

REPORT ON EXAMINATION
OF
BRIDGEFIELD EMPLOYERS
INSURANCE COMPANY
LAKELAND, FLORIDA

AS OF
DECEMBER 31, 2011

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

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January 11, 2013

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, Rule 69O-138.005, Florida Administrative Code, 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, 2011, of the financial condition and corporate affairs of:

**BRIDGEFIELD EMPLOYERS INSURANCE COMPANY
2310 COMMERCE POINT DRIVE
LAKELAND, FLORIDA 33801**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2007, through December 31, 2011. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2006. This examination commenced with planning at the Office on September 24, 2012, to September 27, 2012. The fieldwork commenced on October 1, 2012, and concluded as of January 11, 2013.

This financial examination was an association examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed 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 and 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.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2011.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2006.

SUBSEQUENT EVENTS

Significant changes were made to the management of the Company subsequent to the examination date. The following were officers serving as of December 31, 2012.

James Paul Condrin, III, Chairman of the Board, President and Chief Executive Officer;

Dexter Robert Legg, Vice President and Secretary;

Laurance Henry Soyer Yahia, Vice President and Treasurer;

John Derek Doyle, Vice President and Comptroller;

Anthony Alexander Fontanes, Vice President and CIO;

Kathryn Mary Winn, Vice President and General Counsel;

Michel Joseph Fallon, Vice President and CFO;

Carol Prevatt Sipe, Executive Vice President

The following were directors as of December 31, 2012:

Kristin Maria Bessette,

Michael Henry Hughes,

James Paul Condrin III,

Dexter Robert Legg,

John Derek Doyle,

Carol Prevatt Sipe,

Michael Joseph Fallon

Kathryn Mary Winn

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 and subsequently converted to a stock property and casualty company with the name of Bridgefield Employers Insurance Company. The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

The Company was a party to Consent Order 109146-10-CO filed May 11, 2010, regarding the return of excess profits for the years 2005, 2006 and 2007. The Company complied with this Consent Order.

The Company was authorized to transact workers compensation insurance coverage in Florida on April 1, 1978 and continued to be authorized on December 31, 2011.

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

The bylaws were amended in 2010 to permit the establishment of an Audit Committee using three or more directors of the Company or an affiliated company.

Dividends to Stockholders

The Company did not declare or pay any dividends to its stockholder during the period under examination.

Capital Stock and Capital Contributions

As of December 31, 2011, 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 Summit Holding Southeast, Inc. (Summit Holding) which owned 100% of the stock issued by the Company. Summit Holding was 100% owned by Liberty Mutual Insurance Company (Liberty Mutual). The ultimate parent of Liberty Mutual was Liberty Mutual Holding Company, Inc.

Surplus Notes

The Company did not have any surplus notes during the period of this examination.

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

The Company had no acquisitions, mergers, disposals, purchases or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholder, Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code and including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2011, were:

Directors

Name and Location	Principal Occupation
Christopher Locke Peirce Attleboro, MA	Chairman of the Board, President and Chief Executive Officer of the Company
Dexter Robert Legg Portsmouth, NH	Vice President and Secretary of the Company
Ralph Tortorella III Wellesley, MA	Counsel for Liberty Mutual Insurance Company
Mark Joseph Moitoso Duxbury, MA	Vice President, Treasurer and Chief Financial Officer of the Company.
Carol Prevatt Sipe Lakeland, FL	Executive Vice President of the Company

The Board in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
Christopher Locke Peirce	President and Chief Executive Officer
Dexter Robert Legg	Vice President and Secretary
Mark Joseph Moitoso	Vice President, Treasurer and Chief Financial Officer
Anthony Alexander Fontanes	Vice President and Chief Investment Officer
Carol Prevatt Sipe	Executive Vice President
John Derek Doyle	Vice President and Comptroller

The Company's Board appointed the Audit and Investment Committees of Liberty Mutual to perform those functions for the Company.

