



State of Vermont
Department of Banking, Insurance,
Securities and Health Care Administration
89 Main Street
Montpelier, VT 05620-3101
www.bishca.state.vt.us

Consumer Assistance Only:
Insurance: 1-800-964-1784
Health Care Admin.: 1-800-631-7788
Securities: 1-877-550-3907

March 23, 2009

Mr. Paul Gulko, Executive Secretary
Vermont Property & Casualty Insurance Guaranty Association
C/O Guaranty Fund Management Services
One Bowdoin Square
Boston, Massachusetts 02114-2916

Re: Statutory Examination as of December 31, 2007

Dear Paul:

Enclosed please find a certified copy of the December 31, 2007 statutory examination report for Vermont Property & Casualty Insurance Guaranty Association. As stated on the Commissioner's signature page, the Commissioner accepted the report after consideration of the Association's input.

We ask that you arrange for the report to be reviewed by the Board of Directors of the Association at their next scheduled meeting. Once reviewed, please forward a copy of the certified minutes to the Vermont Division of Insurance indicating that the report has been reviewed and accepted by the Board.

Thank you for your assistance and cooperation.

Sincerely,

Dan Petterson
Administrative Insurance Examiner

Enclosure

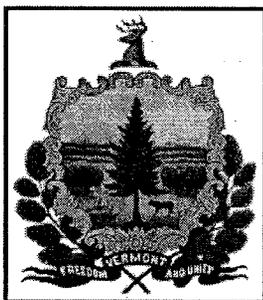


Report of the Statutory Examination
As of December 31, 2007

**Vermont Property and Casualty Insurance
Guaranty Association**

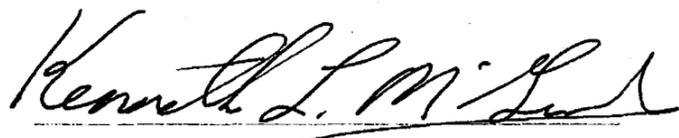
by the

Vermont Department of Banking, Insurance, Securities
and Health Care Administration
Division of Insurance



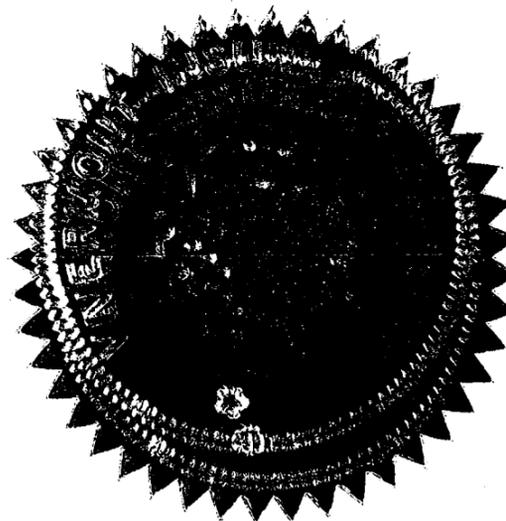
IT IS HEREBY CERTIFIED that the annexed copy of the Report on the Statutory Examination of Vermont Property & Casualty Insurance Guaranty Association, as of December 31, 2007 has been compared with the original on file in the Department and that it is a correct and complete transcript of said original.

IN WITNESS WHEREOF, I have hereunto set my hand, and affixed the official seal of this Department at the City of Montpelier this 23rd day of MARCH, 2009.



Kenneth L. McGuckin

Chief Examiner



The attached report of examination made on the condition and affairs as of December 31, 2007 of:

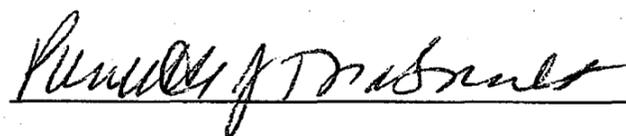
Vermont Property & Casualty Insurance Guaranty Association

Boston, MA

was recently completed by duly qualified examiners of the State of Vermont, Department of Banking, Insurance, Securities and Health Care Administration.

