the Commonwealth of Massachusetts and commenced business on July 1, 1993. The Company is a direct wholly owned subsidiary of The Travelers Indemnity Company (TIC). TIC is an indirect wholly owned subsidiary of The Travelers Companies, Inc. ("TRV") which is a publicly traded company on the New York Stock Exchange.

The Company is only licensed to write business in Massachusetts and its principal line of business is Massachusetts private passenger automobile insurance. Since its inception the Company assumed, through a Personal Lines Quota Share Reinsurance Agreement, 100% of all personal lines property business written by TIC and its affiliates in Massachusetts. On June 29, 2004 the Company and TIC terminated the agreement retroactively to January 1, 2004, on a policy renewal basis. On June 27, 2010 the Company and TIC entered into a commutation and release agreement. The Company continues to manage and service the Massachusetts Personal Lines property business for TIC.

Capital Stock

The Company has 100,000 shares of common stock authorized and 50,000 shares issued and outstanding with a stated value of \$50 per share. As of December 31, 2010 the Company's capital structure also consists of \$87,500,000 of additional paid-in and contributed surplus, of which \$42,500,000 was contributed in 1993 and prior, and \$45,000,000 was contributed in 1994. As noted previously, TIC is the sole shareholder.

Dividends to Stockholders

During the five-year period covered by this examination, the Company paid a total of \$201.9 million in dividends to TIC as follows:

<u>Year</u>	<u>Dividend</u>
2010	\$ 0
2009	12,000,000
2008	25,000,000
2007	60,000,000
2006	<u>104,900,000</u>
Total	<u>\$201,900,000</u>

THE PREMIER INSURANCE COMPANY OF MASSACHUSETTS

Growth of Company

The growth of the Company for the years 2006 through 2010 is shown in the following schedule, which was prepared from the Company's Annual Statements.

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written</u>	<u>Surplus</u>
2010	\$412,029,895	\$189,712,376	\$209,683,686
2009	435,740,731	204,903,371	206,444,399
2008	457,699,898	231,119,347	208,101,751
2007	493,401,528	262,505,580	211,894,785
2006	566,841,179	302,000,134	231,949,276

MANAGEMENT

Annual Meeting of Stockholders

In accordance with the by-laws, the annual meeting of the Company shall be held each year during the month of March. The meeting is held on a date selected by the Board of Directors or if no date is selected then on the first Wednesday in March of each year or if any such first Wednesday is a legal holiday, then the meeting shall be held the next succeeding business day. If for any reason the annual meeting shall not be held at the time provided, it may be held at any time thereafter, or the business to be transacted at such annual meeting may be transacted at any special meeting called for that purpose. The by-laws provide guidance for special meetings, as well as place of meetings, notice of meetings, voting at meetings, shareholder action without a meeting, and organization of meetings.

Board of Directors

The by-laws provide that the Board of Directors shall be elected by the stockholders at the annual meeting of the stockholders and shall manage the business of the Company and, in addition to the powers and authorities expressly conferred upon them by the by-laws, may exercise all such powers, subject to the provisions of statutes and the Articles of Incorporation. The Board of Directors shall consist of not fewer than five or more than eighteen Directors with the number determined at each annual meeting by resolution of the shareholders. Each Director shall hold office until the next annual meeting and until others are duly elected and qualified. Any vacancy occurring among the directors may be filled by a vote of a majority of Directors in office.

At December 31, 2010 the Board was set and comprised of eight Directors, which is in compliance with the Company's by-laws. Directors duly elected and serving at December 31, 2010, with business affiliations, follow:

THE PREMIER INSURANCE COMPANY OF MASSACHUSETTS

<u>Director</u>	<u>Business Affiliation</u>
Hector J. Alaniz	Regional Vice President, Personal Lines, TIC
Fred R. Donner	Senior Vice President and Chief Financial Officer, Business Insurance, TIC
Brian W. MacLean	Chairman, President and Chief Executive Officer, TIC
Douglas K. Russell	Senior Vice President and Corporate Controller, TIC
Doreen Spadorcia	Executive Vice President, Claim, TIC
Kenneth F. Spence, III	Executive Vice President and General Counsel, TIC
Gregory C. Toczydlowski	Executive Vice President, Personal Insurance, TIC
Richard E. Welch, Jr.	President and Chief Executive Officer, The Premier Insurance Company of Massachusetts

The by-laws do not specify the number of meetings to be held during any one year, however, at any meeting of the board a majority of the directors then in office, but not less than four, constitutes a quorum. The minutes indicated that a quorum was obtained at all meetings of the Board of Directors held during the examination period.

