

Report on the Statutory Examination  
As of December 31, 2010  
of  
**Vermont Accident Insurance Company, Inc.**  
by the  
Vermont Department of Financial Regulation  
Division of Insurance



The attached report of examination made of the condition and affairs as of December 31, 2010 of:

**Vermont Accident Insurance Company, Inc.**

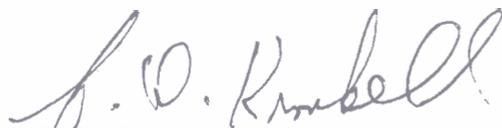
Berlin, VT

was recently completed by duly qualified examiners of the State of Vermont Department of Financial Regulation.

Due consideration has been given to the comments of the examiners regarding the operations of Vermont Accident Insurance Company, Inc. and their 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 29<sup>th</sup> day of June, 2012

  
\_\_\_\_\_  
Stephen W. Kimbell, Commissioner

**VERMONT ACCIDENT INSURANCE COMPANY, INC.**  
**STATUTORY EXAMINATION REPORT**  
**AS OF DECEMBER 31, 2010**

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June 22, 2012

Stephen W. Kimbell  
Commissioner Department of Financial Regulation  
89 Main Street  
Montpelier, VT 05620-3101

Dear Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, we have conducted an examination of:

**Vermont Accident Insurance Company, Inc.**

with their offices located at  
Airport Road  
Berlin, Vermont 05601-0870

The examination was done, as required by 8 V.S.A. §3563, in order to ascertain the Company's financial condition, ability to fulfill their obligations and their compliance with the provisions of Vermont law.

## **SCOPE OF EXAMINATION**

Vermont Accident Insurance Company, Inc. hereinafter referred to as the “Company”, was last examined as of December 31, 2006 for the period from January 1, 2004 thereto. The statutory examination was coordinated with the New Hampshire Insurance Department (NH Department) and was conducted concurrently with their examination of Concord General Mutual Insurance Company (the parent) under the coordination 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 significant findings and conclusions reached by the NH Department. Due to the centralized processing and recording and inter-company nature of the Concord Group’s transactions, the VT Department placed significant reliance on the work of the NH Department throughout this examination.

The statutory examination covered the period from January 1, 2007 through December 31, 2010. Planning for the current financial examination commenced in June 2011. Fieldwork was performed by the NH Department at the Company’s main administrative office located at 4 Bouton Street, Concord, NH. Examination work performed by the VT Department, including planning and certain review procedures, was performed at the Vermont Insurance Division in Montpelier, VT.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company 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. An 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 and annual statement instructions, and applicable domestic state regulations. We 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.

Pursuant to Vermont insurance law and the standard examination procedures required by the NAIC, the Companies instructed their independent accounting firm to make available for the NH Department's review all workpapers concerning procedures followed, tests performed, information obtained and conclusions reached pertinent to their audit of the Company's financial statements for the period covered by the examination. The NH Department reviewed the workpapers of the independent accounting firm 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 NH Department utilized their workpapers and analyses to supplement the examination work.

This report is prepared according to the "Full-Scope Examination" format as described in the NAIC Examiner's Handbook. Only items needing financial adjustment, procedural recommendations, or not conforming to the charter approved by the Vermont legislature are commented upon.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings in the prior exam report or the current exam report.

### **SUBSEQUENT EVENTS**

There are no reportable subsequent events.

### **HISTORY**

The Company was incorporated in 1961 under the laws of the State of Vermont. The Company writes primarily dwelling fire coverage in the states of Maine, New Hampshire and Vermont. The Company is wholly owned by Concord General Mutual Insurance Company (Parent). Under the terms of a reinsurance agreement, the Company cedes all business written to the Parent. The Parent provides all management, accounting and other services at no charge to the Company.

## CORPORATE RECORDS

The Company's statutory home office is located in Berlin, Vermont. The Company's main administrative office and their corporate records are located at the parent company's location in Concord, New Hampshire. The minutes of the Board of Directors meetings were reviewed and were found to be in compliance with the Company's By-Laws and Vermont Statutes.

## MANAGEMENT AND CONTROL

### Board of Directors

The following were elected to the Board of Directors of the Company in accordance with the By-Laws and serving as of December 31, 2010:

<u>Name</u>	<u>Title</u>	<u>Principal Business Affiliation</u>
Linda Joy Day	Chairman	Chairman, President and CEO of Concord General Mutual Insurance Company
J Dudley Colcord	Director	Retired Chairman, Merrimack County Commission; Retired Colonel USAF
Russell Adams Holden	Director	Retired VP New England Power Company
Daniel Bernard Langone	Director	Retired President Green Mountain Insurance Company and Vermont Accident Insurance Company
Thomas Holmes Moore	Director	Retired Headmaster New Hampton School
George Harold Morehouse	Director	Retired President of the Concord General Mutual Insurance Company
Wayne Edward Hutchins	Director	Retired VP of Concord General Mutual Insurance Company
John Henry Downs, Esq	Director	Retired attorney-at-law Downs, Rachlin & Martin St. Johnsbury, Vermont

