Insurance Times: Fitchburg Mutual claims N&D affiliation needed to compete

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BOSTON — In the wake of financial services deregulation, insurance companies including John Hancock, Prudential and MetLife are shedding their mutual status, consolidating or expanding left and right. Even Liberty Mutual is seeking to change its status to a mutual holding company, in part to gain the ability to sell stock and keep growing.

Compared to the big guys, Fitchburg Mutual is a small regional independent mutual with limited options.

But Fitchburg executives have come to the realization that staying small is no longer viable and that size matters much more than it used to.

Fitchburg Mutual must form a strategic affiliation with the larger Norfolk & Dedham Group if it wants to remain competitive, the company's president testified recently.

"… Fitchburg Mutual lacks sufficient size to maintain a competitive position in the insurance industry as the industry has developed and as we believe it will continue to develop," Ronald LeBlanc, president, treasurer and chief executive officer of Fitchburg, outlined during a May 29 Division of Insurance public hearing.

"We have determined that the long-term interests of our policyholders, agents and employees will be best served by affiliating with a larger, financially stronger insurance company whose business philosophy and practices are similar to our own."

LeBlanc and Timothy Hegarty, Jr., president and CEO of Norfolk & Dedham, both outlined details of their agreements during the public hearing, which was held to address their proposed alliance.

Commissioner Linda Ruthardt closed the record and a decision is expected soon. She presided over the hearing offering little criticism, other than noting that plans to notify Fitchburg Mutual policyholders of the deal seemed vague and "worrisome" because she wasn't sure bylaw changes concerning annual meetings would let them hear about the deal in time.

Edward Donahue, an attorney with Morrison, Mahoney & Miller, is representing both companies before the DOI. He said both insurers' boards would ratify the proposed deal "fairly quickly" pending DOI approval.

And Fitchburg, he said, would likely send "a notice to policyholders if they have a special meeting," which would come later this summer."

The strategic alliance, if approved by the DOI, would allow Fitchburg to keep its corporate identity but most everything else would change.

Among the details of a strategic alliance:

• Fitchburg Mutual, by joining the strategic alliance, will become a member company of the Norfolk & Dedham Group. The group itself already includes Norfolk & Dedham Mutual Insurance, West Newbury Mutual Fire Insurance and Dorchester Mutual, and each continues to keep its own corporate identity.

• Fitchburg will be responsible in 2002 for its 2001 losses, loss adjustment expenses, commissions and other business expenses. The group members will share any new expenses after Jan 1, 2002. As of Jan. 1, 2003, all member companies will pool their premiums, commissions, losses, loss adjustment expenses and other costs. Each member company's pool share depends on its direct written premium compared to the group's total amount, Hegarty said.

• Newbury Corp. manages the group and its day-to-day affairs and each member insurance company's employees are technically employees of Newbury Corp. rather than the individual companies. Norfolk & Dedham Mutual Fire, however, owns 98 percent of Newbury Corp.

• Four Fitchburg board members will resign from their positions and board members will fill their positions from either Norfolk & Dedham or other alliance/affiliated companies. Norfolk & Dedham will also add two additional members to the Fitchburg board, bringing the total number on the board to 11, with a 6-5 Norfolk & Dedham majority.

• LeBlanc and also Steven Myers, the Fitchburg Mutual secretary, would resign from their respective positions. LeBlanc would become a senior vice president and Hegarty would become Fitchburg's new president and CEO. Norfolk & Dedham senior vice president Gerald McDermott would also become a Fitchburg senior vice president. Ronald DeLorenzo and Daniel Gillis, Norfolk & Dedham's treasurer and secretary, will assume similar positions at Fitchburg.

• With the shared pool, Newbury Corp. would market and underwrite Fitchburg policies, “administer, adjust, settle and defend claims …, bill and collect policy premiums” and handle other routine tasks, Hegarty said in his prepared testimony. Fitchburg employees would become Newbury employees as of Jan. 1.

Fitchburg employees would keep their jobs for five years, as long as the combined Norfolk & Dedham Group’s surplus doesn’t drop more than 25 percent from its level on Dec. 31 of this year.

• Fitchburg will pay the Newbury Corp..25 percent of 1 percent of its annual net written premiums, which is about $125,000 for this year.

• The companies can terminate their affiliation Jan. 1 of any year, assuming they give 120 days written notice.

But LeBlanc, in his prepared testimony, said Fitchburg plans to make the affiliation work well enough so “that unwinding this relationship will never need to be considered.”

• CAR rules keep more than one company in a group or affiliation from serving as a CAR servicing carrier, so Fitchburg will stop writing its auto business in Massachusetts as of Jan. 1. Fitchburg’s 2001 auto business will subsequently be written on Norfolk & Dedham paper but Fitchburg will bear the risk. After that, Fitchburg will share the cost of Norfolk & Dedham’s automobile exposures.

• Executives won’t benefit from any financial bonuses for completing the deal, Donahue said.

• Fitchburg’s agents will face little change, Donahue said, because the company has only a handful of agents overlapping with Norfolk & Dedham business, “and there are no immediate plans to make any changes to the agency” workforce.

Norfolk & Dedham has a market share in Massachusetts of about 1 percent and Fitchburg’s is smaller.

A.M. Best has rated Fitchburg an A- and Norfolk & Dedham has an A rating. If the deal is approved, A.M. Best will likely assign the Norfolk & Dedham rating to Fitchburg, Hegarty said.

Fitchburg and Norfolk & Dedham have a combined surplus of $121 million, including Fitchburg’s $26.7 million, and $104 million in combined net written premium.

LeBlanc said that even though Norfolk & Dedham will control the board, Fitchburg policyholders will still have the right to propose future board members and vote on company business.