

**REPORT ON EXAMINATION**  
**OF**  
**BRIDGEFIELD EMPLOYERS**  
**INSURANCE COMPANY, INC.**  
**LAKELAND, FLORIDA**

**AS OF**  
**DECEMBER 31, 2003**

**BY THE**  
**OFFICE OF INSURANCE REGULATION**

## TABLE OF CONTENTS

LETTER OF TRANSMITTAL .....	-
SCOPE OF EXAMINATION.....	1
Status of Adverse Findings from Prior Examination.....	2
HISTORY .....	4
General .....	4
Capital Stock.....	4
Profitability.....	5
Dividends to Stockholders.....	5
Management .....	5
Conflict of Interest Procedure.....	7
Corporate Records.....	7
Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance.....	8
Surplus Debentures .....	8
AFFILIATED COMPANIES .....	8
Tax Allocation Agreement .....	8
MGA Agreement .....	9
Investment Management Agreement .....	9
ORGANIZATIONAL CHART .....	10
FIDELITY BOND AND OTHER INSURANCE .....	10
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS.....	11
STATUTORY DEPOSITS .....	11
INSURANCE PRODUCTS AND RELATED PRACTICES.....	11
Territory and Plan of Operation .....	11
Treatment of Policyholders .....	11
REINSURANCE .....	12
Assumed .....	12
Ceded.....	12

ACCOUNTS AND RECORDS .....	12
Custodial Agreement.....	13
CPA Agreement .....	13
Risk-Based Capital.....	13
INFORMATION TECHNOLOGY REQUIREMENTS.....	13
Business Resumption Plan .....	13
Organization Controls .....	13
FINANCIAL STATEMENTS PER EXAMINATION.....	14
Assets .....	15
Liabilities, Surplus and Other Funds .....	16
Statement of Income .....	17
COMMENTS ON FINANCIAL STATEMENTS.....	18
Liabilities .....	18
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	19
SUMMARY OF FINDINGS .....	20
CONCLUSION .....	22

Tallahassee, Florida

February 4, 2005

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes (FS), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2003, of the financial condition and corporate affairs of:

**BRIDGEFIELD EMPLOYERS INSURANCE COMPANY, INC.  
2310 A-Z PARK ROAD  
LAKELAND, FLORIDA 33801**

Hereinafter, the above will be referred to as the "Company." Such report of examination is herewith respectfully submitted.

## **SCOPE OF EXAMINATION**

This examination covered the period of January 1, 2001 through December 31, 2003. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2000. This examination commenced, with planning at the Office, on September 15, 2004 to November 12, 2004. The fieldwork commenced on November 15, 2004 and was concluded as of February 4, 2005. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was a statutory financial examination conducted in accordance with the Financial Examiners Handbook, Accounting Practices and Procedures Manual, and Annual Statement Instructions promulgated by the NAIC as adopted by Rules 690-137.001(4) and 690-138.001, Florida Administrative Code (FAC), with due regard to the statutory requirements of the insurance laws, rules, and regulations of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the A.M. Best Report, the Company's independent audit reports, and certain work papers prepared by the Company's independent Certified Public Accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2003. Transactions subsequent to year-end 2003 were reviewed where relevant and deemed insignificant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Based on the review of the Company's control environment and the materiality level set for this examination, some reliance was placed on work performed by the Company's independent CPA, after verifying the statutory requirements, for the following specific risk cycles:

- Premiums
- Losses and Benefits
- Investments and Other Invested Assets
- Reinsurance
- Operating Income and Expenses

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

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2000, along with resulting action taken by the Company in connection therewith.

### **Management**

The Company incorrectly reported John Douglas Hanselman as a director on the annual statement jurat page.

**Resolution:** The Company correctly reported John Douglas Hanselman as Treasurer and Vice-President.

There was no documentation in the minutes reviewed that the Board of Directors approved or authorized investments in accordance with Section 625.304, FS.

**Resolution:** As noted in the Board of Directors minutes pertaining to this exam period, investment decisions were authorized in accordance with Section 625.304, FS.

The Board of Directors did not document their review of the previous examination report (1997 exam).

**Resolution:** As documented in the Board of Directors minutes pertaining to this exam period, the Directors reviewed the 2000 examination report.

### **Federal Income Tax Recoverable**

The Company reported a Federal income tax recoverable, which represented a balance still outstanding, uncollected and non-assured, as an admitted asset. This did not comply with Section 625.031(8), FS, which requires the account be non-admitted.