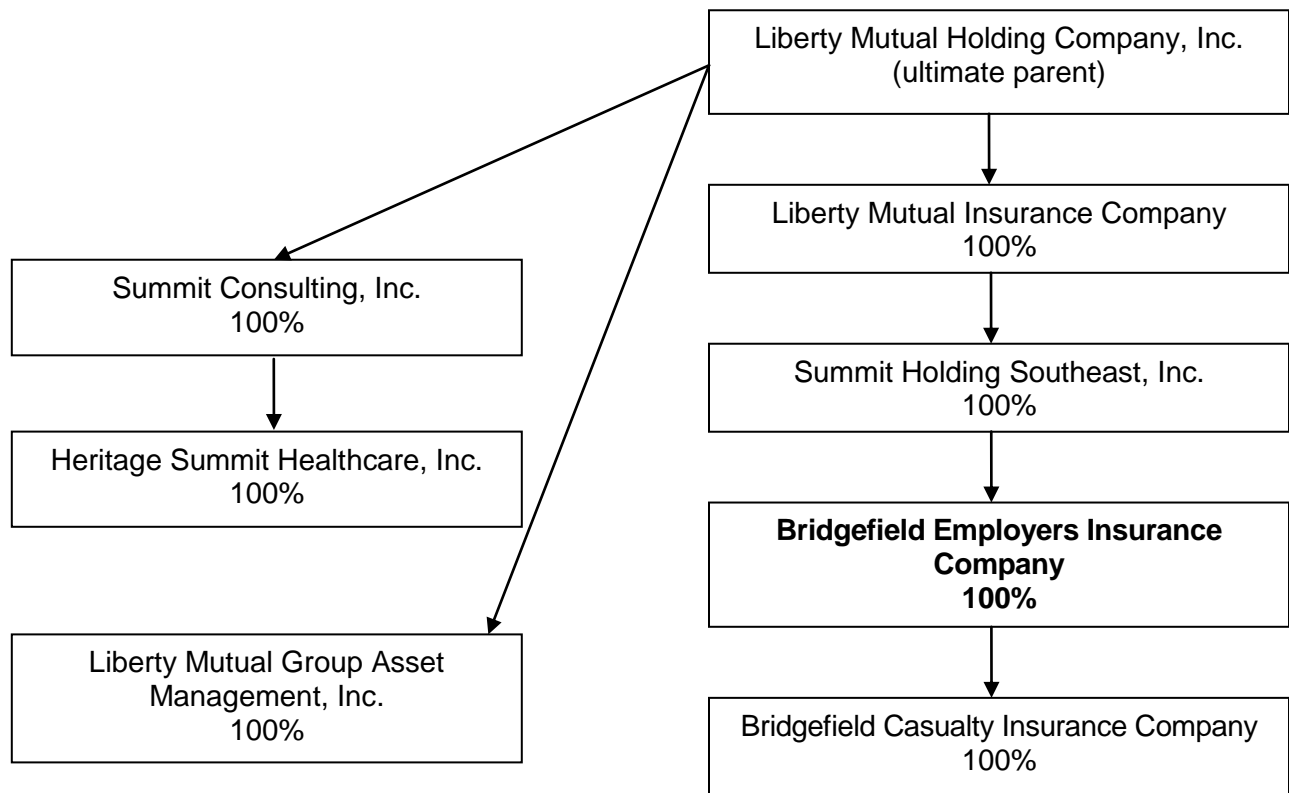
Affiliated Companies

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on February 28, 2012, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2011, reflecting the holding company system, is shown below. Schedule Y of the Company's 2011 annual statement provided a list of all related companies of the holding company group.

**BRIDGEFIELD EMPLOYERS INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2011



The following agreements were in effect between the Company and its affiliates:

Tax Allocation Agreement

The Company, along with its parent, filed a consolidated federal income tax return with its ultimate parent, Liberty Mutual Holding Company, Inc. On December 31, 2011, 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.

Management Services Agreement

The Company had a services agreement with Liberty Mutual to provide services of administrative and management functions. Services included, but were not limited to, accounting, tax, auditing, information technology, legal and other services.

Managed Care Agreement

The Company had a workers' compensation managed care agreement with Heritage Summit Healthcare, Inc. (Heritage). Under this agreement, Heritage provided services in a network of physicians and facilities geared toward initial and continuing treatment of work-related injuries relating to insurance coverage provided by the Company.

Managing General Agent Agreement

The Company had a Managing General Agent agreement with Summit Consulting, Inc. (MGA) under which MGA provided 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.

