



Janet T. Mills
Governor

STATE OF MAINE
DEPARTMENT OF PROFESSIONAL
AND FINANCIAL REGULATION
BUREAU OF INSURANCE
34 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0034

Eric A. Cioppa
Superintendent

May 14, 2021

Eric A. Cioppa, Superintendent
Maine Bureau of Insurance
34 State House Station
Augusta, ME 04333-0034

Dear Superintendent:

Pursuant to the provisions of 24-A M.R.S. §221 and in conformity with your instructions, a financial examination has been made of the

STATE MUTUAL INSURANCE COMPANY

as of December 31, 2019. The following report is respectfully submitted.



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OFFICES LOCATED AT 76 NORTHERN AVENUE, GARDINER,
MAINE 04345

www.maine.gov/insurance

Phone: (207) 624-8475 TTY: Please call Maine Relay 711 Consumer Assistance: 1-800-300-5000 Fax (207) 624-8599



**STATE OF MAINE
BUREAU OF INSURANCE**

REPORT OF FINANCIAL EXAMINATION

**STATE MUTUAL INSURANCE COMPANY
AUBURN, MAINE**

AS OF DECEMBER 31, 2019

NAIC COMPANY CODE: 16020

NAIC GROUP CODE: 0280


ACCEPTANCE OF REPORT OF EXAMINATION

WHEREAS a verified Report of Examination of State Mutual Insurance Company dated May 14, 2021 was delivered to that insurer on June 10, 2021; and

WHEREAS no hearing with respect to the Report of Examination has been requested by State Mutual Insurance Company;

NOW THEREFORE, I accept the Report of Examination and hereby order it placed on file in the Bureau of Insurance as provided for by 24-A M.R.S. §226(3).

Dated: 6-17-21



Eric A. Cioppa, Superintendent

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
PRIOR EXAMINATION	2
CURRENT EXAMINATION.....	2
THE COMPANY.....	2
HISTORY.....	2
MANAGEMENT AND CONTROL	2
CORPORATE RECORDS	3
CORPORATE GOVERNANCE.....	3
TRANSACTIONS WITH AFFILIATES.....	4
TERRITORY & PLAN OF OPERATION	5
REINSURANCE	5
FINANCIAL STATEMENTS	5
STATEMENT OF ADMITTED ASSETS, LIABILITIES AND SURPLUS	6
STATEMENT OF INCOME.....	7
STATEMENT OF CAPITAL AND SURPLUS	8
COMMENTS ON THE FINANCIAL STATEMENTS.....	9
SUBSEQUENT EVENTS	9
SUMMARY OF RECOMMENDATIONS	9

SCOPE OF EXAMINATION

State Mutual Insurance Company (the “Company” or “State Mutual”) was last examined as of December 31, 2015, by the State of Maine Bureau of Insurance (MBOI). This examination covered the period from January 1, 2016, to December 31, 2019.

This examination was performed pursuant to the risk-focused approach promulgated by the National Association of Insurance Commissioners (NAIC), in conformity with statutory accounting practices, NAIC guidelines, the 2020 Financial Condition Examiners Handbook and the laws, rules, and regulations prescribed or permitted by the State of Maine. The examination consisted of a review of the Company's operations, controls, corporate governance, valuation of assets, and determination of liabilities at December 31, 2019. The examination also included the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively.

This examination was coordinated with the State of New Hampshire Insurance Department (NHID), which concurrently examined Concord General Mutual Insurance Company (Concord General), the Company's affiliate through common management, and Sunapee Mutual Fire Insurance Company (SUN), both New Hampshire domestic insurance companies, and with the State of Vermont Department of Financial Regulation which concurrently examined Green Mountain Insurance Company (GM) and Vermont Accident Insurance Company (VA), both Vermont domestic insurance companies. These companies, along with State Mutual, are members of the Concord Group Insurance Companies (“Concord Group”). The Concord Group examination was led by the NHID and conducted at the Concord General offices in Concord, New Hampshire, which are the main administrative offices of State Mutual and all companies within the Concord Group.

