

Report on the Examination

As of December 31, 2022

of

Co-operative Insurance Companies

by the





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

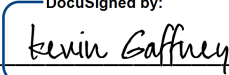
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Lee T. Dowgiewicz
President and CEO
Co-operative Insurance Companies

ORDER OF ADOPTION

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

The Co-operative Insurance Companies 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:

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Kevin J. Gaffney, Commissioner

5/21/2024

Date



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May 15, 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:

Co-operative Insurance Companies

with their offices located at
292 Colonial Drive
Middlebury, VT 05753

The examination was performed pursuant to 8 V.S.A. § 3563 in order to ascertain the Company'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 Co-operative Insurance Companies (Co-op or Company) was performed. The last financial condition examination conducted by the Vermont Department of Financial Regulation of the Co-op 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 Co-op 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 Co-op 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 Co-op'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 Co-op.

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

The Company was composed of three property and casualty member insurance companies: Patrons Co-operative Fire Insurance Company (Patrons), The Farmers' Co-operative Fire Insurance Company (Farmers) and Rural Co-operative Fire Insurance Company (Rural). Under an association agreement the three entities conducted business under the name Co-operative Insurance Companies, issuing non-participating, non-assessable single insurance policies with each entity carrying one-third of the risk. On December 31, 2014, the three companies merged, with Patrons Co-operative Fire Insurance Company continuing as the surviving entity and continuing to insure business under the name Co-operative Insurance Companies. As a result of the merger, UI Insurance Services, Inc. (UI), which had been equally owned by the three companies became a wholly-owned subsidiary of Patrons.

MANAGEMENT AND CONTROL

Corporate Records

The Co-op's home and administrative office is located in Middlebury, Vermont and the Company 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 Co-op's transactions and events and that the meetings and minutes are in compliance with the Co-op's articles and By-Laws.

Members

In accordance with Article I of the Company's By-Laws, membership of the associated companies consists of persons who are holders of valid policies of insurance issued by the Company. The Annual Meeting of the Company is held on the first Tuesday of April each year at the home office

or as such other place that the Board of Directors designate for the purpose of electing Directors, acting upon reports of the Directors and Officers, ratifying acts of the Directors and Officers, and transacting such other business as may be properly transacted. Each Member is entitled to one vote in person. Voting by proxy is prohibited.

Board of Directors

The business affairs of the Company are managed under the direction of the Board of Directors. The Board of Directors consists of no less than nine individuals who are elected at the annual meeting of the Members. No individuals are elected to the Board unless he or she is a member of the Company. Directors are elected to serve three-year terms and a minimum of two Directors are elected annually. A majority of Directors constitute a quorum.

The following were elected to the Board of Directors of the Co-op in accordance with the By-Laws and serving as of December 31, 2022:

<u>Name</u>	<u>Residence</u>
Valerie J. Conklin Yankee Farm Credit	New Hampshire
Jacques R. Couture Dairy Farmer and Maple Producer	Vermont
Pamela J. Douglass McCormack, Guyette & Associates	Vermont
Richard P. Foote Conley & Foote	Vermont
Karen M. Furtado Smallwood Maiké & Assoc.	New Hampshire
Marie M. Jewett Retired	Vermont

<u>Name</u>	<u>Residence</u>
Christine D. Moriarty Money Peace, Inc.	Vermont
John O. Myhre Morgan Stanley	Vermont
Jane T. Sorenson Vegetable and Fruit Farmer	Vermont

Officers

The Officers of the Co-op consist of a Chair, a Vice Chair, a President/CEO, Treasurer/CFO, Secretary and one or more Vice Presidents that may be appointed in accordance with the By-Laws.

The Officers of the Co-op as of December 31, 2022, were as follows:

<u>Name</u>	<u>Title</u>
Lee T. Dowgiewicz	President and CEO
Mary Micklas	Secretary
Tamaron R. Loger	Treasurer and CFO
Dale F. Groves	Senior Vice President
Ann R. Larrow	Senior Vice President
Eric W. Rhoades	Senior Vice President
Brian J. Wiles	Senior Vice President
Mark W. Roberts	Vice President

Affiliated Companies

The Co-op owns 100% of the common stock of its affiliate, UI Insurance Services, Inc. (UI). UI is an independent agency that was formed to primarily allow the Company's exclusive agents to

offer various types of insurance coverage not underwritten by the Company. UI pays a monthly management fee to the Company based on a cost allocation determined annually. The Company has a promissory note payable to UI in the amount of \$774,750. The promissory note bears interest of 2.25% annually with interest installments due quarterly. The principal of the promissory note is due to be repaid by July 16, 2023.

The Co-op has a 95% interest in Acorn Energy Solar One, LLC (AESO), a limited liability company formed for the purpose of constructing and operating a solar power array in Middlebury, Vermont. Pursuant to the terms of an LLC agreement, the Company is entitled to 100% of all tax deductions and credits generated by AESO. AESO produces electricity which is returned to the power grid under a net metering agreement. The Company and other unrelated parties purchase electricity produced by the array at statutory electric rates.