The Board of Directors may, by resolution adopted by affirmative vote of Directors holding a majority number of directorships, designate two or more Directors to constitute another committee or committees for any purpose. The Board of Directors has adopted a Compensation Committee and Audit Committee. The members of these committees are listed below.

Compensation Committee

The Compensation Committee was adopted to comply with Massachusetts General Law, Chapter 176, Section 35. This law states that any domestic insurance company must approve the salary or compensation to its five most highly paid officer, trustees or directors or to any additional officers, trustees or directors whose salary or compensation exceeds \$150,000. Members of the Compensation Committee as of December 31, 2010 are listed below

Gregory C. Toczydlowski
Douglas K. Russell

THE PREMIER INSURANCE COMPANY OF MASSACHUSETTS

Audit Committee

The Audit Committee of Travelers Insurance Group Holdings, Inc serves as the Audit Committee for Premier. All of the members are employees of Travelers. The Audit Committee of The Travelers Companies Inc., ("TRV") provides oversight of the TIGHI Audit Committee. All members of the TRV Audit Committee are independent. Members of the Audit Committee as of December 31, 2010 are listed below.

Brian W. MacLean
Doreen Spadorcia
Kenneth F. Spence, III

Officers

The by-laws provide that the Board of Directors may from their number elect a Chairman of whom shall serve for a term of one year, and may appoint a President, one or more Vice Presidents, as may be determined from time to time by the Board, a Secretary and a Treasurer. So far as is practical, all required officers shall be elected or appointed by the Board of Directors at its first annual meeting after each annual meeting of the shareholders. The Board may also appoint one or more Assistant Secretaries and Assistant Treasurers and such other officers and assistant officers and agents as it shall from time to time deem necessary. Any two offices may be held by the same person, except that the President and Secretary shall not be the same person.

The President shall be the Chief Executive Officer and shall administer, direct and control the affairs and property of the corporation subject to and in accordance with the policies and decisions of the Board. The Secretary shall be custodian of the corporate records and the corporate seal and generally shall perform all duties usually pertaining to the office of Secretary of a corporation. The Treasurer shall have the care and custody of all monies, funds, and securities of the corporation and shall deposit or cause to be deposited all such funds in and with such depositories as the Board or the appropriate committee shall from time to time direct. The Treasurer shall generally perform all duties usually pertaining to the office of Treasurer of a corporation.

The elected senior officers and their respective titles at December 31, 2010 follow:

<u>Name</u>	<u>Title</u>
Richard E. Welch, Jr.	President and Chief Executive Officer
Susan K. Scott	Senior Vice President, Secretary and General Counsel
Timothy D. Rogers	Treasurer and Assistant Secretary
John A. Kostal	Vice President, Technology and Information Systems

THE PREMIER INSURANCE COMPANY OF MASSACHUSETTS

David A. Magdalenski	Vice President, Claim
Christopher A. Matherly	Vice President, Business Center Operations and Strategic Project Management
Julio Martinez	Vice President, Sales and Marketing
Brentley J. Radeloff	Vice President, Product

Conflict of Interest Procedures

The Travelers Companies, Inc. (the Company's ultimate parent) has adopted a Code of Business Conduct and Ethics. To monitor its compliance, the Company requires all employees, officers and directors, as a condition of continued employment, to annually certify their adherence to the Code of Conduct. The completed questionnaires for officers and directors were reviewed with no discrepancies noted regarding conflicts of interest as reflected in the Company's 2010 Annual Statement response to General Interrogatories Question 17.

Corporate Records

Articles of Incorporation and By-laws

The Company's articles of incorporation and by-laws were reviewed and verified that there were no changes during the examination period as stated in the Annual Statement General Interrogatories.

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.

Annual Meeting of Stockholders

In accordance with the by-laws, the Annual Meeting of the Stockholders was held each year under the examination period. The minutes of the meetings were reviewed to ensure compliance with the by-laws and to verify election of the Board of Directors.

Board of Directors Minutes

The minutes of the Board of Directors and Committee meetings for the period under examination were reviewed and indicate that all meetings were held in accordance with the Company's by-laws and the laws of the Commonwealth of Massachusetts.

AFFILIATED COMPANIES

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 Chapter 175, Section 206C of the Massachusetts General Laws. The Travelers Companies, Inc. is the "ultimate controlling person" of the holding company system. The following is an abbreviated listing of Companies showing the ownership succession of the Company in relationship to the "ultimate controlling person". Each subsidiary is 100% owned by its direct parent.

The Travelers Companies, Inc. ("TRV")

Travelers Property Casualty Corp.

The Travelers Insurance Group Holdings, Inc.