Investment Management Agreements

The Company had an Investment Management Agreement and a Cash Management Agreement with Liberty Mutual Group Asset Management, Inc. (Liberty Management). Under these

agreements, Liberty Management invested and managed short-term and long-term assets of the Company.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$15,000,000 with no deductible, which reached the suggested minimum as recommended by the NAIC. The Company also maintained Directors and Officers (D&O) liability insurance with coverage limits of \$15,000,000 and General Liability insurance coverage with limits of \$3,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and therefore no pension, stock ownership or insurance plans.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states:

Florida	Kentucky	North Carolina
Alabama	Louisiana	South Carolina
Arkansas	Mississippi	Tennessee
Georgia		

Business originated with independent agents and flowed through the Company's affiliated managing general agent, Summit Consulting, Inc.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

COMPANY GROWTH

Due to the 100% Quota Share cession of all direct and assumed business, the Company had zero net premiums during the period under examination. Although gross written premiums increased slightly in 2011, there was a general decline in gross premium writings during the examination period. This was due to several factors including a reduction in premium rates, more careful underwriting and the state of the economy with declines in employment and the corresponding requirement for workers' compensation coverage.

During the past five year period, surplus continued to increase at a steady rate, while net income reflected a declining trend line. The decline in net income was due a reduction of investment income resulting from the lower interest rate environment.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statements.

	2011	2010	2009	2008	2007
Premiums Earned	-0-	-0-	-0-	-0-	-0-
Net Underwriting Gain/(Loss)	-0-	-0-	-0-	-0-	-0-
Net Income	1,660,638	1,942,683	2,238,537	3,561,380	4,467,685
Total Assets	132,080,980	129,196,583	131,486,558	139,164,604	202,092,857
Total Liabilities	22,876,245	22,842,969	28,629,666	39,703,682	108,468,706
Surplus As Regards Policyholders	109,204,735	106,353,614	102,856,892	99,460,922	93,624,151

LOSS EXPERIENCE

Due to the 100% cession of all direct and assumed business, the Company had zero net losses.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Subsequent Event: Effective January 1, 2012, the Company entered into an excess of loss reinsurance agreement with Safety National Casualty Corporation (Reinsurer). Under this agreement, the Reinsurer's limits were \$2,000,000 as respects each occurrence and \$12,000,000

for all loss occurrences combined. The Company's retention was \$3,000,000 any one occurrence with an aggregate deductible of \$2,000,000 applicable to all occurrences.

Assumed

The Company was a member of several state mandatory pools for workers' compensation. The total of assumed premiums for 2011 was \$82,000.

Ceded

At December 31, 2011, the Company had minimal amounts ceded to non-affiliates under excess of loss and catastrophe contracts. The total of ceded premiums under those contracts for 2011 was \$4,000. All remaining premiums and losses were ceded under a 100% quota share treaty with Liberty Mutual.

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

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Lakeland, Florida.

An independent CPA audited the Company's statutory basis financial statements annually, on a consolidated basis, for the years 2007, 2008, 2009, 2010 and 2011 in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

Under the Management Service Agreements with affiliates noted earlier, internal applications were utilized for processing policies, claims, reinsurance, producer management and the general ledger. An outside vendor's software was utilized for accounts receivable and billing.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with JP Morgan Chase Bank (Custodian), dated February 4, 2002. The agreement provided for the Custodian to hold the Company's invested assets in a custodial capacity and outlined the responsibilities of the Custodian. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

INS Services, Inc. performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes, and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	NVHMV, 4.40% 12/01/20	\$1,000,000	\$1,076,390
FL	Georgia- B, 4.30%, 03/01/24	1,000,000	1,107,350
FL	Georgetown, 4.40%, 02/15/21	1,000,000	1,071,490
FL	NE Isd-Bldg, 4.38%, 02/01/25	1,000,000	1,045,390
FL	G-Vill Utils-A, 4.75%, 10/01/26	1,000,000	1,054,170
FL	Honolulu City/Cnty, 4.38%, 07/01/18	1,000,000	1,105,360
FL	US Trea Note, 2%, 01/31/15	<u>1,050,000</u>	<u>1,109,556</u>
TOTAL FLORIDA DEPOSITS		\$7,050,000	\$7,569,706
NC	US TREASURY, 3.625%, 05/15/13	\$ 200,000	\$ 209,336
GA	USTNT, 3.625%, 05/15/13	<u>85,000</u>	<u>88,968</u>
TOTAL OTHER DEPOSITS		<u>\$ 285,000</u>	<u>\$ 298,304</u>
TOTAL SPECIAL DEPOSITS		<u>\$7,335,000</u>	<u>\$7,868,010</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2011, and the results of its operations for the year then ended 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, 2011