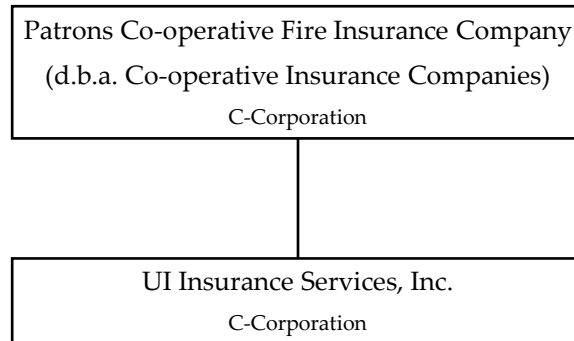
The Co-op has a 99% interest in AES2, a limited liability company formed for the purpose of developing, constructing and operating a solar renewable energy project in Shoreham, Vermont. Pursuant to the terms of an operating agreement, the Company is entitled to 100% of all tax deductions and credits generated by AES2. AES2 is operated by Acorn Energy Co-op.

The Co-op has a 99% interest in AES3, a limited liability company formed for the purpose of developing, constructing and operating a solar renewable energy project construction on the capped landfill in Bristol, Vermont. Pursuant to the terms of an operating agreement, the Company is entitled to 100% of all tax deductions and credits generated by AES3. AES3 is operating by Acorn Energy Co-op.

The investments in UI and AESO, AES2 and AES3 are reported as a non-admitted asset for lack of GAAP audits being prepared for each entity.

Organizational Chart

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



TERRITORY AND PLAN OF OPERATIONS

The Company is licensed in the states of Vermont and New Hampshire, with over sixty-eight percent of the premium written within Vermont. The Company provides Homeowners, Farmowners, Fire, Commercial and Automobile coverages.

REINSURANCE

The Company maintains reinsurance to limit its exposure to losses. Property losses are limited to \$450,000 per risk through a combination of surplus share and excess of loss reinsurance agreements. Casualty losses are limited to \$450,000 per occurrence. Catastrophe losses are limited to \$3.5 million per catastrophe occurrence to a limit of \$62 million.

FINANCIAL STATEMENTS

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

Statement of Admitted Assets, Liabilities and Policyholders' SurplusCash and Investments:

Bonds, at amortized cost	\$ 116,234,709
Equity securities, at fair value	29,460,132
Real estate, net of depreciation	971,143
Cash and short term investments	8,468,176
Other invested assets	1,465,494
Receivables for securities	17,719
	<hr/>
Total cash and investments	156,617,373

Premiums receivable	18,979,510
Accrued investment income	813,120
Reinsurance recoverable on paid losses and funds held	1,869,977
Net deferred tax asset	3,376,375
Electronic data processing equipment, net	84,945
Other assets	233,411
	<hr/>
Total admitted assets	<u>\$ 181,974,711</u>

Liabilities:

Reserve for losses and loss adjustment expenses, net	\$ 28,683,917
Unearned premiums, net of reinsurance	47,432,457
Borrowed money and accrued interest	774,750
Note payable	677,231
Premiums received in advance	1,391,934
Ceded reinsurance premiums payable	1,794,532
Amounts due to agents	4,341,192
Accrued expenses and other liabilities	3,577,096
Federal income tax payable	842,815
	<hr/>
Total liabilities	<u>89,515,924</u>

Policyholders' Surplus:

Unassigned funds	<u>92,458,787</u>
Total policyholders' surplus	<u>92,458,787</u>
Total liabilities and policyholders' surplus	<u>\$ 181,974,711</u>

Statements of Income and Changes in Policyholders' Surplus

Underwriting Income:

Premiums earned, net of reinsurance	\$	78,300,673
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Deductions:

Losses and loss adjustment expenses incurred, net		59,161,560
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Commission and brokerage, net		17,287,289
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Other underwriting - salaries and benefits		8,174,145
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Taxes, licenses and fees		2,218,947
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Other underwriting expenses incurred		7,439,258
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Total operating expenses		94,281,199
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Net underwriting income		(15,980,526)
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Investment and Other Income:

Net investment income		2,706,061
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Net realized investment gains, net of capital gains tax		11,007,583
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Other income		373,857
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Total investment and other income		14,087,501
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Income before federal income taxes		(1,893,025)
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Federal income tax benefit		(2,080,270)
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Net income	\$	187,245
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Policyholders' Surplus, January 1, 2021	\$	107,017,147
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Net income		187,245
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Change in net unrealized gain on investments, net of tax		(17,040,041)
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Change in net deferred income tax asset		838,703
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Change in non-admitted assets		1,015,047
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Change in overfunded plan assets		440,686
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Surplus as regards policyholders, December 31, 2022	\$	92,458,787
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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.

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; David Heppen, FCAS, MAAA, Actuarial Partner; Andrew Chandler, ACAS, MAAA, Actuarial Manager 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, 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 15th day of May, 2024

Nakira L. Clark

Notary Public