

Report on the Examination

As of December 31, 2022

of

The Vermont Mutual Insurance Group

by the





State of Vermont
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

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[Securities] 877-550-3907
www.dfr.vermont.gov

Daniel Bridge
CEO
Vermont Mutual Insurance Group

ORDER OF ADOPTION

In accordance with 8 V.S.A. § 3574 (c), I order that the Report on the Examination of the Vermont Mutual Insurance Group for the year ending December 31, 2022 is adopted.

The Vermont Mutual Insurance Group may appeal this order within 30 days of its adoption in accordance with the Vermont Administrative Procedure Act and Department of Financial Regulation Rule 82-1.

DocuSigned by:

Kevin Gaffney

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Kevin J. Gaffney, Commissioner

5/16/2024

Date



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May 7, 2024

Kevin J. Gaffney, Commissioner
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

Dear Commissioner Gaffney:

Pursuant to the January 20, 2023 examination order, the Insurance Division's financial examination team has conducted an examination of:

Vermont Mutual Insurance Group

with their offices located at
89 State Street
Montpelier, VT 05601

The examination was performed pursuant to 8 V.S.A. § 3563 in order to ascertain the Group's financial condition, ability to fulfill its obligations and compliance with the provisions of Vermont law.



SCOPE OF EXAMINATION

As of December 31, 2022, the financial examination of the Vermont Mutual Insurance Group (Group) was performed, which consisted of the following entities:

- Vermont Mutual Insurance Company (VMIC or Company)
- Northern Security Insurance Company, Inc. (NSIC or Company)
- Granite Mutual Insurance Company (GMIC or Company)

The last financial condition examination conducted by the Vermont Department of Financial Regulation of the Group was as of December 31, 2017 for the previous five-year period.

The examination was conducted pursuant to 8 V.S.A. §3563 and guidance provided by the National Association of Insurance Commissioners (NAIC). The examination covered the period from January 1, 2018 through December 31, 2022. The Department conducted the examination in accordance with NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Group and evaluate system controls and procedures used to mitigate those risks. The examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Group 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 Group's financial statements.

This examination report includes significant findings of fact as mentioned in 8 V.S.A. § 3574, 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 Group.

SUMMARY OF SIGNIFICANT FINDINGS

There were no findings in the prior exam report or the current exam report. There were no adjustments made to the annual statement based on this examination.

HISTORY

VMIC was incorporated in 1828 and is a mutual property and casualty insurer principally engaged in underwriting homeowners, commercial multi-peril, automobile and general liability insurance in the seven states in which it is licensed. NSIC was incorporated in 1904 as the Northern Mutual Fire Insurance Company. It was dormant until 1955. On June 8, 1955, the charter was amended changing the mode of operation from a mutual to a stock basis. NSIC is a wholly owned subsidiary of VMIC and is licensed in six states. GMIC was incorporated in 1906, originally as an assessment mutual, GMIC has written all contracts on a non-assessable basis since 1962. On January 1, 1995, GMIC entered into an affiliation and pooling agreement with VMIC and NSIC. GMIC is licensed in two states.

Pursuant to a reinsurance pooling agreement entered into during 1994, the Group began pooling their underwriting income and expenses. As of the exam date, 100% of NSIC and GMIC premium, losses and applicable expenses are ceded to VMIC, including those losses incurred prior to January 1, 1998. Additionally, the Group shares certain facilities and employees with the related costs recorded on the basis of the allocation percentages.

During 1997, VMIC formed Baldwin Insurance Agency, Inc. (Baldwin), a wholly owned independent insurance broker and agency. Baldwin was formed primarily to allow the Group's Agents to offer various types of insurance coverage not underwritten by the Group. Baldwin has been inactive since 2004.

MANAGEMENT AND CONTROL

Corporate Records

The Group's home and administrative office is located in Montpelier, Vermont and the Group also maintains its corporate records at this location. The examiners reviewed the minutes of the Board of Directors and key committees thereof and determined that the minutes adequately approve and support the Group's transactions and events and that the meetings and minutes are in compliance with the Group's Articles and By-Laws.

VMIC

Policyholders

The annual meeting of Policyholders is held on the first Wednesday after the second Thursday in April. The annual report of the Treasurer is presented, and Directors are elected by a majority vote of the Policyholders present and voting in person or by proxy.

Board of Directors

The Board of Directors adopt rules and regulations for the conduct of their meetings and management of the Company, as they deem proper and consistent with the By-laws and the laws of Vermont. The Board of Directors have full charge of the affairs of the Company, manage the funds and property and elect Officers of the Company. The Board of Directors consists of no more than seventeen nor less than seven individuals, the exact number is determined at the annual meeting of the Policyholders. Not more than one-third of the Directors are elected annually and will carry out three-year terms. A majority of the Directors constitutes a quorum for the transaction of business.

