

Report on the Examination

As of December 31, 2017

of

Co-operative Insurance Companies

by the



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

For consumer assistance:
[Banking] 888-568-4547
[Insurance] 800-964-1784
[Securities] 877-550-3907
www.dfr.vermont.gov

Marie Jewett
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, 2017 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.



Michael S. Pieciak, Commissioner

12/21/18

Date



<u>Section</u>	<u>Page</u>
SCOPE OF EXAMINATION	2
SUMMARY OF SIGNIFICANT FINDINGS	3
HISTORY	3
MANAGEMENT AND CONTROL	3
Corporate Records	3
Members.....	3
Board of Directors	4
Officers.....	5
Affiliated Companies.....	6
Organizational Chart.....	6
TERRITORY AND PLAN OF OPERATIONS	7
REINSURANCE	7
FINANCIAL STATEMENTS	7
Statement of Admitted Assets, Liabilities and Policyholders’ Surplus	8
Statements of Income and Changes in Policyholders’ Surplus.....	9
COMMENTS AND RECOMMENDATIONS	10
CONCLUSION	10



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

For consumer assistance:
[Banking] 888-568-4547
[Insurance] 800-964- 1784
[Securities] 877-550-3907
www.dfr.vermont.gov

December 11, 2018

Michael S. Pieciak, Commissioner
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

Dear Commissioner Pieciak:

Pursuant to the November 27, 2017 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, 2017, 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, 2012 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, 2013 through December 31, 2017. 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

During the exam period 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 and resides in a state the Company is authorized to conduct business in. 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, 2017:

<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
Marie M. Jewett Cooperative Insurance Companies	Vermont
Michael J. Ladd Wicor Americas Inc.	Vermont

<u>Name</u>	<u>Residence</u>
John O. Myhre Morgan Stanley	Vermont
Laurie A. Rowell Fitts, Olsen & Giddings, P.L.C.	Vermont
Hugh B. Spafford Proprietor and Farm Supply	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, 2017 were as follows:

<u>Name</u>	<u>Title</u>
Marie M. Jewett	President and CEO
Mary Micklas	Secretary
Christine A. MacIsaac	Treasurer and CFO
Bradley S. Fortier	Executive Vice President
Ann R. Larrow	Senior Vice President
Eric W. Rhoades	Senior Vice President
Randall P. Roy	Senior Vice President
Brian J. Wiles	Senior Vice President

Affiliated Companies

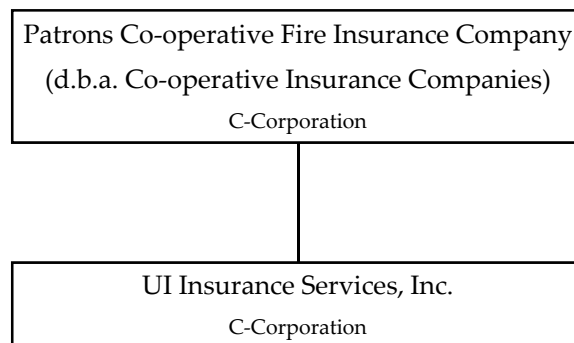
The Co-op owns 100% of the common stock of its affiliate, UI Insurance Services, Inc. (UI). UI is an independent agency that was formed to primarily allow the Company's exclusive agents to offer various types of insurance coverage not underwritten by the Company. UI pays a monthly management fee to the 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 4.25% annually with interest installments due quarterly. The principal of the promissory note is due to be repaid by July 16, 2019.

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.

Both the investments in UI and AESO 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, 2017 is as follows:



TERRITORY AND PLAN OF OPERATIONS

The Company is licensed in the states of Vermont and New Hampshire, with over seventy-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 \$350,000 per risk through a combination of surplus share and excess of loss reinsurance agreements. Casualty losses are limited to \$350,000 per occurrence. Catastrophe losses are limited to \$3 million per catastrophe occurrence to a limit of \$44.5 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, 2017.

Statement of Admitted Assets, Liabilities and Policyholders' Surplus

Cash and Investments:

Bonds, at amortized cost	\$ 87,108,720
Equity securities, at fair value	32,608,155
Real estate, net of depreciation	1,451,466
Cash and short term investments	1,166,458
Other invested assets	935,080
	<hr/>
Total cash and investments	123,269,879

Premiums receivable	16,314,571
Ceded reinsurance premiums receivable	263,034
Accrued investment income	823,164
Reinsurance recoverable on paid losses and funds held	1,060,958
Federal income tax recoverable	470,929
Net deferred tax asset	1,464,869
Electronic data processing equipment, net	101,900
Other assets	980,494
	<hr/>
Total admitted assets	<u>\$ 144,749,798</u>

Liabilities:

Reserve for losses and loss adjustment expenses, net	\$ 20,231,697
Unearned premiums, net of reinsurance	36,940,217
Borrowed money and accrued interest	774,750
Note payable	516,898
Premiums received in advance	990,711
Amounts due to agents	2,727,468
Accrued expenses and other liabilities	3,129,702
	<hr/>
Total liabilities	65,311,443

Policyholders' Surplus:

Unassigned funds	79,438,355
	<hr/>
Total policyholders' surplus	79,438,355
	<hr/>
Total liabilities and policyholders' surplus	<u>\$ 144,749,798</u>

Statements of Income and Changes in Policyholders' Surplus

Underwriting Income:

Premiums earned, net of reinsurance	\$ 66,168,062
-------------------------------------	---------------

Deductions:

Losses and loss adjustment expenses incurred, net	40,668,802
Commission and brokerage, net	12,411,860
Other underwriting - salaries and benefits	7,365,721
Taxes, licenses and fees	1,700,675
Other underwriting expenses incurred	3,185,014
	<hr/>
Total operating expenses	65,332,072
	<hr/>
Net underwriting income	835,990

Investment and Other Income:

Net investment income	2,249,893
Net realized investment gains, net of capital gains tax	670,670
Other income	4,444,723
	<hr/>
Total investment and other income	7,365,286
	<hr/>
Income before federal income taxes	8,201,276
	<hr/>
Federal income tax expense	2,586,933
	<hr/>
Net income	\$ 5,614,343

Policyholders' Surplus, January 1, 2016	\$ 73,550,438
Net income	5,614,343
Change in net unrealized gain on investments, net of tax	3,969,231
Change in net deferred income tax asset	185,106
Change in non-admitted assets	(2,932,089)
Change in overfunded plan assets	(948,674)
	<hr/>
Surplus as regards policyholders, December 31, 2017	\$ 79,438,355

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, Jesse Lussier, CPA, AFE, Administrative Examiner, Miranda Cloutier, AFE, Examiner in Charge, KC Ng, FCAS, Examiner, and Jenny Jeffers, AES, CISA, IT Specialist, from Jennan Enterprises, participated in the examination. We wish to express our appreciation to the Officers and Directors for the courteous cooperation extended during the course of 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 21st day of December, 2018



Notary Public