**Resolution:** The Company did not experience a tax recoverable during fiscal year 2003, thus there was nothing to report in 2003. On the 2002 annual statement, the Company correctly reported the non-assured portion of the recoverable as non-admitted.

### **Business Resumption Plan**

A detailed business resumption plan was not found.

**Resolution:** Examiners obtained a detailed business resumption plan published by the ultimate parent company, Liberty Mutual Insurance Company (LMIC).

## Organization Controls

Information access was not removed for employees who were terminated or on long-term leave. The personnel department should be responsible for verifying that all employees no longer working for the Company have their information access revoked in a timely manner.

**Resolution:** Examiners noted changes were made to the information access policy to avert security issues.

## HISTORY

### General

The Company was incorporated May 28, 1997, under the laws of the State of Florida, as a stock property and casualty company. The Company commenced business on April 1, 1978, as a self insurance fund under the name of Employers Self Insurers Fund and converted to an assessable mutual. The Company subsequently converted to a stock property and casualty company with the name of Bridgefield Employers Insurance Company.

In accordance with Section 624.401(1), FS, the Company was authorized to transact workers' compensation insurance, in the State of Florida, on December 31, 2003.

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

### Capital Stock

As of December 31, 2003, the Company's capitalization was as follows:

Number of authorized common capital shares	15,000
Number of shares issued and outstanding	15,000
Total common capital stock	\$1,500,000

Par value per share

\$100.00

Control of the Company was maintained by its parent, Summit Holding Southeast Inc., who owned 100% of the stock issued by the Company, who in turn was 100% owned by Liberty Mutual Insurance Company (LMIC), a Boston, Massachusetts based company.

### **Profitability of Company**

The Company ceded 100% of premiums and losses to the ultimate parent, LMIC, and there was no underwriting gain/loss during the years covered by this examination. The Company's overall net income (loss) after taxes for the years ended 2003, 2002, and 2001 amounted to \$5,127,444, \$(916,495), and \$5,096,739, respectively.

### **Dividends to Stockholder**

The Company did not declare nor pay dividends to its stockholder in 2003.

### **Management**

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. In the March 21, 2001 Board of Director minutes, a resolution was adopted to increase the number of directors from 6 to 10. In the 2003 annual statement, 13 directors were listed on the jurat page.

Directors serving as of December 31, 2003, were:

## Directors or Trustees

<u>Name and Location</u>	<u>Principal Occupation</u>
Roger Lucien Jean Boston, MA	Director; Chairman Director of Regional Area Markets (RAM) LMIC
Ricky Tarver Hodges Lakeland, FL	Director; President and CEO Bridgefield Employers Insurance (BEIC)
Christopher Charles Mansfield Boston, MA	Director; General Counsel, LMIC
Amy Johnston Leddy Boston, MA	Director; Agency Management, LMIC
Forrest Howard Johnson Boston, MA	Director; Sr. Vice President (Retired)
William George Mersch Boston, MA	Director; Vice President, RAM HR & Admin. Services, LMIC
Dennis James Langwell Boston, MA	Director; Sr. Vice President and CFO, LMIC
James Francis Dore Boston, MA	Director; Sr. Vice President RAM, Financial Officer, LMIC
Geoffrey Eugene Hunt Boston, MA	Director; Executive Vice President, RAM, Eastern Division, LMIC
Bob David Effinger, Jr. Keene, NH	Director; Sr. Vice President, RAM, Chief Actuary, LMIC
Michael Ray Christiansen Boston, MA	Director; Executive Vice President, RAM Operations, LMIC

The Board of Directors, in accordance with the Company's Bylaws, appointed the following senior officers:

## Senior Officers

<u>Name</u>	<u>Title</u>
Ricky Tarver Hodges	President
Michael Ray Christiansen	Vice-President

James Francis Dore	Vice-President
Bob David Effinger, Jr.	Vice-President
John Douglas Hanselman	Vice-President, Treasurer
Geoffrey Eugene Hunt	Vice-President
Gary Jay Ostrow	Vice-President
Carol Prevatt Sipe	Vice-President
Thomas Lee Clarke, Jr.	Secretary

On December 31, 2003, the Company maintained an audit committee as required by Section 624.424 (8), FS. In the March 21, 2001 Board of Director minutes, a resolution was adopted to increase the number of members serving on the audit committee from 3 to 4. Audit Committee members serving as of December 31, 2003, were:

**Name**

- Roger Lucien Jean, Chairman
- Ricky Tarver Hodges
- James Francis Dore
- Mark Edward Fiebrink (RAM Western Division, LMIC, Executive Vice President)

**Conflict of Interest Procedure**

On December 31, 2003, the Company adopted a policy statement that required written annual disclosure on conflicts of interest, in accordance with Section 607.0825, FS. No exceptions were noted during the period under examination.