The Concord Group examination was conducted as part of the coordinated examination of Auto-Owners Insurance Company (“Auto-Owners”) and its affiliates and subsidiaries, collectively known as the Auto-Owners Group. Auto-Owners, a Michigan domestic insurance company, is the ultimate controlling parent of the Concord Group companies. The Michigan Department of Insurance and Financial Services (DIFS) led the Auto-Owners Group exam, and participating states included Delaware, California, Indiana, Maine, Nevada, New Hampshire, North Carolina, Ohio, and Vermont.

Ernst & Young (EY) performed the 2019 external audit of all insurance companies in the Auto-Owners Group. EY work papers were utilized for this examination to the extent deemed appropriate. The MBOI also utilized the work of the NHID and the DIFS when appropriate in order to enhance the effectiveness and efficiency of this examination.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examination does not attest to the fair presentation of the financial statements included herein. Comments on various balance sheet items, for purposes of this report, may be limited to matters involving clarification, departures from laws, rules and regulations, and/or significant changes in amounts. To the extent deemed necessary, transactions occurring subsequent to the examination date were reviewed.

This examination report includes significant findings of fact, pursuant to 24-A M.R.S. §225 (1), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature, are not included herein, and are instead separately reported to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

PRIOR EXAMINATION

None noted.

CURRENT EXAMINATION

None noted.

THE COMPANY

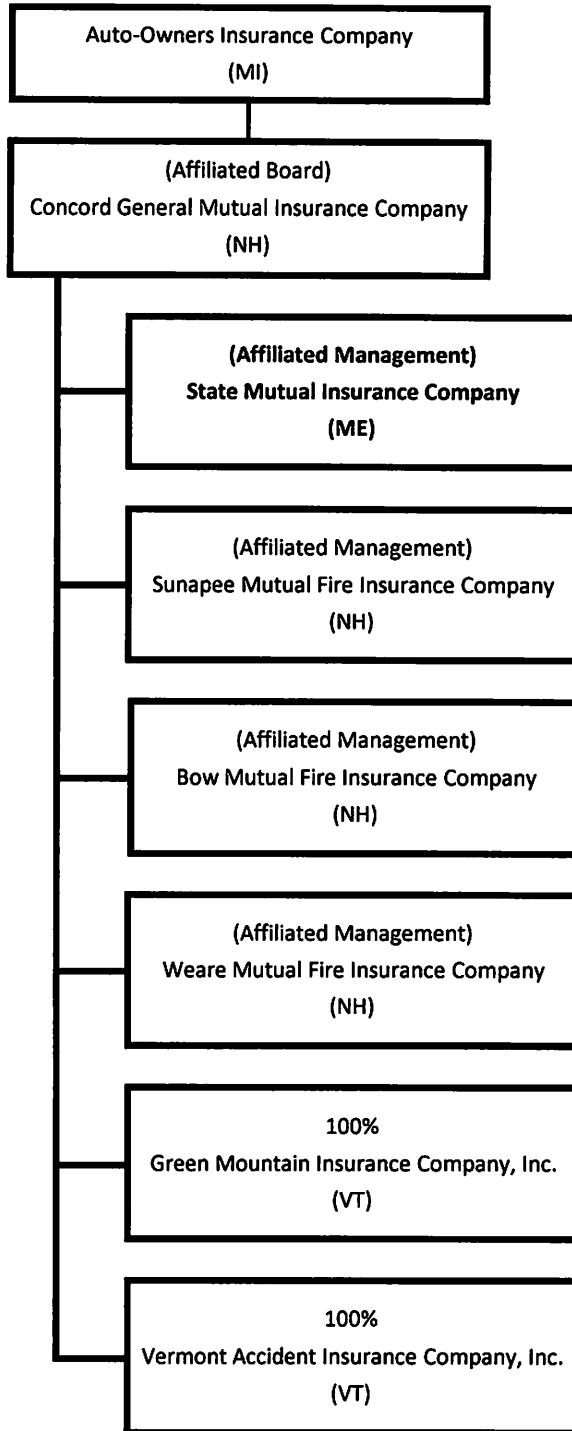
HISTORY

State Mutual was incorporated in Gorham, Maine on May 15, 1899, as the Dirigo Mutual Fire Insurance Company and subsequently moved to Portland, Maine. On July 1, 1934, State Mutual changed its name to State Mutual Fire Insurance Company. On November 16, 1964, management and control of State Mutual was acquired by Concord General Mutual. On January 19, 1965, State Mutual changed its name to State Mutual Insurance Company, and on July 1, 1965, the Company's statutory home office was moved to Auburn, Maine.

