

# **Report on the Examination**

**As of December 31, 2017**

**of**

**The Vermont Mutual Insurance Group**

**by the**



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

For consumer assistance:  
[Banking] 888-568-4547  
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[www.dfr.vermont.gov](http://www.dfr.vermont.gov)

Daniel Bridge  
President and 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, 2017 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.



Michael S. Pieciak, Commissioner

MAY 28<sup>th</sup> 2019

Date



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May 22, 2019

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:

**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, 2017, 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 (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, 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 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 nine 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 nine 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 nine 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, 2017:

<u>Name</u>	<u>Residence</u>
Richard N. Bland Vermont Mutual Insurance Company	Vermont
Daniel C. Bridge Vermont Mutual Insurance Company	Vermont

<u>Name</u>	<u>Residence</u>
William A. Catto Retired	Florida
William P. Cody Retired	Florida
John N. Evans University of Vermont	Vermont
Michele S. Gatto Florida South Western State College	Florida
David J. Provost Middlebury College	Vermont
Thomas J. Tierney Retired	Maine & Florida
Steven P. Voigt Retired	Vermont

The Officers of VMIC, NSIC and GMIC as of December 31, 2017 were as follows:

<u>Name</u>	<u>Title</u>
Daniel C. Bridge	Chairman, President and CEO
Mark J. McDonnell	Executive Vice President and COO
Brian C. Eagan	Vice President, Treasurer and CFO
Richard N. Bland	Vice President and General Counsel
Susan L. Chicoine	Vice President
Joanne M. Currier	Vice President
David N. DeLuca	Vice President
Shaun P. Farley	Vice President

<u>Name</u>	<u>Residence</u>
Bryan A. Mjaanes	Vice President
Terry J. Moore	Vice President

### Committees

The Group has the following Board committees: Executive, Audit, Nominating and Corporate Governance, Salary and Compensation, Proxy and Pension and 401(k). The Group also has a Director's Advisory Council, consisting of four individuals who were former Directors and over the age of 72 years old. Members of Director's Advisory Council are not entitled to vote on matters of the Group but provide guidance and historical perspective.

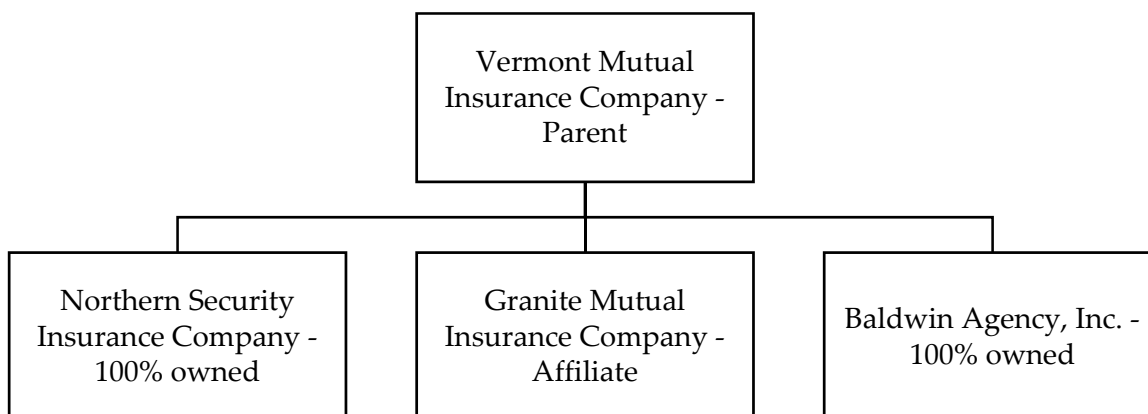
### Affiliated Companies

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, 2017 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 and commercial 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 million on any one loss, casualty losses are limited to \$750,000 on any one loss and automobile losses are limited to \$250,000 on any one loss. 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, 2017.

Statement of Admitted Assets

	VMIC	NSIC	GMIC
Cash and short-term investments	\$ 56,199,658	\$ 1,141,896	\$ 124,214
Bonds, at amortized cost	570,391,425	7,338,513	4,378,428
Common stocks, at market value	124,788,635	-	20,690
Investments in subsidiary and affiliate	8,470,842	-	-
Preferred stock, at NAIC value	1,468,017	-	-
Real estate at cost, less accumulated depreciation	3,683,324	-	-
Receivables for securities, sold	27,715	-	-
Other invested assets	27,670,725	-	-
Totals, cash and invested assets	792,700,341	8,480,409	4,523,332
Premiums receivable	83,511,243	-	-
Reinsurance recoverable on paid loss and LAE	711,637	-	-
Interest and dividends receivable	5,291,856	52,506	16,874
Cash value of life insurance policies	12,436,542	-	-
Federal income tax recoverable	566,806	-	19,473
Deferred tax asset	7,800,698	-	-
Electronic data processing equipment and software, net	383,804	-	-
Receivables from parent, subsidiaries and affiliate	4,912	-	-
FAIR Plan balance	25,031,015	-	-
Other assets	48,400	-	-
Total admitted assets	\$ 928,487,254	\$ 8,532,915	\$ 4,559,679

Statement of Liabilities and Capital and Surplus

	<u>VMIC</u>	<u>NSIC</u>	<u>GMIC</u>
Reserves for losses and LAE	\$ 156,439,916	\$ -	\$ -
Unearned premiums	229,552,837	-	-
Commissions payable	25,888,500	-	-
Accrued taxes, licenses and fees	1,039,195	-	-
Accounts payable, accrued expenses and other liabilities	24,121,072	6,601	3,460
Payable to parent, subsidiaries and affiliates	-	3,244	1,668
Federal income taxes payable	-	56,923	-
Deferred tax liability	-	78	1,851
Payable for securities purchased	48,198	-	-
Accrued retirement benefits and deferred compensation	31,083,687	-	-
Total liabilities	<u>\$ 468,173,405</u>	<u>\$ 66,846</u>	<u>\$ 6,979</u>
Additional paid-in capital	\$ -	\$ 450,000	\$ -
Unassigned surplus	460,313,849	8,016,069	4,552,700
Total capital and surplus	<u>460,313,849</u>	<u>8,466,069</u>	<u>4,552,700</u>
Total liabilities and capital and surplus	<u>\$ 928,487,254</u>	<u>\$ 8,532,915</u>	<u>\$ 4,559,679</u>

Statement of Income

	VMIC	NSIC	GMIC
Premiums earned, net	\$ 395,861,977	\$ -	\$ -
Losses and LAE incurred	203,537,840	-	-
Other underwriting expenses	158,863,677	-	-
Total underwriting expenses	362,401,517	-	-
Net underwriting gain	33,460,460	-	-
Net investment income	12,031,166	171,950	70,393
Net realized capital gains (losses) - net of tax	4,673,727	(8,747)	(4,198)
Other income	3,057,401	-	-
Income before federal income taxes	53,222,754	163,203	66,195
Federal income tax expense	18,367,601	61,320	11,489
Net income	<u>\$ 34,855,153</u>	<u>\$ 101,883</u>	<u>\$ 54,706</u>

Statement of Changes in Capital and Surplus

Capital and surplus at December 31, 2016	\$ 415,961,660	\$ 8,366,024	\$ 4,494,828
Net income	34,855,153	101,883	54,706
Change in unrealized appreciation (depreciation) of investments, net	22,627,291	-	716
Change in net deferred income tax	(13,430,542)	(1,838)	2,450
Change in nonadmitted assets	559,526	-	-
Change in obligation for pension and postretirement plan	(259,239)	-	-
Total change in capital and surplus	44,352,189	100,045	57,872
Capital and surplus at December 31, 2017	<u>\$ 460,313,849</u>	<u>\$ 8,466,069</u>	<u>\$ 4,552,700</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, Jesse Lussier, CPA, AFE, Administrative Examiner, Stacey Alden, CPA, CFE, Administrative Examiner, Miranda Cloutier, AFE, Examiner in Charge, KC Ng, ACAS, 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 28<sup>th</sup> day of May, 2019

  
Notary Public