



Paul R. LePage
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

July 18, 2012

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.A. §221 and in conformity with your instructions, a financial examination has been made of

Casco Indemnity Company

The following report is respectfully submitted.



PRINTED ON RECYCLED PAPER

REPORT OF EXAMINATION

Casco Indemnity Company

AS OF

DECEMBER 31, 2011

ACCEPTANCE OF REPORT OF EXAMINATION

WHEREAS a verified Report of Examination of Casco Indemnity Company dated July 18, 2012, was delivered to that insurer on August 16, 2012, and

WHEREAS Casco Indemnity Company and Maine Bureau of Insurance staff have agreed to certain modifications with respect to the Report of Examination, and

WHEREAS I find such modifications proper, and

WHEREAS no hearing with respect to the Report of Examination has been requested by Casco Indemnity Company

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

9/4/12
Dated:

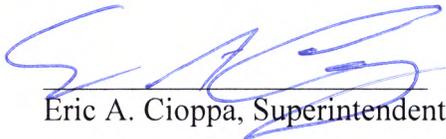

Eric A. Cioppa, Superintendent

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SCOPE OF EXAMINATION

This examination of Casco Indemnity Company (hereinafter, "Company") was performed pursuant to the risk-focused approach promulgated by the National Association of Insurance Commissioners (hereinafter, "NAIC"). This examination consisted of a review of the Company's operations, administrative practices, valuation of assets, and determination of liabilities at December 31, 2011, in conformity with statutory accounting practices, NAIC guidelines including the 2011 Financial Condition Examiners Handbook (hereinafter, "FCEH"), and the laws, rules, and regulations prescribed or permitted by the State of Maine.

This Company was last examined as of December 31, 2007. As such, this examination was originally scheduled to occur in 2013 with an examination period of January 1, 2008, through December 31, 2012; however, on January 1, 2011, the Company was acquired by Ohio Mutual Insurance Company (hereinafter, "OMIC"). OMIC was examined by the Ohio Department of Insurance (hereinafter, "ODI") as of December 31, 2010; therefore the originally scheduled December 31, 2012, examination was rescheduled to December 31, 2011, in an effort to coordinate future examination efforts with the ODI.

This examination focused on the 2011 year due to the following factors:

- Company's reinsurance pooling agreement, effective January 1, 2011, with OMIC and United Ohio Insurance Company (hereinafter, "UOIC")
- The Company's intercompany cost sharing agreement with OMIC and UOIC
- The Company's change in management

Additionally, due to the proximity in time of this examination to the ODI examination of the Ohio Mutual Insurance Group (hereinafter, "OMIG") companies as of December 31, 2010, this examination relied on ODI's risk assessment of controls, management, and processing of the pooled business.

Areas reviewed in this examination included board of directors' and committee meeting minutes, claims administration and loss reserves, reinsurance, investments, expense allocations, and related party transactions. To the extent deemed necessary, transactions occurring subsequent to the examination date were reviewed.

The results of this examination present the financial condition of the Company as of December 31, 2011. 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 significant changes in amounts.

SUMMARY OF SIGNIFICANT FINDINGS

PRIOR EXAMINATION

Comment: The sixth article of incorporation and section 4.2 of the bylaws are not in compliance with 24-A M.R.S.A. §3411 (1). The articles of incorporation and bylaws were

amended on January 31, 2003, changing the number of directors to “not less than three (3) and not more than seven (7)”. Title 24-A M.R.S.A. §3411 (1) states: “The affairs of every domestic insurer shall be managed by a board of directors consisting of not less than 7 directors or more than 21 directors”.

Status: The Company amended its articles of incorporation and section 4.2 of the bylaws to comply with 24-A M.R.S.A. §3411 (1) on October 1, 2008.

CURRENT EXAMINATION

No comments noted.

SUBSEQUENT EVENTS

There were no significant subsequent events noted through the data of this report.

THE COMPANY

HISTORY

The Company, a property and casualty insurer, is domiciled in the State of Maine with corporate office located in Saco, Maine. The Company was incorporated on June 27, 1985, in the State of Maine and commenced writing business during that year. The Company was founded by several New England based mutual property insurers to write private passenger automobile liability and physical damage in all New England states. The Company started writing commercial auto liability and a limited amount of personal umbrella in 1997. The personal umbrella coverage was only offered in conjunction with the underlying coverage of the Company’s personal auto policy and any one of the affiliates’ homeowners policies.