Officers

The Officers of the VMIC consist of a President, an Executive Vice President, one or more Vice Presidents, a Secretary and Treasurer and any other Officers considered necessary that may be appointed in accordance with the By-Laws.

NSIC

Stockholders

The annual meeting of Stockholders is held on the first Wednesday after the second Thursday in April. The annual report of the Treasurer is presented, and Directors are elected by a majority vote of the Stockholders present and voting in person or by proxy.

Board of Directors

The Board of Directors adopt rules and regulations for the conduct of their meetings and management of the Company, as they deem proper and consistent with the By-laws and the laws of Vermont. The Board of Directors have full charge of the affairs of the Company, manage the funds and property and elect Officers of the Company. The Board of Directors consists of no more than seventeen nor less than seven individuals, the exact number is determined at the annual meeting of the Stockholders. Not more than one-third of the Directors are elected annually and will carry out three-year terms. A majority of the Directors constitutes a quorum for the transaction of business.

Officers

The Officers of the NSIC consist of a President, an Executive Vice President, one or more Vice Presidents, a Secretary and Treasurer and any other Officers considered necessary that may be appointed in accordance with the By-Laws.

GMIC

Policyholders

The annual meeting of Policyholders is held on the first Wednesday after the second Thursday in April. The annual report of the Treasurer is presented, and Directors are elected by a majority vote of the Policyholders present and voting in person or by proxy.

Board of Directors

The Board of Directors adopt rules and regulations for the conduct of their meetings and management of the Company, as they deem proper and consistent with the By-laws and the laws of Vermont. The Board of Directors have full charge of the affairs of the Company, will manage the funds and property and elect Officers of the Company. The Board of Directors consists of no more than seventeen nor less than seven individuals, the exact number is determined at the annual meeting of the Policyholders. Not more than one-third of the Directors are elected annually and carry out three-year terms. A majority of the Directors constitutes a quorum for the transaction of business.

Officers

The Officers of the GMIC consist of a President, an Executive Vice President, one or more Vice Presidents, a Secretary and Treasurer and any other Officers considered necessary that may be appointed in accordance with the By-Laws.

The following were elected to the Board of Directors of VMIC, NSIC and GMIC in accordance with the By-Laws of each Company and serving as of December 31, 2022:

<u>Name</u>	<u>Residence</u>
Richard N. Bland Retired	Vermont
Daniel C. Bridge Vermont Mutual Insurance Group	Vermont
William A. Catto Retired	Florida
William P. Cody Retired	Florida

<u>Name</u>	<u>Residence</u>
Michele S. Gatto Florida South Western State College	Florida
Mark J. McDonnell Vermont Mutual Insurance Group	Vermont
Premila Peters Data Innovations	Vermont
David J. Provost Middlebury College	Vermont
Steven P. Voigt Retired	Vermont

The Officers of VMIC, NSIC and GMIC as of December 31, 2022 were as follows:

<u>Name</u>	<u>Title</u>
Daniel C. Bridge	Chairman, President and CEO
Mark J. McDonnell	Executive Vice President and COO
Brody N. Gilbert	Vice President, Treasurer and CFO
William J. Cahill	Vice President and Secretary
Jonathan R. Becker	Vice President
David N. DeLuca	Vice President
Shaun P. Farley	Vice President
Richard P. Middleton	Vice President
Sarah B. Young	Vice President

Affiliated Companies

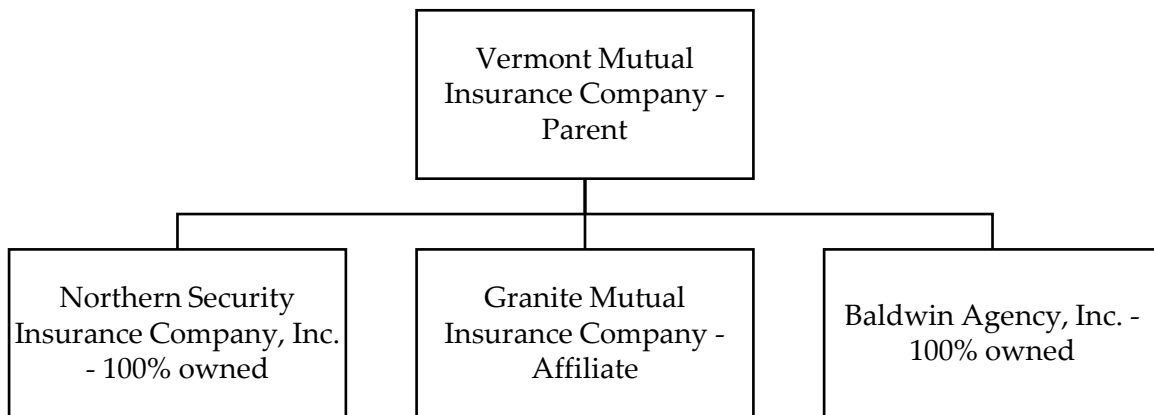
Pursuant to a reinsurance pooling agreement entered into during 1994, the Group began pooling their respective income and expenses related to underwriting activities, effective January 1, 1995.