Due consideration has been given to the comments of the examiners regarding the operations of Vermont Property & Casualty Insurance Guaranty Association and its financial condition, as reflected in this report. This report is hereby, as of this date, approved, adopted, filed and made an official record of this Department.

IN WITNESS WHEREOF, I have hereunto set my hand, and affixed the official seal of this Department at the City of Montpelier this 18 day of March, 2009.



Paulette J. Thabault

Commissioner

Table of Contents

Salutation	2
Scope of the Examination	3
Purpose	3
Reliance on Outside Entities	3
Preparation of Report	3
History.....	4
General	4
Powers and Duties of Association.....	4
Powers and Duties of Commissioner	5
Management.....	5
Prevention of Insolvencies	5
Board of Directors.....	6
Officers.....	6
Indemnification of Directors and Officers	7
Immunity	7
Corporate Records.....	7
Contracts	7
Assessments	7
Accounts and Records.....	9
Findings and Recommendations	9
Financial Statements	9
Statement of Financial Position	10
Statement of Activities.....	11
Statement of Changes in Fund Balance	12
Examiner's Signature and Acknowledgement.....	13

Vermont Property & Casualty Insurance Guaranty Association
As of December 31, 2007

December 24, 2008

Honorable Paulette J. Thabault
Commissioner of Banking, Insurance, Securities
and Health Care Administration
State of Vermont
89 Main Street
Montpelier, VT 05620-3101

Salutation

Dear Commissioner:

In accordance with your instructions and pursuant to the provisions of the Vermont Insurance Code, an examination has been conducted for the year ended December 31, 2007 of:

Vermont Property & Casualty Insurance Guaranty Association

One Bowdoin Square
Boston, MA 02114-2916

Such report of examination is herewith respectfully submitted.

Vermont Property & Casualty Insurance Guaranty Association
As of December 31, 2007

Scope of the Examination

Purpose

This is the first examination of the Vermont Property & Casualty Insurance Guaranty Association (the Association) conducted by the Insurance Division of The Vermont Department of Banking, Insurance, Securities, and Health Care Administration (the Department). In accordance with Vermont Statute Title 8, Chapter 101 § 3621, the Association shall be subject to examination and regulation by the Vermont Commissioner of Banking, Insurance, Securities and Health Care Administration (the Commissioner). This examination covered the period January 1, 2007 through December 31, 2007 and the period occurring subsequent to December 31, 2007, but prior to the date of this report, as deemed necessary. The examination scope includes verification of assets and liabilities, determination of whether the Association is in compliance with its Plan of Operations (the Plan) and applicable Vermont Statute, and review of current insolvencies.

Reliance on Outside Entities

Pursuant to Vermont Regulations, the Association requested the independent accounting firm of PricewaterhouseCoopers, LLP (PwC or the CPA) to make available for review all work papers pertinent to the audit of the Association's financial statements, which were prepared on the modified-cash basis, for the year ended December 31, 2007. Reliance was placed on work performed by the CPA in the following areas:

- Verification of cash, investments and other assets
- Verification of liabilities and fund balances
- Testing of assessment calculations
- Testing of insolvency recoveries
- Testing of expense payments
- Testing of journal entries

The CPA issued an unqualified (clean) opinion on the Association's financial statements on March 24, 2008.

Preparation of Report

The report is being prepared according to the "Alternate Format" as described in the 2008 National Association of Insurance Commissioners (NAIC) Financial Condition Examiner's Handbook (FCEH). Only the items needing financial adjustment, procedural recommendations, or not conforming to the Plan of Operations approved by the Commissioner are commented upon.

**Vermont Property & Casualty Insurance Guaranty Association
As of December 31, 2007**

History

General

The Association is a non-profit, unincorporated legal entity created to provide a mechanism for protecting policyholders against failure in the performance of contractual obligations due to the impairment of the insurer issuing such policies or contracts. All insurers defined as Member insurers shall be and remain Members of the Association as a condition of their authority to transact business in the State of Vermont. Member insurer means any person who:

- a) writes all kinds of direct insurance, including the exchange of reciprocal or inter-insurance contracts, except life, title, surety, health, credit, mortgage guaranty, and ocean marine insurance, and
- b) is licensed to transact property/casualty business in this state.

For purposes of administration and assessment, the Association is divided into three separate accounts:

- a) the workers' compensation insurance account;
- b) the automobile insurance account; and
- c) the account for all other applicable insurance

The Association is administered by Guaranty Fund Management Services (GFMS), an independent third party formed in cooperation with the Connecticut Insurance Guaranty Association, District of Columbia Insurance Guaranty Association, Maine Insurance Guaranty Association, Massachusetts Insurers Insolvency Fund, New Hampshire Insurance Guaranty Association, Rhode Island Insurers' Insolvency Fund, Vermont Property and Casualty Insurance Guaranty Association and Virginia Property and Casualty Insurance Guaranty Association. GFMS is a voluntary, non-profit, unincorporated association committed to providing management and claims supervisory services to its Member Associations and Funds. The organization was formed to take advantage of the benefits derived from maintaining a single efficient management and claims service organization with a qualified staff.

Powers and Duties of Association

The Association is deemed the insurer and shall be obligated to the extent of the insured's covered claims, with certain time limitations, up to \$300k, except workers compensation, which has statutory limits. The Association will allocate claims paid and expenses incurred among the three accounts, by Company, and assess Member insurers separately for amounts necessary to pay obligations. The Association shall also investigate, adjust, compromise, settle, and pay covered claims through its employees or through one or more insurers or other persons designated as servicing facilities. In no event will the association be obligated to a policyholder or claimant in an amount in excess of the obligation of the insolvent insurer.

Vermont Property & Casualty Insurance Guaranty Association
As of December 31, 2007

Powers and Duties of Commissioner

The Commissioner shall notify the Association of the existence of an insolvent insurer and may require that the Association notify the insureds and any other interested parties of the determination of insolvency and of their rights.

The Commissioner may levy a fine or suspend or revoke the certificate of authority to transact insurance in this state of any Member insurer which fails to pay an assessment when due or who fails to comply with the Plan of Operation. The Commissioner may also revoke the designation of any servicing facility for unsatisfactory claims handling.

Management

In order to ensure the fair, reasonable and equitable administration of the Association, a formal Plan of Operation (the Plan) was implemented. The Plan, which is required by statute and approved by the Commissioner, requires the compliance of all Members. The Plan establishes the procedures whereby all the powers and duties of the Association will be performed, including handling of assets, claims, financial records and organization of the Board. The Commissioner has authority to adopt and enforce additional rules under applicable statute to ensure the continued compliance of the Association and its Members to the Plan.

Prevention of Insolvencies

To aid in the detection and prevention of insurer insolvencies, the Commissioner and Association are required to perform certain duties by statute. These duties include a combination of communication, examination and reporting.

It shall be the duty of the Board of Directors to notify the Commissioner of any information indicating any Member insurer may be insolvent or in a financial condition hazardous to policyholders or the public. The Board of Directors may make reports and recommendations to the Commissioner regarding solvency, liquidation, rehabilitation or conservation of any Member insurer or for the detection and prevention of insurer insolvencies.

The Board of Directors may request that the Commissioner order an examination of any Member insurer to determine whether the Member insurer is in a financial condition hazardous to the policyholders or the public. It shall be the duty of the Commissioner to report to the Board of Directors when there is reasonable cause to believe that any Member insurer examined or being examined at the request of the Board of Directors may be insolvent or in a financial condition hazardous to the policyholders or the public.

The Board of Directors shall, at the conclusion of any insurer insolvency in which the association was obligated to pay covered claims, prepare a report on the history and causes of such insolvency, based on the information available to the Association, and submit such report to the Commissioner.

**Vermont Property & Casualty Insurance Guaranty Association
As of December 31, 2007**

Board of Directors

The Board of Directors of the Association shall consist of not less than five nor more than nine persons, at least three of whom shall be persons who are Officers, Directors, or employees of insurance companies incorporated under the laws of this State, unless there are fewer than three such companies, in which case there shall be one Director for each such company. The Directors shall serve terms as established in the Plan. The Members of the Board shall be selected by Member insurers subject to the approval of the Commissioner.

At December 31, 2007 the Board of Directors as reported in the annual report were as follows:

<u>Name</u>	<u>Principal Business Affiliation</u>
Todd Abalos	OneBeacon America Insurance Company
William Catto (Chair)	Vermont Mutual Insurance Company (VT Domestic)
Joseph Desmond	Concord General Mutual Insurance Company
Cheryl Hetzel	Hartford Fire Insurance Company
Larry Hinton	Government Employees Insurance Company
Joanne Locke	Liberty Mutual Insurance Company
James Sullivan	Co-operative Insurance Companies (VT Domestic)
Timothy Vernon	MMG Insurance Company
Douglas Wacek	Union Mutual Fire Insurance Company (VT Domestic)

Officers

"Director/Officer" means each member of the Board, each individual serving as a representative of a Member insurer on the Board, each employee, Officer or Agent of the Association, each employee, Officer or Agent of any association or other entity which performs services, including without limitation claims handling services, on behalf of the Association (in their capacity of performing such services on behalf of the Association only) and each person who is serving or has served at the request of the Association or such other entity as a director, officer, trustee, fiduciary, principal, partner, member of a committee, employee, consultant or agent of any other entity.

Vermont Property & Casualty Insurance Guaranty Association
As of December 31, 2007

Indemnification of Directors and Officers

The Plan of Operation indicates that the Association shall indemnify its Directors and Officers against any liability incurred by any of them in their capacity as such, to the full extent permitted by the laws of Vermont.

Immunity

By statute, there shall be no liability on the part of, and no cause of action of any nature shall arise against, any Member insurer, the Association or its Agents or employees, the Board of Directors, or the Commissioner or his/her representatives for any action taken by them in the performance of their powers and duties.

Corporate Records

The Association's main administrative offices and corporate records are located at the offices of GFMS at One Bowdoin Square, Boston, MA. The minutes of the Board of Directors were reviewed for the period of examination with no items of exam significance noted.

Contracts

The Plan provides that any or all powers and duties of the Association, with certain exceptions, may be delegated to a corporation, association, or other organization, which performs functions similar to those of this Association in two or more states. Such a corporation, association or organization shall be reimbursed as a servicing facility and shall be paid for its performance of any other functions of the association.

The Association has a contract with GFMS, a voluntary, nonprofit, unincorporated association, under which GFMS furnishes administrative and management services to the Association. All invoices for services rendered by GFMS are recorded when paid.

On behalf of the Association, GFMS entered into a contract in March 1989, with Helmsman Management Services, LLC., an independent third-party administrator (TPA) to settle certain claims.

Assessments

Member insurer assessments are made in the proportion that the direct written premiums of the Member insurer bears to the direct written premiums of all Member insurers for the calendar year preceding the assessment. No Member insurer may be assessed in any year on any account (workers compensation account, automobile insurance account, all other insurance account) an amount greater than 2 percent of that Member insurer's net direct written premiums for the calendar year preceding the determination of insolvency. The Board of Directors approved an assessment of \$1,050,000 and a refund of \$613,297 in 2007, resulting in a net assessment of \$436,703, calculated as follows:

Vermont Property & Casualty Insurance Guaranty Association
As of December 31, 2007

<u>Account</u>	<u>2006 Premiums</u>	<u>2% Cap</u>	<u>Assessments</u>	<u>Refunds</u>	<u>Net Assessments</u>
Auto	\$ 391,287,898	\$ 7,825,758	\$ 50,000	\$ -	\$ 50,000
Other	400,793,403	8,015,868	1,000,000	(500,000)	500,000
Workers Comp	205,918,741	4,118,375	-	(113,297)	(113,297)
Total	998,000,042	19,960,001	1,050,000	(613,297)	436,703

Net assessments from 1999 through 2008 are summarized in the following table:

<u>Year</u>	<u>Auto</u>	<u>Other</u>	<u>Workers Comp</u>	<u>Total</u>
2008	\$ -	\$ (154,420)	\$ 1,961,146	\$ 1,806,726
2007	50,000	500,000	(113,297)	436,703
2006	-	(1,205,082)	-	(1,205,082)
2005	145,929	(1,395,508)	2,806,892	1,557,313
2004	-	-	3,327,530	3,327,530
2003	(6,896)	1,671,070	2,840,449	4,504,623
2002	200,000	5,215,596	2,353,547	7,769,143
2001	300,000	100,000	1,892,969	2,292,969
2000	(96,922)	(613,553)	(87,381)	(797,856)
1999	-	-	(300,000)	(300,000)

The rates and premiums charged for insurance policies shall include amounts sufficient to recoup a sum equal to the amounts paid to the Association by the Member insurer less any amounts returned to the Member insurer by the Association.

Refunds to the Member insurers are made in proportion to the contribution of each Member insurer to that account. The refund is that amount by which the assets of the account exceed the liabilities at the end of any calendar year and the Board of Directors determines in excess of what is needed in the coming year.

Any person recovering paid claims shall be deemed to have assigned his rights under the policy to the Association to the extent of his recovery from the Association. The receiver, liquidator, or statutory successor of an insolvent insurer shall be bound by settlements of covered claims by the association or a similar organization in another state. The association shall periodically file with the receiver or liquidator of the insolvent insurer; statements of the covered claims paid by the association, the expenses paid in the handling of paid or contested covered claims, estimates of anticipated claims on the association, and estimates of the expenses of handling those anticipated claims, which shall preserve the rights of the association against the assets of the insolvent insurer.

**Vermont Property & Casualty Insurance Guaranty Association
As of December 31, 2007**

Accounts and Records

The Association's accounting and insolvency records are maintained on the systems of GFMS. The accounting records are recorded using the cash basis of accounting, which means that revenues and expenses are recorded as cash is received and paid. Each year PwC audits the records in accordance with the Association's Plan of Operations. An annual report is provided to the Board of Directors and to the Commissioner. The Association's audited financial statements are prepared on the modified-cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. The modified-cash basis used by the Association differs from accounting principles generally accepted in the United States in that loss and loss adjustment expenses are recognized when paid, rather than when incurred.

The Association has handled or continues to handle the following insolvencies:

Abington Mutual Insurance Company of Massachusetts	Ideal Mutual Insurance Company of New York
Acceleration National Insurance Company of Ohio	Integrity Insurance Company of New Jersey
Ambassador Insurance Company of Vermont	Legion Insurance Company of Pennsylvania
American Druggists' Insurance Company of Ohio	MCA Insurance Company of Oklahoma
American Eagle Insurance Company of Texas	Midland Insurance Company of New York
American Fidelity Fire Insurance Company of New York	Mission Insurance Company of California
American Mutual Insurance Company of Boston, Massachusetts	Mission National Insurance Company of California
American Mutual Liability Insurance Company of Massachusetts	Pacific Marine Insurance Company of Washington
American Reserve Insurance Company of Rhode Island	PHICO Insurance Company of Pennsylvania
American Universal Insurance Company of Rhode Island	Proprietors Insurance Company of Ohio
Carriers Insurance Company of Iowa	Protective National Insurance Company of Omaha
Casualty Reciprocal Exchange of Missouri	Reliance Insurance Company of Pennsylvania
Consolidated Mutual Insurance Company of New York	Reserve Insurance Company of Illinois
Credit General Insurance Company of Ohio	Security Casualty Company of Illinois
Edison Insurance Company of Illinois	Shelby & Shelby Casualty Insurance Companies of Texas
Employer's Casualty Company of Texas	Southern American Fire Insurance Company of Florida
Enterprise Insurance Company of California	Summit Insurance Company of New York
Excalibur Insurance Company of Texas	Transit Casualty Company of California
Fremont Indemnity Company of California	Union Indemnity Insurance Company of New York
Frontier Insurance Company of New York	United Community Insurance Company of New York
Great Global Assurance Company of Arizona	Villanova Insurance Company of Pennsylvania
Home Insurance Company of New Hampshire	Western Employers Insurance Company of California

Findings and Recommendations

No items of significance were noted during the course of our examination.

Financial Statements

The December 31, 2007 modified-cash basis Statement of Financial Position, Statement of Activities and Statement of Changes in Fund Balance are as follows:

Vermont Property & Casualty Insurance Guaranty Association
As of December 31, 2007

Statement of Financial Position

Assets

Cash and cash equivalents	\$ 2,332,669
Assessments receivable	2,355
Investments at market value	14,664,054
Accrued interest	192,628
Other	653,193
Total Assets	\$ 17,844,899

Liabilities

Accounts payable	\$ 10,026
Refunds payable	1,863
Total Liabilities	11,889

Fund Balance

Fund Balance	17,833,010
Total Liabilities and Fund Balance	\$ 17,844,899

For purposes of administration and assessment, the Association is divided into three separate accounts, auto, other and workers compensation. The fund balance is comprised of amounts that are restricted by statute for the purposes of these accounts. The following is a summary of the composition of the Fund Balance at December 31, 2007:

Fund Balance

Auto	\$ 4,855
Other	961,205
Workers Compensation	15,848,604
Administrative	65,450
Adjustment to modified-cash basis	964,785
Total Funds Available	\$ 17,844,899

Vermont Property & Casualty Insurance Guaranty Association
As of December 31, 2007

Statement of Activities

Revenues

Members' insolvency assessments	\$ 1,077,563
Investment income	739,869
Insolvency recoveries	1,910,491
Total Revenues	<u>\$ 3,727,923</u>

Expenses

Loss and loss adjustment expense	\$ 1,871,575
Member refunds	613,256
Administrative expenses	193,515
Total Expenses	<u>2,678,346</u>

Change in Surplus

Excess of revenues over expenses	1,049,577
Change in unrealized gains on investments	223,789
Total Change in Surplus	<u>\$ 1,273,366</u>

**Vermont Property & Casualty Insurance Guaranty Association
As of December 31, 2007**

Statement of Changes in Fund Balance

	Accumulated Excess of Revenues over Expenses	Unrealized Gain on Investments	Fund Balance
Balance, December 31, 2006	\$ 16,657,798	\$ (98,154)	\$ 16,559,644
Excess of revenues over expenses	1,049,577	-	1,049,577
Increase in net unrealized gains on investment	-	223,789	223,789
Balance, December 31, 2007	<u>\$ 17,707,375</u>	<u>\$ 125,635</u>	<u>\$ 17,833,010</u>

Vermont Property & Casualty Insurance Guaranty Association
As of December 31, 2007

Examiner's Signature and Acknowledgement

The customary insurance examination practices and procedures as promulgated by the Insurance Laws of the State of Vermont have been followed in ascertaining the financial condition of the Vermont Property and Casualty Insurance Guaranty Association as of December 31, 2007. In addition to the undersigned, Dan Petterson, Administrative Insurance Examiner participated in the examination on behalf on the Vermont Department of Banking, Insurance, Securities and Health Care Administration.

Respectfully submitted,

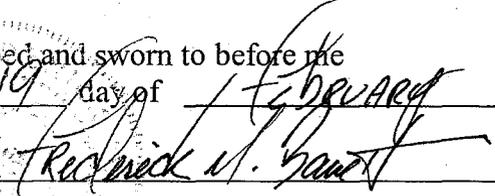


Kenneth L McGuckin, CFE
Director of Company Licensing and Examinations
Vermont Department of Banking, Insurance, Securities
and Health Care Administration

STATE OF VERMONT
COUNTY OF WASHINGTON

Kenneth L McGuckin, CFE 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 19 day of FEBRUARY, 2009



Notary Public

Frederick M. Barrett
Notary Public State of Vermont at Large
My Commission Expires February 10, 2011

My Commission expires _____