The Travelers Indemnity Company ("TIC")

The Premier Insurance Company of Massachusetts

Transactions and Agreements with Affiliates

Investment Management Agreement

This agreement, effective January 1, 2005 is between TIC and the Company whereby TIC provides certain investment management services to the Company. Under this agreement the investment manager will act upon all monies, stocks, bonds, securities, real estate, and other investments held by the Company in accordance with set investment policy guidelines. This agreement is in effect on each succeeding calendar year unless specifically terminated.

Claims Processing Agreement

This agreement, originally dated January 1, 1994 with TIC provides the Company with claims processing services. The Company shall pay an annual fee based on the ratio of the Company's projected annual information system usage to TIC's total projected annual information system usage. The resulting fee will be paid in twelve monthly installments. This agreement has been renewed through December 31, 2010.

Remittance Processing Service Agreement

This agreement with TIC dated May 24, 2000 provides the Company with their processing of incoming premium checks and related documents. The original agreement remained in effect until December 31, 2000 after which it is automatically renewed for additional one-year terms thereafter.

Tax Allocation Agreement

The Company is included in a consolidated federal income tax return with its ultimate parent company TRV.

The Company is a party to a tax allocation agreement that governs the allocation of federal income tax among companies included in the consolidated return. Member companies included in the TRV consolidated return are allocated taxes annually based upon their separate taxable income.

Expense Allocation Agreement

This agreement, effective January 1, 1995 among TIC and a number of its subsidiaries, including the Company, allocates certain services required by the subsidiaries in the ordinary course of business. Such services may include, but not limited to, financial management, operational management, accounting, payroll, internal audit, human resource management, tax, transportation, risk management, legal, investment advisory, government relations, record-keeping and data processing services and the acquisition of equipment, software and office space.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer under a Financial Institutions Bond designed for insurance companies, consistent with Massachusetts General Laws Chapter 175, Section 60. The aggregate limit of liability exceeds the NAIC suggested minimum.

Other coverages provided under this policy include assorted loss of property coverage, losses due to forgery and counterfeit currency losses and computer systems fraud. The Company has further protected its interest in 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, 2010.

PENSION AND INSURANCE PLANS

All the Company's benefit plans are sponsored by TRV and the Company has no legal obligation for the benefits under these plans. The Company is charged for its allocable share of these expenses based on its allocated salary and/or direct salary costs in accordance with the expense allocation agreement.

Through this sponsorship the Company participates in various insurance plans, 401(k) plan and a qualified noncontributory defined benefit pension plan. In addition the Company participates in a nonqualified defined benefit pension plan which covers certain highly-compensated employees of the Company.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed to write property and casualty business only in Massachusetts and exclusively writes personal lines automobile coverage.

Treatment of Policyholders and Claimants – 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, 2010 through December 31, 2010. The market conduct examination was called pursuant to authority in Massachusetts General Laws Chapter (M.G.L. c.) 175, Section 4. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Eide Bailly, LLP were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Conduct Examiner's Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The basic business areas that were reviewed under this market conduct examination were 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.

REINSURANCE

Commonwealth Automobile Insurers (CAR)

As a writer of automobile insurance in Massachusetts the Company participated in the state-mandated reinsurance facility through March 2009. As of April 1, 2009, companies are no longer allowed to cede to CAR and this reinsurance facility is in runoff status. The CAR facility was replaced with the new Massachusetts Automobile Insurance Plan (MAIP). Under MAIP, companies may decline any risk that does not meet their underwriting criteria with the exclusion of 'clean-in-three' risks as mandated by the MAIP Rules of Operation. MAIP assigns policies that cannot be placed in the voluntary market to insurers in proportion to their voluntary market share, adjusted for 'clean-in-three' exposures and allowing credits for business written voluntarily in certain classes and territories.

Ceded Reinsurance

The Company minimizes its exposure to large losses by participating in the Travelers General Catastrophe Excess of Loss treaty and Travelers Northeast Property Catastrophe Excess of Loss Treaty. On June 18, 2010, the Company and TIC terminated Personal Liability Excess of Loss Reinsurance Agreement effective July 1, 2010.

Commutations

Since its inception the Company assumed, through a Personal Lines Quota Share Reinsurance Agreement, 100% of all personal lines property business written by TIC and its affiliates in Massachusetts. On June 29, 2004 the Company and TIC terminated the agreement retroactively to January 1, 2004, on a policy renewal basis. On June 27, 2010 the Company and TIC entered into a commutation and release agreement. The Company continues to manage and service the Massachusetts Personal Lines property business for TIC. On October 29, 2010, the Company and TIC entered into a commutation and release agreement on a variety previously cancelled reinsurance agreements under which TIC reinsured the Company.