## Officers

The Officers of December 31, 2010 are as follows:

<b><u>Title</u></b>	<b><u>Name</u></b>
Chairman & President	Linda Joy Day
Vice President – Treasurer	Daniel Rodgers
Corporate Secretary	Daniel Rodgers
Vice President Claims	Thomas John McConnell
Vice President Underwriting	Michael Philip Nolin, Jr.
Vice President Administration	Warren Christopher McLean, Jr.

## Conflict of Interest Policy

The Company has developed a Code of Ethics as a reference guide to help personnel define and understand appropriate business conduct and to establish compliance requirements. The Code of Ethics includes a requirement to disclose any potential conflict of interest. The Code of Ethics applies to all senior officers and their direct reports.

## **AFFILIATED COMPANIES AND ORGANIZATION CHART**

### Affiliated Companies

The Company is part of the Concord Group Insurance Companies. Pursuant to an agreement, the Parent performs all administrative functions for the Company. There are no charges for these services. The Company also maintains an agreement whereby 100% of all premiums and losses are ceded to the Parent. During 2010, the Company declared and paid a dividend to the Parent in the amount of \$25,000.

### Organizational Chart

The corporate structure as of December 31, 2010 is as follows:

#### **Concord General Mutual Insurance Company - Parent**

- Green Mountain Insurance Company, Inc. – wholly owned subsidiary
- Vermont Accident Insurance Company, Inc. – wholly owned subsidiary
- People’s Business Services of NH, Inc. – wholly owned subsidiary
- State Mutual Insurance Company – affiliated management
- Sunapee Mutual Fire Insurance Company – affiliated management
- Bow Mutual Fire Insurance Company – affiliated management
- Weare Mutual Fire Insurance Company – affiliated management

#### **FIDELITY BOND AND OTHER INSURANCE**

The Company is covered under the terms of a fidelity bond. The amount of coverage in force at December 31, 2010 meets the minimum amount of coverage recommended by the NAIC. All other insurance coverages are maintained at adequate levels.

#### **PENSIONS AND INSURANCE PLANS**

All the Company’s operations are performed by the parent per various inter-company agreements. As such, the Company 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 State of New Hampshire Insurance Department.

#### **TERRITORY AND PLAN OF OPERATIONS**

The Company is a multi-line carrier underwriting primarily Dwelling Fire coverage through independent agents in Maine, New Hampshire, and Vermont.

Lines of business written by the Company in these states and the amount of direct premium earned are as follows:

<b>Lines of Business</b>	<b>States</b>	<b>Direct Premium Earned</b>	<b>Percent</b>
Fire and Allied Lines	ME, NH, VT	\$1,357,190	84.08%
Other Liability	ME, NH, VT	\$177,441	10.99%
Other Private Passenger Auto Liability	ME, NH, VT	\$42,326	2.62%
Private Passenger Auto Physical Damage	ME, NH, VT	\$37,237	2.31%
<b>Total</b>		<b>\$1,614,194</b>	

### **GROWTH OF COMPANY**

The growth of the Company over the five most recent years is shown in the following table:

<i>(\$ amounts are in 000's)</i>	2010	2009	2008	2007	2006
Direct Premium Written (DPW)	\$2,191	\$821	\$673	\$2,320	\$3,273
DPW/PHS	36%	14%	12%	40%	57%
Direct Premium Earned (DPE)	\$1,614	\$233	\$977	\$2,410	\$3,318
Net Income	\$206	\$179	\$(24)	\$195	\$206
Total Assets	\$6,276	\$6,041	\$5,712	\$6,054	\$6,046
Total Liabilities	\$212	\$184	\$128	\$309	\$324
Policyholder Surplus (PHS)	\$6,064	\$5,858	\$5,584	\$5,746	\$5,722

### **LOSS EXPERIENCE**

A summary of the Company's loss experience is illustrated below:

<i>(\$ amounts in 000's)</i>	2010	2009	2008	2007	2006
Unpaid Losses and Loss Adj Expenses	\$0	\$0	\$0	\$0	\$0
Direct Losses Incurred	\$141	\$(187)	\$1,348	\$2,149	\$433

Direct Loss Ratio	8.76%	(80.08%)	40.62%	51.00%	44.27%
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Due to the reinsurance agreement with the Parent, the Company's material liabilities are limited to federal income taxes and net deferred taxes. The Statement of Income is represented primarily by investment income and federal income taxes paid.

### **REINSURANCE**

The Company has a reinsurance agreement, ceding 100% of all written and earned premium and related commissions and other underwriting expenses and loss and loss adjustment expenses incurred to the Parent.

### **ACCOUNTS AND RECORDS**

The Company prepares financial statements in conformity with accounting practices prescribed or permitted by the State of Vermont Department of Financial Regulation, whose practices differ from accounting principles generally accepted in the United States of American (GAAP). Prescribed statutory accounting practices include the respective state laws, regulations, and general administrative rules, as well as a variety of publications of the National Association of Insurance Commissioners (NAIC).

All the Company's systems are maintained and operated by the Parent. The Company relies on the service provided and systems operated by the Parent. For more detailed information, see the Parent's report issued by the NH Department.

The Company is not subject to requirements of either Sarbanes-Oxley Section 404, or the internal control attestation requirements of the NAIC Model Audit Rule as expressed in REG I-209-06.

### **STATUTORY DEPOSITS**

Investments with a carrying value of \$679,380 are on deposit with various state and governmental authorities as of December 31, 2010. The carrying value of the deposit held by the

State of Maine for other special deposits is \$119,094. The carrying value of the deposit held by the State of Vermont for the benefit of all policyholders is \$560,286.

### **FINANCIAL STATEMENTS**

The following statements show the financial position of the Company as of December 31, 2010 in accordance with statutory accounting principles as defined by the Vermont State Statutes.

Statement of Admitted Assets, Liabilities, Surplus and Other Funds

As of December 31, 2010

**Admitted Assets**

**Investments**

Bonds	\$ 4,621,364
Common Stocks	1,306,443
Cash and cash equivalents	292,903
<b>Total Investments</b>	<u>6,220,710</u>

Dividends and interest due and accrued	<u>54,925</u>
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<b>Total Admitted Assets</b>	<u><u>\$ 6,275,635</u></u>
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**Liabilities, Surplus and Other Funds:**

**Liabilities**

Federal income tax payable	\$ 65,150
Deferred tax liability	146,574
<b>Total Liabilities</b>	<u>211,724</u>

**Surplus and Other Funds**

Common capital stock, par value \$100 per share; 30,000 shares authorized; 25,000 shares issued and outstanding	2,500,000
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Surplus	
Gross paid-in contributed surplus	500,000
Unassigned surplus	<u>3,063,911</u>

<b>Total Surplus and Other Funds</b>	<u>6,063,911</u>
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<b>Total Liabilities, Surplus and Other Funds</b>	<u><u>\$ 6,275,635</u></u>
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Statement of Income  
For the year ending December 31, 2010

**Investment Income**

Net Investment Income	\$	259,498
Net realized capital gains (losses), net of tax expense of \$3,805		7,386
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Net Income before federal income taxes		266,884
<b>Federal Income Tax Expense</b>		61,345
		<hr/>
<b>Net Income</b>	\$	<u>205,539</u>

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Capital and Surplus Account  
For the year ending December 31, 2010

Surplus as regards policyholders, December 31, 2009	\$ <u>5,857,556</u>
Net Income	205,539
Change in net unrealized capital gains net of income tax benefit of \$24,564	47,682
Dividend to stockholder	(25,000)
Change in net deferred income tax	<u>(21,866)</u>
	<u>206,355</u>
Surplus as regards policyholders, December 31, 2010	\$ <u><u>6,063,911</u></u>

### **COMMENTS AND RECOMMENDATIONS**

There were no significant findings or financial adjustments as a result of the examination.

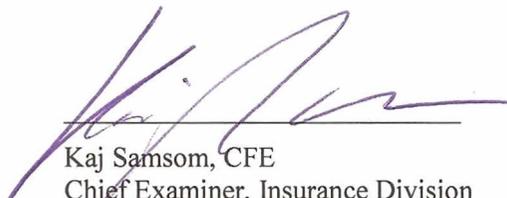
CONCLUSION

As a result of this examination, the financial condition of the Company, as of December 31, 2010 was determined to be as follows:

Admitted Assets	<u>\$6,275,635</u>
Liabilities	\$211,724
Surplus	<u>\$6,063,911</u>
Total Liabilities and Surplus	<u>\$6,275,635</u>

In addition to the undersigned, Karen Murphy, Administrative Insurance Examiner, participated in this examination.

Respectfully submitted,



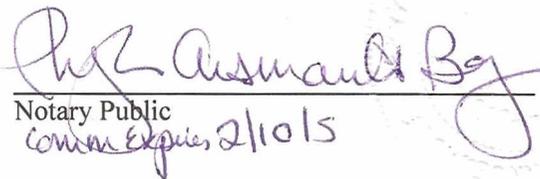
Kaj Samsom, CFE  
Chief Examiner, Insurance Division  
Vermont Department of Financial Regulation

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 27<sup>th</sup> day of June, 2012



Notary Public  
Comm Expires 2/10/15