Effective December 31, 2003, VMIC amended its pooling agreement with NSIC and GMIC. Under the amended agreement, VMIC assumes 100% of the unearned premium of NSIC and GMIC. Also, VMIC assumes 100% of the gross premiums written and pooled underwriting expenses of NSIC and GMIC relating to all accident years.

The Group also shares certain facilities and employees with the related costs recorded predominately on the basis of the allocation percentages. Operations of each individual company, other than those related to underwriting income and expenses, are the responsibility of each respective company.

Organizational Chart

The corporate structure as of December 31, 2022 is as follows:



TERRITORY AND PLAN OF OPERATIONS

VMIC is licensed in the states of Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont. NSIC is licensed in Connecticut, Maine, Massachusetts, New Hampshire, New York and Vermont. GMIC is licensed in New Hampshire and Vermont. The Group provides homeowners, dwelling fire, mobile homeowners, automobile, commercial property and liability, business owner property and liability, and personal and commercial

umbrella coverage. Personal auto coverage is written in Vermont, Maine, Massachusetts and New Hampshire only. Business is marketed through a network of Independent Agents.

REINSURANCE

The Group maintains reinsurance with various reinsurers to limit its exposure to losses. The Group's reinsurance program consists of reinsurers with the majority being A rated by A.M. Best. Coverage is continuous and may be terminated by either the Group or reinsurer, subject to 90 days written notice. Management reviews, approves and executes all reinsurance contracts. A third-party consultant is utilized to monitor reinsure metrics, such as reinsurance partners and their respective credit ratings and any other changes that have occurred in the reinsurance market. Property losses are limited to \$1.5 million on any one loss and casualty losses are limited to \$750,000 on any one loss. The Group has entered into various reinsurance agreements to provide additional coverage for catastrophic losses at various participation layers and ceding percentages.

FINANCIAL STATEMENTS

The following statements are based on the statutory financial statements filed by VMIC, NSIC and GMIC with the Vermont Department of Financial Regulation and present the financial condition of each Company for the period ending December 31, 2022.

Statement of Admitted Assets

	<u>VMIC</u>	<u>NSIC</u>	<u>GMIC</u>
Cash and short-term investments	\$ 74,859,115	\$ 788,933	\$ 368,923
Bonds, at amortized cost	842,113,715	8,520,088	4,484,739
Common stocks, at market value	212,958,860	-	26,293
Investments in subsidiary and affiliate	9,214,006	-	-
Preferred stock, at NAIC value	409,047	-	-
Real estate at cost, less accumulated depreciation	2,903,331	-	-
Other invested assets	39,613,718	-	-
Totals, cash and invested assets	<u>1,182,071,792</u>	<u>9,309,021</u>	<u>4,879,955</u>
Premiums receivable	112,150,656	-	-
Reinsurance recoverable on paid loss and LAE	2,574,771	-	-
Interest and dividends receivable	4,268,942	36,141	16,735
Cash value of life insurance policies	26,941,597	-	-
Federal income tax recoverable	-	-	43,544
Deferred tax asset	11,290,681	-	-
Electronic data processing equipment and software, net	378,032	-	-
Receivables from parent, subsidiaries and affiliate	903,594	-	-
FAIR Plan balance	34,284,850	-	-
Other assets	8,029,424	838,957	-
Total admitted assets	<u>\$1,382,894,339</u>	<u>\$ 10,184,119</u>	<u>\$ 4,940,234</u>