	Per Company	Examination Adjustments	Per Examination
Bonds	\$52,779,358		\$52,779,358
Stocks:			
Common	45,450,583		45,450,583
Cash and Short-Term Investments	10,751,330		10,751,330
Securities lending reinvested collateral assets	521,723		521,723
Investment income due and accrued	501,628		501,628
Premiums and considerations:			
Uncollected premium	4,897		4,897
Reinsurance recoverable	18,209,402		18,209,402
Receivable from parents, subsidiaries and affiliates	3,862,059		3,862,059
Totals	<u>\$132,080,980</u>	<u>\$0</u>	<u>\$132,080,980</u>

BRIDGEFIELD EMPLOYERS INSURANCE COMPANY

Liabilities, Surplus and Other Funds

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Reinsurance payable on paid losses and loss adjustment expenses	\$3,977		\$3,977
Current federal and foreign income taxes	158,288		158,288
Net deferred tax liability	150,000		150,000
Ceded reinsurance premiums payable	17,034,680		17,034,680
Provision for reinsurance	609,010		609,010
Payable to parent, subsidiaries and affiliates	4,398,567		4,398,567
Payable for securities lending	521,723		521,723
Total Liabilities	\$22,876,245	\$0	\$22,876,245
Common capital stock	\$1,500,000		\$1,500,000
Gross paid in and contributed surplus	41,824,490		41,824,490
Unassigned funds (surplus)	65,880,245		65,880,245
Surplus as regards policyholders	\$109,204,735	\$0	\$109,204,735
Total liabilities, surplus and other funds	\$132,080,980	\$0	\$132,080,980

BRIDGEFIELD EMPLOYERS INSURANCE COMPANY

Statement of Income

DECEMBER 31, 2011

Underwriting Income

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

Investment Income

Net investment income earned		\$2,390,410
Net realized capital gains or (losses)		<u>(27,152)</u>
Net investment gain or (loss)		\$2,363,258

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		0
Total other income		<u>\$0</u>

Net income before dividends to policyholders and before federal & foreign income taxes		\$2,363,258
Dividends to policyholders		<u>0</u>
Net income, after dividends to policyholders, but before federal & foreign income taxes		\$2,363,258
Federal & foreign income taxes		<u>702,620</u>
Net income		<u>\$1,660,638</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$106,353,614
Net income		\$1,660,638
Change in net unrealized capital gains or losses		963,328
Change in net deferred income tax		22,801
Change in provision for reinsurance		204,354
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>\$2,851,121</u>
Surplus as regards policyholders, December 31 current year		<u>\$109,204,735</u>

A comparative analysis of changes in surplus is shown below.

BRIDGEFIELD EMPLOYERS INSURANCE COMPANY

Comparative Analysis of Changes in Surplus

DECEMBER 31, 2011

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
December 31, 2011, per Annual Statement \$109,204,735

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2011, Per Examination			<u><u>\$109,204,735</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$-0-

The Office consulting actuaries, Robert W. Gardner, FCAS, MAAA and David J. Macesic, ACAS, MAAA of INS Consultants, Inc. performed a review of the Company's reinsurance agreements and concluded that the December 31, 2011 net loss and loss adjustment expense reserves were fairly stated.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$109,204,735, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

CONCLUSION

The 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, 2011, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$109,204,735, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Patricia Casey Davis, CPA, CFE, CMA, CIA, CRMA, CICA, Field Manager of INS Regulatory Insurance Services, Inc., and James Russo, CFE, CPCU, FLMI, CIE, CFSA, CFE (Fraud), CICA, Examiner In-Charge of INS Regulatory Insurance Services, Inc., participated in the examination.

In addition, Neeraj Gupta, CFE, Field Manager of INS Regulatory Insurance Services, Inc., David J. Macesic, ACAS, MAAA, Chief Property/Casualty Actuary of INS Consultants, Inc., Robert W. Gardner, FCAS, MAAA, consulting actuary of INS Consultants, Inc., Paul L. Berkebile, CISA, CFSA, CRISC, Senior Manager of INS Services, Inc., Claude B. Granese, CPA, Director of Finance and Quality Control of INS Services, Inc., Michael Kubler, Contracting IT Auditor of INS Services, Inc., Kyra D. Brown, APIR, Financial Specialist of the Office and Billy Poulos, CIA, CGAP, Reinsurance/Financial Specialist of the Office also participated in the examination.

Respectfully submitted,

Mary M. James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation