

Report on the Examination

As of December 31, 2015

of

**Union Mutual Fire Insurance Group
(Union Mutual Fire Insurance Company
and New England Guaranty Insurance Company, Inc.)**

by the

Vermont Department of Financial Regulation

Division of Insurance





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

Michael W. Nobles
President and CEO
Union Mutual Fire Insurance Group

ORDER OF ADOPTION

In accordance with 8 V.S.A. § 3574 (c), I order that the Report on the Examination of Union Mutual Fire Insurance Group for the year ending December 31, 2015 is adopted.

Union Mutual Fire 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.

A handwritten signature in blue ink, appearing to read "Michael S. Pieciak", written over a horizontal line.

Michael S. Pieciak, Commissioner

6/21/17

Date



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UNION MUTUAL FIRE INSURANCE GROUP
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June 14, 2017

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

Dear Commissioner Pieciak:

Pursuant to the January 14, 2016 examination order, the Insurance Division's financial examination team has conducted an examination of:

Union Mutual Fire Insurance Group
(Union Mutual Fire Insurance Company
and New England Guaranty Insurance Company, Inc.)
with their offices located at
139 State Street
Montpelier, VT 05602

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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UNION MUTUAL FIRE INSURANCE GROUP
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SCOPE OF EXAMINATION

As of December 31, 2015, the financial examination of Union Mutual Fire Insurance Company (UMF) and New England Guaranty Insurance Company, Inc. (NEG), also known as Union Mutual Fire Insurance Group (UMFIG) was performed. UMFIG's last financial condition examination was as of December 31, 2010 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, 2011 through December 31, 2015. 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 UMFIG 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 UMFIG 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 UMFIG'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 UMFIG.

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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

UMF was first chartered by an act of the Vermont Legislature on November 24, 1874. The first policy was issued in July of 1875. In 1962 UMF acquired the guaranty of State Mutual Insurance Company of Rutland, Vermont, which was first chartered in 1898. In 1963 State Mutual was demutualized with UMF acquiring all of the issued capital stock. At the same time, State Mutual changed its name to New England Guaranty Insurance Company, Inc.

MANAGEMENT AND CONTROL

Corporate Records

UMFIG's statutory home office is located in Montpelier, Vermont, and UMFIG maintains its corporate records in this location. Examiners reviewed the minutes of the Board of Directors and key committees thereof and determined that the minutes adequately approve and support UMFIG's transactions and events and that the meetings and minutes are in compliance with UMFIG's articles and By-Laws.

Union Mutual Fire Insurance Company

Members:

All individuals who become insureds of the Company become Members of the Company for the time specified in his or her respective policy or until cancellation. A Member of the Company will be entitled to one vote at the annual meeting. The annual meeting of Members is held for the election of Directors and the transaction of any other business that comes before the meeting.

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Board of Directors:

The business affairs of the Company is managed under the direction of the Board of Directors. The Board of Directors consists of no less than seven and no more than eleven individuals, and only two members of active management can be members of the Board. The term of the Directors are staggered and last for a period of three years. A majority of Directors constitute a quorum.

The following were elected to the Board of Directors of UMF in accordance with the By-Laws and serving as of December 31, 2015:

<u>Name</u>	<u>Residence</u>
Kathleen H. Davis Downs, Rachlin & Martin, PLLC	Vermont
James H. Douglas Middlebury College	Vermont
John H. Fitzhugh Retired	Vermont
Aaron MacAskill A.M. Peisch & Company	Vermont
Thomas H. MacLeay National Life Group	Vermont
Mary W. Marchut Retired	Connecticut
James A. McDonald J.A. McDonald, Inc.	Vermont
Michael W. Nobles Union Mutual Insurance Group	Vermont
Mark S. Young The First National Bank	Vermont

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Officers:

The Officers of UMF are a President, who shall also be a Director, a Secretary and a Treasurer. The Board of Directors can appoint a Chair of the Board and other Officers and Assistant Officers as determined necessary.

The Officers of UMF as of December 31, 2015 were as follows:

<u>Name</u>	<u>Title</u>
Michael W. Nobles	President and CEO
Lisa L. Keyser	Secretary and Senior Vice President
Jennifer P. Galfetti	Treasurer and CFO
Robert F. Glass	Senior Vice President
Gary H. Ouellette	Senior Vice President

New England Guaranty Insurance Company, Inc.

Shareholders:

The annual meeting of the Shareholders is for the purpose of the election of Directors and the transaction of any other business that may come before the meeting.

Board of Directors:

All business affairs of the Company are managed under the direction of the Board of Directors. The Board of Directors consists of no less than seven and no more than eleven individuals and only two members can be from active management. The term of the Directors will be staggered and last for a period of three years. A majority of Directors constitute a quorum.