**Corporate Records**

The recorded minutes of the meetings by the Shareholder and the Board of Directors were reviewed for the period under examination. The number of directors authorized in the Board

minutes did not agree with the number of directors listed on the jurat page of the annual statement. The minutes were documented in accordance with Section 607.1601, FS.

### **Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance**

There were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance.

### **Surplus Debentures**

The Company had no surplus debentures.

## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida, as required by Section 628.801, FS, and Rule 690-143.046, FAC, on July 9, 2003.

On December 31, 2003, the following agreements were in force between the Company and its affiliates:

### **Tax Allocation Agreement**

The Company, along with its immediate parent, Summit Holding Southeast Inc., filed a consolidated federal income tax return with its ultimate parent, LMIC. On December 31, 2003, the method of allocation between the Company and its ultimate parent was such that each entity should contribute its fair and equitable share of the taxes paid, provided that they should not be

required to pay more than they would have paid if they had computed and paid their tax liabilities on a separate basis.

### **MGA Agreement**

The Company had a Managing General Agent Agreement (MGA) with Summit Consulting, Inc., to provide all services for managing and administering the affairs of the Company. Services included, but were not limited to, marketing, underwriting, billing, collection, claims administration, safety and loss prevention, and claims servicing. The Company had no employees.

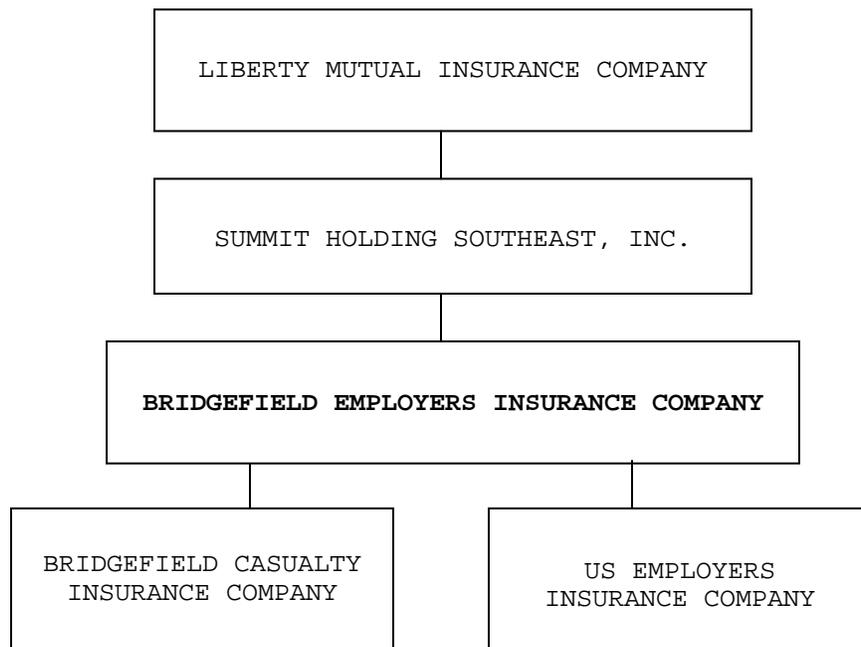
### **Investment Management Agreement**

The Company had an investment management agreement with Liberty Mutual Advisors, LLC, an indirect subsidiary of LMIC. The general terms of the agreement called for Liberty Mutual Advisors, LLC, to invest and manage the assets of the Company.

A simplified organizational chart as of December 31, 2003, reflecting the holding company system, is shown below. Schedule Y of the Company's 2003 Annual Statement provided a list of all related companies of the holding company group.

**BRIDGEFIELD EMPLOYERS INSURANCE COMPANY, INC.  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2003**



**FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$100,000,000 with a maximum deductible of \$1,000,000 each claim, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

## PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no employees.

### STATUTORY DEPOSITS

On December 31, 2003, the following securities were deposited with the State of Florida as required by Section 624.411, FS, and with various state officials as required or permitted by law:

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	US Treasury Note, 6.500%, 05/15/05	\$1,050,000	\$1,122,188
FL	US Treasury Bond, 3.875%, 2/15/13	2,000,000	1,958,120
FL	US Treasury Bond, 3.825%, 5/15/13	2,000,000	1,922,500
FL	US Treasury Bond, 5.250%, 11/15/28	<u>1,000,000</u>	<u>1,007,190</u>
	Total Special Deposits	<u><u>\$6,050,000</u></u>	<u><u>\$6,009,998</u></u>

### INSURANCE PRODUCTS AND RELATED PRACTICES

#### Territory and Plan of Operation

At December 31, 2003, the Company was authorized to transact insurance in the State of Florida, in accordance with Section 624.401 (2), FS.