Effective April 1, 2017, Auto-Owners acquired control of the Concord Group and State Mutual through an Affiliation Agreement. The change of control was approved by both the MBOI and the NHID on March 28, 2017.

MANAGEMENT AND CONTROL

State Mutual is a mutual insurance company under the direct control of Concord General through common management, a reinsurance agreement under which 100% of the insurance liabilities are ceded to Concord General and 0% is assumed back by State Mutual, and a management services agreement under which Concord General provides administrative and management services to State Mutual. Auto-Owners controls Concord General and its affiliated insurance companies, including State Mutual, through an affiliation agreement with Concord General. An abbreviated organization chart as of December 31, 2019 follows:



CORPORATE RECORDS

The Company’s articles of incorporation, bylaws, and minutes of the board of directors meetings held during the period under examination were reviewed.

CORPORATE GOVERNANCE

The Company is governed and overseen by its board of directors and its management team.

As of December 31, 2019, the board of directors of the Company consisted of the following members:

<u>Name</u>	<u>Title</u>
Linda Joy Day	Director
Lori Ann McAllister	Director
Daniel Lawrence McCabe	Director
Warren Christopher McLean, Jr.	Director
Carolyn Burroughs Muller*	Director
Michael Philip Nolin, Jr.	Director
Gordon Alvan Rehnborg, Jr.*	Director
Theodore William Reinbold	Director
Jeffrey Scott Tagsold	Chair
Daniel Jerome Thelen*	Director
William Finch Woodbury	Director

*Subsequent to the examination period, in 2020, Carolyn Burroughs Muller retired as Director, and Michael David Pike was elected as Director, and in 2021, Gordon Alvan Rehnborg, Jr. and Daniel Jerome Thelen retired as Directors.

As of December 31, 2019, the officers of the Company consisted of the following individuals:

<u>Name</u>	<u>Title</u>
Daniel Lawrence McCabe	President & CEO
Michael Philip Nolin, Jr.	Sr. Vice President & COO
William Finch Woodbury	Corporate Secretary
Kevin Michael Ferreri	Vice President
Amy Marlene Kezar	Vice President
Michael Wayne Percy	Vice President
Bruce Wayne Sorette	Vice President
Anthony Louis Sychtysz	Vice President

TRANSACTIONS WITH AFFILIATES

The Company has an Insurance Management Agreement with Concord General, effective January 1, 2008. Under this agreement, Concord General provides management, accounting, claims, underwriting, administrative, and consulting services to the Company.

Effective July 1, 2019, the Company became a party to a Management Services Agreement with Auto-Owners. Under this agreement, administrative and management services made available to the Company and its affiliates by Auto-Owners include executive administration, sales, policy underwriting, claim handling and settlement, actuarial, advertising, accounting, legal, tax matters, systems and programming, electronic data processing, investments, housing and all other essential general services.

The Company is also party to a Reinsurance Agreement with Concord General, effective January 1, 1997, and amended January 1, 2007. A description of the agreement can be found in the Reinsurance section of this report.

The Company is the debtor in a surplus note issued to Concord General on October 24, 2017, in exchange for cash. The principal amount of the surplus note is \$10.6 million, the interest rate is 2%, and the term of the note is 20 years. No part of the principal sum or interest shall be paid or payable except after prior written authorization by the Superintendent of the MBOI, approval of such payment by State Mutual's Board of Directors, and State Mutual has adequate surplus earnings available for such payment.

TERRITORY & PLAN OF OPERATION

State Mutual is licensed to transact business in the states of Maine and Massachusetts. State Mutual primarily writes homeowners multiple peril coverage.

REINSURANCE

All policies of State Mutual are reinsured as written with Concord General under a written reinsurance agreement entered into on January 1, 1997, and amended January 1, 2007. Under this agreement, Concord General agrees to reinsure and assume, and State Mutual agrees to cede and transfer to Concord General, automatically from inception, all liabilities incurred under or in connection with all contracts and policies of insurance issued by State Mutual. State Mutual agrees to pay to Concord General all premiums on business written by State Mutual, and Concord General agrees to pay all losses, loss expenses, and other underwriting and administrative expenses. The conditions of the reinsurance shall, in all cases, be identical with the conditions of the original insurance.