The following were elected to the Board of Directors of NEG in accordance with the By-Laws and serving as of December 31, 2015:

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<u>Name</u>	<u>Residence</u>
Kathleen H. Davis Downs, Rachlin & Martin, PLLC	Vermont
James H. Douglas Middlebury College	Vermont
John H. Fitzhugh Retired	Vermont
Aaron MacAskill A.M. Peisch & Company	Vermont
Thomas H. MacLeay National Life Group	Vermont
Mary W. Marchut Retired	Connecticut
James A. McDonald J.A. McDonald, Inc.	Vermont
Michael W. Nobles Union Mutual Insurance Group	Vermont
Mark S. Young The First National Bank	Vermont

Officers:

The Officers of the Company are a President, who is also a Director, a Secretary and a Treasurer. The Board can also appoint a Chair and any other Officers and Assistant Officers determined necessary.

The Officers of NEG as of December 31, 2015 were as follows:

<u>Name</u>	<u>Title</u>
Michael W. Nobles	President and CEO
Lisa L. Keyser	Secretary and Senior Vice President

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<u>Name</u>	<u>Title</u>
Jennifer P. Galfetti	Treasurer and CFO
Robert F. Glass	Senior Vice President
Gary H. Ouellette	Senior Vice President

Affiliated Companies

UMF and NEG pool their underwriting transactions, net of amounts ceded to other reinsurers. In accordance with an agreement effective January 1, 2008, UMF keeps 100% of the pool's underwriting risk and NEG keeps 0% of the underwriting risk. UMF is allocated 100% of the costs, expenses and commissions with the exception that each company will pay their own dividends and income tax. UMF also pays all real estate expenses. NEG pays all costs associated with management of its investment portfolio.

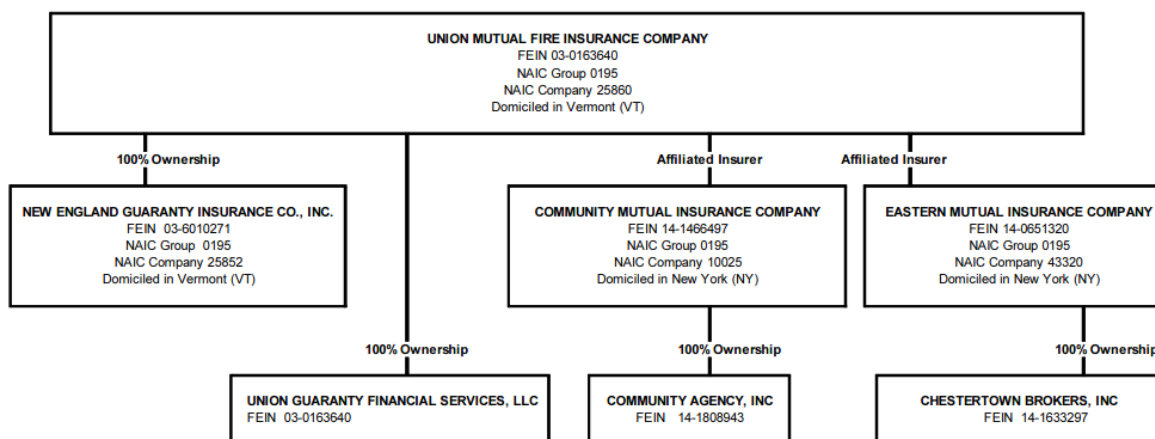
Effective June 1, 2000, UMF entered into an affiliation agreement with Eastern Mutual Insurance Company (EMIC), where UMF provides EMIC with strategic support services, reinsurance and other key insurance related services. EMIC underwrites property and casualty insurance in the State of New York.

Effective December 1, 2013, UMF entered into an affiliation agreement with Community Mutual Insurance Company (CMIC), where CMIC cedes 100% of net written premium to UMF through a quota share contract. UMF provides strategic, claims, underwriting, accounting, actuarial, data processing, legal, administrative, and operational support to CMIC. In addition to the services provided UMF maintains Board and managerial control. Also as part of the affiliation UMF entered into a Deposit and Control agreement with CMIC and contributed \$350,000 to ensure CMIC maintains minimum surplus to policyholders in the amount required by Article 66 of New York Insurance Law. CMIC underwrites property and casualty insurance in the State of New York.

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Organizational Chart

The corporate structure as of December 31, 2015 is as follows:



TERRITORY AND PLAN OF OPERATIONS

Union Mutual Insurance Company

UMF sells primarily homeowners, business-owners, auto and multi-peril policies through independent agents located in Connecticut, Maine, Massachusetts, Rhode Island, New Hampshire, New York and Vermont.

New England Guaranty Insurance Company, Inc.

NEG sells primarily homeowners, business-owners, auto and multi-peril policies through independent agents located in Maine, Massachusetts, New Hampshire and Vermont. NEG is also licensed to do business in Connecticut, New York and Rhode Island but currently does not write business there.

REINSURANCE

UMFIC assumes and cedes reinsurance to others. The Group is a member of various underwriting pools and associations. These arrangements provide greater diversification of business and limit the maximum net loss potential on larger risks. UMFIC is at risk for amounts recoverable from reinsurers in the event that the reinsurers do not meet their contractual obligations.

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UMFIC has elected to limit its risk to \$350,000 on any one property loss, on any one casualty loss and on any one automobile loss. Various reinsurance contracts also provide additional coverage for catastrophic losses.

FINANCIAL STATEMENTS

The following statements are based on the statutory financial statements filed by UMFIC with the Vermont Department of Financial Regulation and present the financial condition of each Company for the period ending December 31, 2015.

Statement of Assets

	UMF	NEG
Bonds, at amortized cost	\$ 78,523,054	\$ 30,702,593
Common stock of subsidiary, at equity in net assets	40,757,408	-
Other common stocks, at market value	9,725,493	8,637,994
Cash and short-term investments	14,508,404	2,962,333
Property occupied by the company	1,907,139	-
Other invested assets	<u>3,117,307</u>	<u>453,776</u>
 Total cash and invested assets	 148,538,805	 42,756,696
 Premiums receivable	 28,040,916	 -
Accrued investment income	684,644	203,927
Cash surrender value of life insurance	3,579,685	-
Electronic data processing equipment	73,389	-
Reinsurance recoverable on paid losses	1,819,028	-
Deferred tax asset	7,428,982	-
Receivable from parent, subsidiary and affiliates	-	12,879
Other assets	<u>340,737</u>	<u>5,468</u>
 Total assets	 <u><u>\$ 190,506,186</u></u>	 <u><u>\$ 42,978,970</u></u>

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Statement of Liabilities and Policyholders' Surplus

	UMF	NEG
Reserves for losses and loss adjustment expenses	\$ 37,377,210	\$ -
Unearned premiums	56,897,295	-
Commissions payable	4,089,492	-
Payable to parent, subsidiary and affiliates	1,278	-
Ceded reinsurance premiums payable	7,360,493	-
Accrued expenses and other liabilities	6,243,061	1,589,372
Deferred tax liability	-	612,311
Federal income tax payable	480,475	19,879
	<hr/>	<hr/>
Total liabilities	112,449,304	2,221,562
	<hr/>	<hr/>
Surplus note	7,500,000	-
Special surplus funds	3,520,000	-
Unassigned surplus	67,036,882	-
	<hr/>	<hr/>
Policyholder's surplus	78,056,882	-
	<hr/>	<hr/>
Stockholder's equity		
Common stock, \$625 par value - 4,000 shares		
authorized and outstanding	-	2,500,000
Additional paid in capital	-	840,596
Retained earnings	-	37,416,812
	<hr/>	<hr/>
Total stockholder's equity	-	40,757,408
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Total liabilities and policyholders' surplus	<u>\$ 190,506,186</u>	<u>\$ 42,978,970</u>

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Statement of Income

	UMF	NEG
Net premiums earned	\$ 98,819,045	\$ -
Loss and loss adjustment expenses incurred	62,748,345	-
Commissions	15,067,135	-
Salaries and benefits	7,321,189	-
Taxes, licenses and fees	3,832,546	-
Other underwriting expenses	6,775,728	-
Total underwriting expenses	95,744,943	-
Net underwriting gain	3,074,102	-
Investment income, net	395,725	870,137
Net realized capital gains	708,494	89,461
Net investment income	1,104,219	959,598
Other income	1,235,459	-
Income before income taxes	5,413,780	959,598
Federal income taxes	597,164	18,053
Net income	\$ 4,816,616	\$ 941,545

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Statement of Changes in Policyholders' Surplus

	UMF	NEG
Surplus as regards policyholders, January 1, 2015	\$ 75,293,368	\$ 40,040,397
Net income	4,816,616	941,545
Net unrealized gain(loss) on investments, net		
Common stock of subsidiary	717,011	-
Other	(1,092,498)	(232,875)
Change in non admitted assets, net	(410,201)	-
Change in deferred income tax	(1,107,414)	8,341
Other change in surplus	(160,000)	-
Surplus as regards policyholders, December 31, 2015	<u>\$ 78,056,882</u>	<u>\$ 40,757,408</u>

COMMENTS AND RECOMMENDATIONS

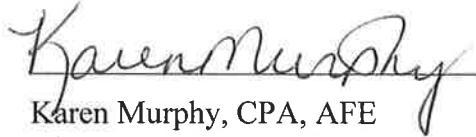
There are no significant findings or financial adjustments as a result of this examination. A Comment Letter will be issued to the Board as a result of this exam addressing opportunities for improvement and other items that did not reach a level of significance to warrant inclusion in this report. In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

CONCLUSION

In addition to the undersigned, Miranda Cloutier, Examiner in Charge, Jesse Lussier, Administrative Examiner, KC Ng, Examiner II and Jenny Jeffers, AES, participated in the examination. We wish to express our appreciation to the Officers, Directors and for the courteous cooperation extended during the course of the examination.

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Respectfully submitted,




Karen Murphy, CPA, AFE
Director of Company Licensing and Examinations,
Division of Insurance
Vermont Department of Financial Regulation

STATE OF VERMONT
COUNTY OF WASHINGTON

Karen Murphy, 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 21 day of June, 2017


Notary Public 2/10/19