

Report on the Examination
As of December 31, 2012
of
MEMIC Casualty Company
by the
Vermont Department of Financial Regulation
Division of Insurance



State of Vermont
assistance
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101
www.dfr.vermont.gov

For consumer

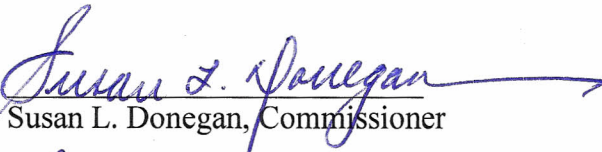
[All Insurance]	800-964-1784
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[Banking]	888-568-4547

John T. Leonard
President and CEO
MEMIC Casualty Company

ORDER OF ADOPTION

In accordance with 8 V.S.A. § 3574 (c), I order that the Report on the Examination of MEMIC Casualty Company for the year ending December 31, 2012 is adopted.

MEMIC Casualty Company 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.


Susan L. Donegan, Commissioner

June 9, 2014
Date



Banking
802-828-3307

Insurance
802-828-3301

Captive Insurance
802-828-3304

Securities
802-828-3420

Health Care Admin
802-828-2900

MEMIC CASUALTY COMPANY
EXAMINATION REPORT
AS OF DECEMBER 31, 2012
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June 6, 2014

Susan L. Donegan, Commissioner
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

Dear Commissioner Donegan:

Pursuant to the June 12, 2013 examination order, the Insurance Division's financial examination team has conducted an examination of:

MEMIC Casualty Company

with their offices located at
261 Commercial Street
Portland, Maine 04101

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.



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MEMIC CASUALTY COMPANY

EXAMINATION REPORT

AS OF DECEMBER 31, 2012

SCOPE OF EXAMINATION

This examination of MEMIC Casualty Company (MEMIC Casualty) was coordinated with the Maine Bureau of Insurance (MBOI) and was concurrent with their examination of Maine Employers' Mutual Insurance Company (the Parent) under the coordinated approach prescribed by the National Association of Insurance Commissioners (NAIC). The Vermont Department of Financial Regulation (VT Department) reviewed the planning memo and examination procedures employed as well as any significant findings and conclusions reached by the MBOI. Due to the centralized processing, recording and inter-company nature of processes, the VT Department placed significant reliance on the work of the MBOI throughout this examination.

The examination was conducted in accordance with the guidance provided by the National Association of Insurance Commissioners (NAIC). The examination covered the period from December 12, 2011 through December 31, 2012. 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 and identify prospective risks 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. The examination also includes assessing the principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation, Management's compliance with statutory accounting principles, annual statement instructions and state regulations. The examination also included a review of any material transactions and/or events occurring subsequent to the examination date that were noted during the course of this examination. In accordance with the risk-focused examination process, all accounts and activities of the Company were considered.

As required by law and the NAIC standard examination procedures, the Company instructed their independent accounting firm, PricewaterhouseCoopers, LLP, to make available for the MBOI's review all work papers concerning procedures followed, tests performed, information obtained and conclusions reached pertinent to the audit of the Company's financial statements for the period covered by the examination. The MBOI reviewed the work papers of

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PricewaterhouseCoopers, LLP to identify additional solvency risk areas and to determine the extent of work performed on high-risk areas, which may have provided insight and efficiencies for the current examination. To the extent possible, the MBOI utilized the work papers and analyses to supplement the examination work.

The format of this report is designed to explain the procedures employed during the examination and if necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

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

HISTORY

MEMIC Casualty is a 100% owned subsidiary of Maine Employers' Mutual Insurance Company (the Parent). The Parent is a private mutual insurance company organized through legislative action by the State of Maine in 1992 to replace the Maine Worker's Compensation Residual Market Pool and act as the insurer for those employers not able or not choosing to purchase coverage from other carriers.

MEMIC Casualty was organized in 1920 as Granite Manufacturers Mutual Indemnity Company (Granite) and wrote workers' compensation coverage related to the granite industry in the State of Vermont. Granite ceased writing policies in 1969 and was dormant until taken into rehabilitation in 2011 by the VT Department. In 2011, the Company was converted from a mutual insurance company to a stock insurance company by the VT Department (acting as rehabilitator) and sold to the Parent effective December 12, 2011. As part of the transaction, the name was changed to MEMIC Casualty. MEMIC Casualty has issued 100,000 shares of common stock with a par value of \$30 per share to its Parent. The Parent down streamed additional capital to bring its total surplus to \$5.2M as of December 31, 2011 and an additional \$10M to support future writings as of December 31, 2012.

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CORPORATE RECORDS

MEMIC Casualty's headquarters, administrative offices and corporate records are located in Portland, Maine. The Articles of Incorporation, By-Laws and minutes of the Board of Directors meetings held during the period under examination were reviewed by the MBOI. Based upon the MBOI's review, MEMIC Casualty is conducting its affairs in accordance with its By-Laws. The recorded minutes of these meetings adequately documented approval and oversight of the company's investment transactions, other material transactions, events and changes in directors.

MANAGEMENT AND CONTROL

Shareholders and Board of Directors

In accordance with Articles I and II of the By-Laws, an annual meeting is held at a time and place which may be fixed by the Board of Directors or President. Except as otherwise provided by law, the presence in person or by proxy of Shareholders having a majority of outstanding shares shall constitute a quorum.

The Board of Directors consists of not less than three and not more than seven Directors; the exact number of Directors is established by the Board. Directors are elected for one year terms at the annual meeting of Shareholders and hold office until the annual meeting at which the term of office expires, or until death, resignation or removal.

The following were elected to the Board of Directors in accordance with the By-Laws and serving as of December 31, 2012:

<u>Name:</u>	<u>Principal Business Association:</u>
Gary R. Baxter	Senior Vice President and Chief Information Officer, Maine Employers' Mutual Insurance Company
Catherine F. Lamson	Senior Vice President and Chief Administrative Officer, Maine Employers' Mutual Insurance Company
John F. Marr	Senior Vice President of Claims, Maine Employers' Mutual Insurance Company
Daniel J. McGarvey	Senior Vice President of Finance, Maine Employers' Mutual Insurance Company

MEMIC CASUALTY COMPANY

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AS OF DECEMBER 31, 2012

Name:

John T. Leonard

Principal Business Association:

President and Chief Executive Officer, Maine Employers' Mutual Insurance Company

Committees:

The Board of Directors may, by resolution, designate one or more committees, each committee to consist of two or more Directors.

The committees as of December 31, 2012 are as follows:

- Executive
- Investment

The Board of Directors has designated the audit and compensation committees of the Parent to serve in that capacity for MEMIC Casualty.

Officers:

The Board of Directors elects a President and Treasurer, each of whom hold office until a successor is elected or until death, resignation or removal. The Board may elect one or more executive officers at the level of senior vice president or above. The Chief Executive Officer appoints a Secretary and may appoint one or more officers below the senior vice president. Unless the Board of Directors elects a Chairman of the Board, the President will be the Chief Executive Officer and supervises and controls all the business affairs of the company, subject to the direction of the Board of Directors.

The Officers as of December 31, 2012 were as follows:

Name

John T. Leonard

Donald V. Hale

Daniel J. McGarvey

Michael P. Bourque

Title

President and CEO

COO

Senior Vice President, CFO and Treasurer

Senior Vice President and Secretary

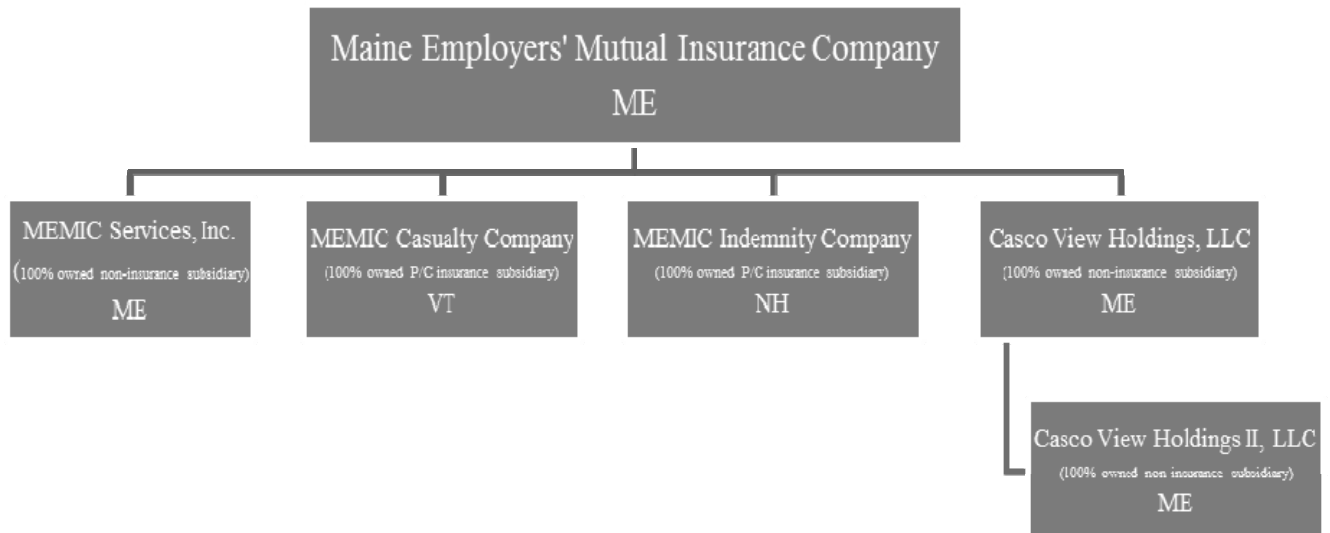
MEMIC CASUALTY COMPANY
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Conflict of Interest Statement

MEMIC Casualty has a code of business conduct which includes conflict of interest reporting requirements. MEMIC Casualty requires that each director and officer complete a conflict of interest statement, annually, to disclose any material interest or affiliations which are likely to be in conflict with his/her official duties and responsibilities.

Affiliated Companies

The following chart exhibits the relationship between the Company and its affiliates.



MEMIC Casualty is a party to a written tax sharing agreement with its Parent. The agreement provides that the portion of the consolidated tax liability allocated to MEMIC Casualty is based on its separate tax return liability.

During the examination period, the Parent provided certain administrative, technical and managerial support pursuant to MEMIC Casualty under the terms of a written management

MEMIC CASUALTY COMPANY
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AS OF DECEMBER 31, 2012

service agreement. MEMIC Casualty also received loss control services from MEMIC Services, Inc., under written service agreements.

FIDELITY BOND AND OTHER INSURANCE

MEMIC Casualty is protected by a fidelity bond, and the bond amount was reviewed by MBOI and was determined to be in compliance with the NAIC recommended levels of coverage. The Company maintains other commercial and professional insurance policies.

PENSIONS AND INSURANCE PLANS

All of MEMIC Casualty's operations are performed by the Parent per various inter-company agreements. As such, the MEMIC Casualty has no employees or associated pension and insurance plans. For information on the pension and insurance plans of the Parent, please see the examination report issued by the MBOI as of December 31, 2012.

STATUTORY DEPOSITS

The statutory deposits at December 31, 2012 were as follows:

<u>Location</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
Vermont	U.S. Treasury Bond, 6.0% due 2/15/2026	\$500,000	\$558,100	\$723,515
Vermont	U.S. Treasury Note, .875% due 2/28/2017	\$100,000	\$99,536	\$101,313

TERRITORY AND PLAN OF OPERATIONS

MEMIC Casualty is licensed to transact business for workers' compensation insurance in Vermont, New York, New Hampshire and Pennsylvania and began writing policies in May 2012.

GROWTH OF COMPANY

The growth over the two most recent years is shown in the following tables:

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AS OF DECEMBER 31, 2012

	<u>2012</u>	<u>2011</u>
Net premiums written	\$ 445,064	\$ -
Losses and LAE Incurred	\$ 160,718	\$ 10,000
Net Income (losses)	\$ (52,782)	\$ (11,296)
Net Admitted Assets	\$ 15,602,181	\$ 5,218,921
Surplus	\$ 15,139,499	\$ 5,172,655

REINSURANCE

MEMIC Casualty has established a reinsurance program consisting of various reinsurers with the majority being rated A- and above by A.M. Best. Management reviews, approves and executes all reinsurance contracts. The reinsurance contracts are also reviewed by the MEMIC Casualty's certified public accountant to ensure the contracts qualify for reinsurance accounting treatment.

MEMIC Casualty's net retention for losses on a per occurrence basis is \$1,000,000 for 2012. In addition, MEMIC Casualty maintains additional coverage up to \$75,000,000 on a per occurrence basis, for 50% of the losses occurring in excess of \$50,000,000. MEMIC Casualty had no ceded loss or loss adjustment expense reserves and no unsecured reinsurance recoverables.

ACCOUNTS AND RECORDS

MEMIC Casualty relies on services provided and systems operated by the Parent. For more detailed information, see the examination report issued by the MBOI as of December 31, 2012.

The Company is not subject to requirements of either Sarbanes-Oxley Section 404, or the internal control attestation requirements expressed in Regulation 1-2009-06, section 16.

FINANCIAL STATEMENTS

The following statements show the financial position of the Company as of December 31, 2012 in accordance with statutory accounting principles as required by Vermont Statute.

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Statement of Assets

	2012	2011
Bonds	\$ 13,779,571	\$ 561,375
Cash, cash equivalents and short-term investments	1,594,729	4,657,546
Subtotals, cash and invested assets	<u>15,374,300</u>	<u>5,218,921</u>
Investment income due and accrued	72,066	-
Uncollected premiums and agents' balances in the course of collection	10,618	-
Deferred premiums, agents' balances and installments booked but deferred and not yet due	106,755	-
Net deferred tax asset	19,625	-
Receivables from parent, subsidiaries and affiliates	18,817	-
Total assets	<u><u>\$ 15,602,181</u></u>	<u><u>\$ 5,218,921</u></u>

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Statement of Liabilities, Surplus and Other Funds

	2012	2011
Losses	\$ 154,677	\$ 10,000
Loss adjustment expenses	6,041	-
Commissions payable, contingent commissions and other similar charges	10,664	-
Other expenses (excluding taxes, licenses and fees)	25,615	6,600
Taxes, licenses and fees (excluding federal and foreign income taxes)	18,204	-
Current federal and foreign income taxes	5,928	26,191
Unearned premiums (after deducting unearned premiums for ceded reinsurance)	230,355	-
Ceded reinsurance premiums payable (net of ceding commissions)	9,741	-
Amounts withheld or retained by company for account of others	1,457	-
Payable to parent, subsidiaries and affiliates	-	3,475
Total liabilities	\$ 462,682	\$ 46,266
Common capital stock	\$ 3,000,000	\$ 3,000,000
Gross paid in and contributed surplus	12,183,951	2,183,951
Unassigned funds (surplus)	(44,452)	(11,296)
Total surplus	15,139,499	5,172,655
Total liabilities and surplus	\$ 15,602,181	\$ 5,218,921

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Statement of Income

	2012	2011
Premiums earned	\$ 214,709	\$ -
Losses incurred	146,088	-
Loss adjustment expenses incurred	23,599	-
Other underwriting expenses incurred	153,919	8,675
Total underwriting deductions	323,606	8,675
Net underwriting loss	(108,897)	(8,675)
Net investment income earned	64,017	-
Net realized capital gains (losses)	105	(2,621)
Net investment gain (loss)	64,122	(2,621)
Finance and service charges not included in premiums	25	-
Total other income	25	-
Net loss before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(44,750)	(11,296)
Federal and foreign income taxes incurred	8,032	-
Net loss	\$ (52,782)	\$ (11,296)
Surplus as regards policyholders, December 31, 2011	\$ 5,172,655	\$ -
Net loss	(52,782)	(11,296)
Change in net deferred income tax	25,712	-
Change in nonadmitted assets	(6,086)	-
Capital changes: paid in	-	3,000,000
Surplus adjustment: paid in capital	10,000,000	2,183,951
Change in surplus as regards policyholders for the year	9,966,844	5,172,655
Surplus as regards policyholders, December 31, 2012	\$ 15,139,499	\$ 5,172,655

COMMENTS AND RECOMMENDATIONS

There are no significant findings or financial adjustments as a result of this examination. A Management Letter was issued by the MBOI as a result of this exam addressing opportunities for

MEMIC CASUALTY COMPANY

EXAMINATION REPORT

AS OF DECEMBER 31, 2012

improvement and other items that did not reach a level of significance to warrant inclusion in this report.


CONCLUSION

As a result of this examination, the financial condition of the Company, as of December 31, 2012 was determined to be as follows:

Admitted Assets	<u>\$ 15,602,181</u>
Liabilities	\$ 462,682
Capital and Surplus	<u>\$ 15,139,499</u>
Total Liabilities, Capital and Surplus	<u>\$ 15,602,181</u>

In addition to the undersigned, Karen Murphy, Administrative Insurance Examiner, and Jesse Lussier, Examiner-In-Charge, participated in this examination.

Respectfully submitted,



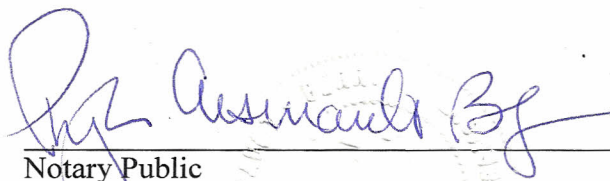
Kaj Samsom, CFE
Chief Examiner, Division of Insurance
Vermont Department of Financial Regulation

STATE OF VERMONT
COUNTY OF WASHINGTON

Kaj Samsom, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

Subscribed and sworn to before me

This 9th day of June, 2014


Notary Public

my comm. Expires: 2/10/15