FINANCIAL STATEMENTS

The Statement of Admitted Assets, Liabilities and Surplus, the Statement of Income, and the Statement of Capital and Surplus are as presented by management and audited by the Company's external auditors. It should be noted that these financial statements have not been audited by the MBOI and thus the MBOI does not express an opinion on the financial statements as a whole.

**STATEMENT OF ADMITTED ASSETS, LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2019**

Assets

Bonds	\$ 11,381,402
Common stocks	1,615,761
Cash and cash equivalents	978,967
Other invested assets	223,548
Investment income due and accrued	<u>106,960</u>
Total assets	<u>\$ 14,306,638</u>

Liabilities

Current federal and foreign income taxes	\$ 2,656
Net deferred tax liability	212,301
Payable to parent, subsidiaries and affiliates	<u>8,669</u>
Total liabilities	<u>\$ 223,626</u>

Capital and Surplus

Surplus notes	\$ 10,600,000
Unassigned funds	<u>3,483,012</u>
Total capital and surplus	<u>14,083,012</u>
Total liabilities, capital and surplus	<u>\$ 14,306,638</u>

STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2019

Premiums earned	\$	-
Total underwriting deductions		-
Total underwriting gain (loss)		-
Net investment income earned		396,272
Net realized capital gains		<u>29,155</u>
Net investment gain		<u>425,427</u>
Net loss from premiums charged off		-
Finance and service charges		-
Total other income		-
Net income before federal income taxes		425,427
Federal income taxes incurred		<u>78,198</u>
Net income	\$	<u><u>347,229</u></u>

**STATEMENT OF CAPITAL AND SURPLUS
YEAR ENDED DECEMBER 31, 2019**

Capital and surplus, December 31, 2018	\$ 13,437,949
Net income	347,229
Change in net unrealized capital gains	296,800
Change in net deferred income tax	1,034
Net change in surplus	<u>645,063</u>
Capital and surplus, December 31, 2019	<u>\$ 14,083,012</u>

COMMENTS ON THE FINANCIAL STATEMENTS

NOTE 1 – CAPITAL AND SURPLUS

The following table describes the capital and surplus changes for the four-year period since the MBOI's last examination of the Company, dated December 31, 2015:

Capital and surplus, December 31, 2015	\$ 2,274,524
Net income	875,312
Change in net unrealized capital gains	368,968
Change in net deferred income tax	101,208
Change in Surplus Notes	10,600,000
Change in aggregate write-ins for special surplus funds	<u>(137,000)</u>
Capital and surplus, December 31, 2019	<u>\$ 14,083,012</u>

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the spreading coronavirus ("COVID-19") outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States (U.S.). The COVID-19 pandemic has continued to develop throughout 2020 and 2021, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review of the Company noted that there has not been a significant impact to the Company. The MBOI has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The MBOI continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

SUMMARY OF RECOMMENDATIONS

There are no report level recommendations.

**STATE OF MAINE
COUNTY OF KENNEBEC, SS**

Vanessa J. Sullivan, being duly sworn according to law deposes and says that, in accordance with authority vested in her by Eric A. Cioppa, Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, she has made an examination of the condition and affairs of the

STATE MUTUAL INSURANCE COMPANY


located in Auburn, Maine as of December 31, 2019, and that the foregoing report of examination subscribed to by her is true to the best of her knowledge and belief. The following examiners from the Bureau of Insurance assisted:

Audrey L. Wade, CFE, CISA
Jeremy C. Finch



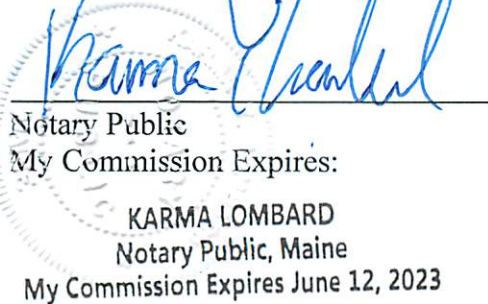
Vanessa J. Sullivan, CFE

Subscribed and sworn to before me
This 17 day of June, 2021



Notary Public

My Commission Expires:


KARMA LOMBARD
Notary Public, Maine
My Commission Expires June 12, 2023