SUBSEQUENT EVENTS

In January, 2012 TRV announced an operational integration plan which will integrate the Company's functional areas into Travelers. This will improve efficiency and strengthen Premier's position in the market. The integration is anticipated to be completed by the end of 2012.

The plan includes the relocation or layoff of approximately 20 employees in Westborough over the next six months. The Company is reducing the size of its Westborough office through position eliminations, consolidation of support and service functions into other branch locations and reassigning claim positions to the New England Claim Center in Middleborough, MA.

ACCOUNTS AND RECORDS

The internal controls structure was discussed with management through questionnaires, interviews and through a review of the work performed by the Company's Independent Certified Public Accountants. No material deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the IT systems environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the IT controls. In addition to the questionnaire, interviews with Company staff were conducted to gather supplemental information and corroborate the Company's responses to the questionnaire. A review was also made of the documentation supporting Management and Organization Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls, Logical and Physical Security Controls, Contingency Planning Controls, Personal Computer, Local Area Network (LAN), Wide Area Network (WAN) and Internet Controls. No material deficiencies were noted.

The Company maintains its accounts and records on an electronic data processing basis. All entries are input to this data processing system, which then generates general ledger and supporting reports as well as other reports common to the insurance industry. The Company utilizes the services of an outside vendor, CGI, Inc. to process written premium and premium billing, and perform all statistical reporting required for all automobile insurance business in

THE PREMIER INSURANCE COMPANY OF MASSACHUSETTS

Massachusetts. CGI, Inc. annually undergoes a SAS-70 Type II audit, and the corresponding Report of General Controls was reviewed and relied upon where applicable. No exceptions were noted.

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

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, 2010:

Statement of Assets, Liabilities, Surplus and Other Funds as of, December 31, 2010

Statement of Income for the Year Ended December 31, 2010

Statement of Capital and Surplus for the Year Ended December 31, 2010

Reconciliation of Capital and Surplus, for the five year period ended December 31, 2010

The Premier Insurance Company of Massachusetts
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2010

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination
Bonds	\$ 339,251,938		\$ 339,251,938
Preferred stocks	2,331,000		2,331,000
Cash, cash equivalents and short-term investments	8,980,233		8,980,233
Other invested assets	1,171,700		1,171,700
Subtotals, cash and invested assets	351,734,871		351,734,871
Investment income due and accrued	4,414,472		4,414,472
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	7,546,472		7,546,472
Deferred premiums, agents' balances and installments booked but deferred and not yet due	34,637,186		34,637,186
Amounts recoverable from reinsurers	466,368		466,368
Current federal income tax recoverable	3,805,631		3,805,631
Net deferred tax asset	9,424,895		9,424,895
Total Assets	<u>\$ 412,029,895</u>	<u>\$ 0</u>	<u>\$ 412,029,895</u>

The Premier Insurance Company of Massachusetts
Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2010

Liabilities	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Losses	\$ 72,463,472		\$ 72,463,472	(1)
Loss adjustment expenses	20,671,957		20,671,957	(1)
Commissions payable	4,595,424		4,595,424	
Other expenses	2,927,293		2,927,293	
Taxes, licenses and fees	(68)		(68)	
Unearned premiums	88,437,670		88,437,670	
Advance premiums	7,074,045		7,074,045	
Ceded reinsurance premiums payable	179,506		179,506	
Remittances and items not allocated	687,299		687,299	
Payable to parent, subsidiaries and affiliates	3,180,723		3,180,723	
Payable for securities	1,081,810		1,081,810	
Aggregate write-ins for liabilities	1,047,076		1,047,076	
Total Liabilities	<u>202,346,209</u>		<u>202,346,209</u>	
Aggregate write-ins for special surplus funds	1,038,451		1,038,451	
Common capital stock	2,500,000		2,500,000	
Gross paid in and contributed surplus	87,500,000		87,500,000	
Unassigned funds (surplus)	118,645,235		118,645,235	
Surplus as regards policyholders	<u>209,683,686</u>		<u>209,683,686</u>	
Total Liabilities, Capital and Surplus	<u>\$ 412,029,895</u>	<u>\$ 0</u>	<u>\$ 412,029,895</u>	

The Premier Insurance Company of Massachusetts
Statement of Income
For the Year Ended December 31, 2010