#### Treatment of Policyholders

At December 31, 2003, the Company had established procedures for handling written complaints in accordance with Section 626.9541(1)(j), FS. The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

## **REINSURANCE**

The reinsurance agreements reviewed as of December 31, 2003, were found to comply with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting, and settlement information deadlines.

### **Assumed**

The Company assumed risk on an excess of loss basis from Gulf Insurance Co., Ltd., Bermuda (formerly, Crossroads Insurance Co., Ltd.).

### **Ceded**

The Company ceded all their risk to their ultimate parent, LMIC, under the 100% quota share treaty, and to Peerless Insurance Company, an affiliated company, under an excess of loss treaty.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory basis financial statements annually for the years 2003, 2002, and 2001, in accordance with Section 624.424(8), FS. Audited statutory financial statements and supporting work papers were prepared by the CPA as required by Rule 690-137.002, FAC.

The Company's account balances were verified with the line items of the annual statement submitted to the Office.

The Company maintained its principal operational offices in Lakeland, Florida, where this examination was conducted. This location was the home office of the Company's MGA.

### **Non-Affiliated Agreements**

On December 31, 2003, the following agreements were in force between the Company and non-affiliates:

#### **Custodial Agreement**

The Company had a custodial agreement with Chase Manhattan Bank, in Brooklyn, New York. The agreement was in compliance with Rule 690-143.042, FAC.

#### **Independent Certified Public Accountant Agreement**

For the years ending 2003, 2002, and 2001, in accordance with Section 624.424(8)(a), FS, the Company retained the accounting firm of Ernst & Young, LLP, in Tampa, Florida, to conduct the annual audits.

#### **Risk-Based Capital**

The Company reported its risk-based capital at an adequate level.

## **INFORMATION TECHNOLOGY REQUIREMENTS**

The Company's Information Technology (IT) services were outsourced to Summit Consulting, Inc., the Company's MGA. The Company's ultimate parent, LMIC, performed an internal audit of the IT systems.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2003, as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned "Comparative Analysis of Changes in Surplus."

**BRIDGEFIELD EMPLOYERS INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2003**

<u>Classification</u>	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds	\$ 136,211,088		\$ 136,211,088
Stocks:			
Common	19,053,985		19,053,985
Cash:			
On deposit	(5,032,338)		(5,032,338)
Receivable for securities	20,291		20,291
Investment Income			
Income due & accrued	1,372,213		1,372,213
Agents' Balances:			
Uncollected premium	1,975,959		1,975,959
Deferred premium	20,419,856		20,419,856
Accrued retrospective premiums	10,525,481		10,525,481
Reinsurance			
Amount recoverable from reinsurers	1,694,416		1,694,416
Net deferred tax asset	1,376,194		1,376,194
Totals	<u>\$ 187,617,145</u>	<u>\$0</u>	<u>\$ 187,617,145</u>

**BRIDGEFIELD EMPLOYERS INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2003**

Classification	Per Company	Examination Adjustments	Per Examination
Commissions payable, contingent commissions and other charges	\$ 5,229,503		\$ 5,229,503
Other Expenses	69,092		69,092
Taxes, licenses and fees	29,214,607		29,214,607
Current federal and foreign income taxes	208,201		208,201
Advance premium	1,753,256		1,753,256
Ceded reinsurance premiums payable (net of ceding commissions)	5,341,671		5,341,671
Provision for reinsurance	934,000	\$ 2,440,000	3,374,000
Payable to parent, subsidiaries and affiliates	64,390,174		64,390,174
Payable for securities	40,142		40,142
Aggregate write-ins for liabilities	<u>4,858,459</u>		<u>4,858,459</u>
Total Liabilities	\$ 112,039,105	\$ 2,440,000	\$ 114,479,105
Common capital stock	\$ 1,500,000		\$ 1,500,000
Gross paid in and contributed surplus	41,824,490		41,824,490
Unassigned funds (surplus)	<u>32,253,550</u>	<u>\$ (2,440,000)</u>	<u>29,813,550</u>
Surplus as regards policyholders	<u>\$ 75,578,040</u>	<u>\$ (2,440,000)</u>	<u>\$ 73,138,040</u>
Total liabilities, capital and surplus	<u>\$ 187,617,145</u>	<u>\$0</u>	<u>\$ 187,617,145</u>