Statement of Liabilities and Capital and Surplus

	<u>VMIC</u>	<u>NSIC</u>	<u>GMIC</u>
Reserves for losses and LAE	\$ 243,733,411	\$ -	\$ -
Unearned premiums	306,596,023	-	-
Commissions payable	34,735,807	-	-
Accounts payable, accrued expenses and other liabilities	24,466,419	7,748	5,607
Payable to parent, subsidiaries and affiliates	-	888,739	14,855
Federal income taxes payable	885,335	352	-
Deferred tax liability	-	2,536	4,636
Payable for securities purchased	6,719,480	75,511	39,743
Accrued retirement benefits and deferred compensation	43,395,534	-	-
Total liabilities	<u>\$ 660,532,009</u>	<u>\$ 974,886</u>	<u>\$ 64,841</u>
Additional paid-in capital	\$ -	\$ 450,000	\$ -
Unassigned surplus	722,362,330	8,759,233	4,875,394
Total capital and surplus	<u>722,362,330</u>	<u>9,209,233</u>	<u>4,875,394</u>
Total liabilities and capital and surplus	<u>\$1,382,894,339</u>	<u>\$ 10,184,119</u>	<u>\$ 4,940,235</u>

Statement of Income

	<u>VMIC</u>	<u>NSIC</u>	<u>GMIC</u>
Premiums earned, net	\$ 528,483,689	\$ -	\$ -
Losses and LAE incurred	323,662,173	-	-
Other underwriting expenses	204,666,553	-	-
Total underwriting expenses	<u>528,328,726</u>	<u>-</u>	<u>-</u>
Net underwriting gain	154,963	-	-
Net investment income	23,297,695	181,807	83,786
Net realized capital gains (losses) - net of tax	(9,404,381)	(137,265)	(72,467)
Other income	2,699,935	-	-
Income before federal income taxes	<u>16,748,212</u>	<u>44,542</u>	<u>11,319</u>
Federal income tax expense	7,846,442	36,840	17,709
Net income	<u>\$ 8,901,770</u>	<u>\$ 7,702</u>	<u>\$ (6,390)</u>

Statement of Changes in Capital and Surplus

	<u>VMIC</u>	<u>NSIC</u>	<u>GMIC</u>
Capital and surplus at December 31, 2021	\$ 737,765,049	\$ 9,202,795	\$ 4,879,828
Net income	8,901,770	7,702	(6,390)
Change in unrealized appreciation (depreciation) of investments, net	(30,992,237)	-	1,815
Change in net deferred income tax	2,714,366	(1,264)	141
Change in nonadmitted assets	(1,447,808)	-	-
Change in obligation for pension and postretirement plan	5,421,190	-	-
Total change in capital and surplus	<u>(15,402,719)</u>	<u>6,438</u>	<u>(4,434)</u>
Capital and surplus at December 31, 2022	<u>\$ 722,362,330</u>	<u>\$ 9,209,233</u>	<u>\$ 4,875,394</u>

COMMENTS AND RECOMMENDATIONS

There are no significant findings or financial adjustments as a result of this examination. A Comment Letter will be issued to the Board as a result of this exam addressing opportunities for improvement and other items that did not reach a level of significance to warrant inclusion in this report. In such cases, these matters were thoroughly discussed with responsible personnel during the examination.

SUBSEQUENT EVENTS

Subsequent to the date of the examination, effective January 1, 2024, GMIC demutualized and became a wholly owned subsidiary of VMIC. Also effective at this date, GMIC changed its name to Granite Security Insurance Company.

Subsequent to the date of examination, effective April 17, 2024, Mark J. McDonnell was elected as President of the Group. Daniel C. Bridge has also announced his intention to retire as CEO at the end of 2024. Following his retirement, Mr. Bridge will continue to serve as a Director and as Chair of the Board.

CONCLUSION

In addition to the undersigned, William Michael, CFE, CIA, CPCU, ARe, Supervising Examiner; Alea Talbert-Pence, CFE, CIA, Examiner in Charge; Jennifer Danz, CFE, CPA, Examiner; Lauren Cavanaugh, FCAS, MAAA, Actuarial Director; Andrew Chandler, ACAS, MAAA, Actuarial Manager; and David Brownell, Actuarial Associate from Risk and Regulatory Consulting; Jenny Jeffers, AES, CISA and Joe Detrick, CPA, CISA, AES, CFE, IT Specialists, from Jennan Enterprises; Miranda Cloutier, AFE, Examiner; and Lisa Bergeron, AIPR, CPCU, Examiner, participated in the examination. We wish to express our appreciation to the Officers and Directors for the courteous cooperation extended during the examination.

Respectfully submitted,

Karen Ducharme

Karen Ducharme, CPA, CFE
Director of Company Licensing and Examinations
Division of Insurance
Vermont Department of Financial Regulation

STATE OF VERMONT
COUNTY OF WASHINGTON

Karen Ducharme, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

Subscribed and sworn to before me

This 9th day of May, 2024

Elizabeth R. Sides

Notary Public

ELIZABETH R. SIDES
Notary Public - State of Vermont
Commission Number: 0003695
Commission Expires: 1/31/2025