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premiums earned	\$ 196,161,546		\$ 196,161,546
Deductions:			
Losses incurred	128,409,594		128,409,594
Loss expenses incurred	34,032,260		34,032,260
Other underwriting expenses incurred	52,593,214		52,593,214
Total underwriting deductions	215,035,068		215,035,068
Net underwriting gain (loss)	(18,873,522)		(18,873,522)
Net investment income earned	14,846,208		14,846,208
Net realized capital gains	648,380		648,380
Net investment gain	15,494,588		15,494,588
Net gain (loss) from agents' balances or premium balances charged off	(686,202)		(686,202)
Finance and service charges not included in premiums	2,341,728		2,341,728
Aggregate write-ins for miscellaneous income	1,432,918		1,432,918
Total other income	3,088,445		3,088,445
Net income before dividends to policyholders and before federal and foreign income taxes	(290,489)		(290,489)
Federal and foreign income taxes incurred	(3,361,779)		(3,361,779)
Net Income	\$ 3,071,290	\$ 0	\$ 3,071,290

The Premier Insurance Company of Massachusetts
Capital and Surplus
For the Year Ended December 31, 2010

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Surplus as regards policyholders, December 31, 2009	\$ 206,444,399		\$ 206,444,399
Net income	3,071,290		3,071,290
Change in net unrealized capital gains or (losses)	223,800		223,800
Change in net deferred tax	(1,121,673)		(1,121,673)
Change in nonadmitted assets	1,156,917		1,156,917
Aggregate write-ins for gains and losses in surplus	<u>(91,047)</u>		<u>(91,047)</u>
Change in surplus as regards policyholders for the year	<u>3,239,287</u>		<u>3,239,287</u>
Surplus as regards policyholders, December 31, 2010	<u>\$ 209,683,686</u>	<u>\$ 0</u>	<u>\$ 209,683,686</u>

The Premier Insurance Company of Massachusetts
Reconciliation of Capital and Surplus
For the Five Year Period Ended December 31, 2010

	2010	2009	2008	2007	2006
Capital and surplus, December 31, prior year	\$206,444,399	\$208,101,751	\$211,894,785	\$231,949,276	\$272,235,349
Net income	3,071,290	9,665,127	22,413,214	42,388,498	66,729,113
Change in net unrealized capital gains or (losses)	223,800	(102,800)	(104,884)	118,186	193,318
Change in net deferred income tax	(1,121,673)	(1,067,643)	(782,936)	(1,790,513)	(1,844,681)
Change in nonadmitted assets	1,156,917	666,177	(318,428)	(770,657)	(463,838)
Cumulative effect of changes in accounting principles		52,289			
Dividends to stockholders		(12,000,000)	(25,000,000)	(30,000,000)	(104,900,000)
Aggregate write-ins for gains and losses in surplus	(91,047)	1,129,498			
Net change in capital and surplus for the year	3,239,287	(1,657,352)	(3,393,034)	(20,054,491)	(40,286,073)
Capital and surplus, December 31, current year	<u>\$209,683,686</u>	<u>\$206,444,399</u>	<u>\$208,101,751</u>	<u>\$211,894,785</u>	<u>\$231,949,276</u>

NOTES TO THE FINANCIAL STATEMENTS**Note 1: Loss and Loss Adjustment Expense Reserves**

The Division requested that Milliman review the reasonableness of the Loss and Loss Adjustment Expense Reserves (the "Reserves") of the Company as of December 31, 2010. The review was conducted in a manner consistent with the Code of Professional Conduct and Qualification Standards of the American Academy of Actuaries and the Standards of Practice adopted by the Actuarial Standards Board.

Milliman's actuarial review utilized year-end paid and incurred loss data developed through December 31, 2011. The table below summarizes a comparison of Milliman's range of reasonable net estimates for the Reserves to the Company's carried net Reserves as of December 31, 2010.

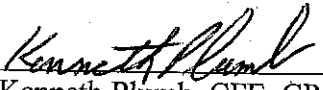
COMPARISON OF INDICATED NET RESERVES
TO CARRIED RESERVES as of 12/31/10

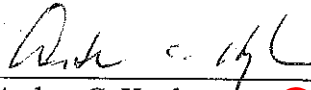
	Low Point Range	Selected Estimate	High Point of Range
Milliman's Total Net Loss & Loss Adjustment Expense Reserves	\$98,142,000	\$100,157,000	\$110,173,000
Total Company Carried Net Loss & LAE Reserves	93,135,000	93,135,000	93,135,000
Difference	(2,993,000)	7,022,000	17,038,000

Based on Milliman's review and analysis, the Company's reserves for loss and loss adjustment expenses, as reported in its December 31, 2010 annual statement, fall within a reasonable range of estimates. Therefore the Division concludes the Company's reserves are a reasonable estimate of their ultimate liability.

ACKNOWLEDGEMENT

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


Kenneth Plumb, CFE, CPA
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance


Arthur C. Hughes
Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance

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