**BRIDGEFIELD EMPLOYERS INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2003**

**Underwriting**

Premiums earned	\$0
DEDUCTION:	
Losses incurred	\$0
Loss expenses incurred	\$0
Other underwriting expenses incurred	\$0
Aggregate write-ins for underwriting deductions	\$0
Total underwriting deductions	\$0
Net underwriting gain or (loss)	\$0

**Investment Income**

Net investment income earned	\$ 7,389,635
Net realized capital gains	1,041,318
Net investment gain	\$ 8,430,953

Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$ 8,430,953
Federal & foreign income taxes	3,303,509
Net Income	\$ 5,127,444

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$ 66,007,575
--	---------------

**Gains and (Losses) in Surplus**

Net Income	\$ 5,127,444
Change in net unrealized capital gains	2,147,373
Change in net deferred income tax	(454,666)
Change in non-admitted assets	3,414,314
Change in provision for reinsurance	(664,000)
Examination adjustment	(2,440,000)
Change in surplus as regards policyholders for the year	\$ 7,130,465
Surplus as regards policyholders, December 31 current year	\$ 73,138,040

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Provision for Reinsurance** \$3,374,000

The total of other allowed offset items in the amount of \$2,440,000 was not collateralized by a letter of credit from Gulf Insurance Co., LTD. Therefore, the Company should include the uncollateralized amount of \$2,440,000 in the Provision for Unauthorized Reinsurance calculation, increasing the provision for insurance.

**BRIDGEFIELD EMPLOYERS INSURANCE COMPANY**  
**Comparative Analysis of Changes in Surplus**

**DECEMBER 31, 2003**

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders per December 31, 2003, Annual Statement \$75,578,040

	Per Company	Per Exam	Increase/ Decrease in Surplus
<b>ASSETS:</b>			
No adjustment necessary.			
<b>LIABILITIES:</b>			
Provision for Reinsurance	\$ 934,000	\$ 3,374,000	\$ (2,440,000)
Net Change in Surplus:			(2,440,000)
Surplus as Regards Policyholders as of December 31, 2003, per Examination			\$ 73,138,040

## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

The Company has taken the necessary actions to comply with the comments made in the 2000 examination report issued by the Office.

### **Current examination comments and corrective action**

The following is a brief summary of items of interest and corrective actions to be taken by the Company regarding findings in the examination as of December 31, 2003.

### **Corporate Records**

During the examination, the examiner noted that in the March 21, 2001, Board of Director minutes, a resolution was adopted to the bylaws that increased the number of directors from 6 to 10. However, the number of directors listed on the jurat page of the 2003 annual statement exceeded that amount.

**It is recommended that the Company accurately record changes and resolutions adopted to the Company bylaws, such as documenting the number of board directors authorized to sit on the Board.**

### **Provision for Reinsurance**

During the examination, the Office determined that the total other allowed offset items in the amount of \$2,440,000 was not collateralized by a letter of credit from Gulf Insurance Co., LTD. Therefore, the Company should include the uncollateralized amount of \$2,440,000 in the Provision for Unauthorized Reinsurance calculation, increasing the provision for insurance.

**It is recommended that the Company comply with SSAP No. 62 paragraphs 52 and 53 of the NAIC's Accounting Practices and Procedures Manual and provide for a minimum reserve for uncollectible reinsurance in all future annual and quarterly statement filings.**

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Bridgefield Employers Insurance Company** as of December 31, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$73,138,040, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Timothy M. Naddy, CPA, Examiner in Charge, Anthony Grippa, Actuary, Preferred Insurance Capital Consultants; Christopher M. Howell, CPA, CIA, Audit Manager; Allison M. Dahlmeier, CPA, Tax Senior Staff; Brad Jones, Audit Staff; Andrew J. Woodward, Audit Staff; and Mike Sills, Audit Staff, from Thomas Howell Ferguson P.A., participated in the examination.

Respectfully submitted,

---

Mike Hampton, CEF, CPA, CFE, DABFA, CPM  
Financial Examiner/Analyst Supervisor  
Florida Office of Insurance Regulation