The Company was a wholly owned subsidiary of NE Corporation, an insurance holding company domiciled in the State of Maine. Effective January 1, 2011, OMIC acquired all outstanding common shares of NE Corporation. NE Corporation’s only assets were the Company and the Company’s home office building located in Saco, Maine. In December of 2011, NE Corporation was dissolved and the shares of the Company were moved directly under the ownership of OMIC. Additionally, the office building in Saco, Maine was transferred directly to OMIC.

CORPORATE RECORDS

The Company’s articles of incorporation and bylaws in place at December 31, 2011, were reviewed. Minutes of board of directors and committee meetings occurring in 2011 through the last day of fieldwork were reviewed. Board of directors and management actions prior to January 1, 2011 were not reviewed during this examination due to the Company’s change in ownership.

CORPORATE OWNERSHIP

The Company is part of a holding company group, OMIG, and is a wholly owned subsidiary of Ohio Mutual Insurance Company.



CORPORATE GOVERNANCE

As of January 1, 2011, the Company is governed and overseen by its board of directors and management team comprised of OMIG directors and officers.

As of December 31, 2011, the Company’s board of directors consisted of eight (8) members. The board of directors consisted of the following individuals:

<u>Name</u>	<u>Title</u>
John Redon Purse	Chairman
Susan Porter	Vice Chairman, Secretary
Robert Bruce Albro	Director
Randy Lee Walker	Director
Albert Michael Heister	Director
Thomas Eugene Woolley	Director
James Joseph Kennedy	Director
David Anthony Siebenburgen	Director

As of December 31, 2011, the officers of the Company consisted of the following individuals:

<u>Name</u>	<u>Title</u>
James Joseph Kennedy	President & Chief Executive Officer
David Gary Hendrix	Treasurer & Chief Financial Officer
Susan Porter	Secretary
Randy Thomas O'Conner	Executive Vice President
Todd Emery Albert	Vice President Information Systems
Michael Robert Horvath	Vice President Human Resources
Michael Alexander Brogan	Vice President Claims
Thomas Michael Holtshouse	Vice President Product Management
Kevin David Rall	Vice President Personal Lines, Underwriting and Sales

CODE OF CONDUCT AND CONFLICT OF INTEREST

Title 24-A M.R.S.A. §3413 identifies potential conflict of interest areas. The Company is governed by the OMIG conflict of interest policy whereby directors and officers complete a conflict of interest statement annually to disclose material interest or affiliation which conflicts with his/her official duties and responsibilities.

FIDELITY BOND INSURANCE

The Company is insured under a fidelity bond with its parent, OMIC. The amount of the bond, \$2,000,000, meets the NAIC recommended amount for the combined exposure of the pooled companies.

TERRITORY & PLAN OF OPERATION

The Company is licensed in the states of Rhode Island, New Hampshire, Maine, Connecticut, Vermont, and South Carolina. The Company principally writes personal and commercial auto insurance. An analysis of direct written premium by state follows:

<u>State</u>	Direct Premiums <u>Written</u>
Rhode Island	\$ 5,595,559
New Hampshire	2,861,932
Maine	1,514,648
Connecticut	1,082,045
Vermont	225,822
South Carolina	<u>37,492</u>
Total	<u>\$ 11,317,498</u>

TRANSACTIONS WITH AFFILIATES

As of January 1, 2011, the Company is a party to a reinsurance pooling agreement with its two insurance affiliates, OMIC and UOIC. Under this agreement the Company cedes 100% to the pool and assumes back 8% of the pool. The assumed reserves from the pooling arrangement are accounted for through a funds withheld arrangement.

The Company is also a party to a cost sharing agreement with UOIC in which UOIC manages all payroll and benefits, and payments to outside vendors. UOIC then allocates these expenses based on a pre-determined percentage. The beginning percentage in 2011 was 8% allocated to the Company consistent with the pooling percentages.

The Company is also party to a tax cost sharing agreement with OMIG, UOIC, Centurion Financial, Inc., United Premium Budget Service, Inc., Ohio Agency, INC., and N.E. Corporation (NE Corporation, dissolved in December of 2011, was properly included on the consolidated tax agreement), all part of OMIG. Allocation is based upon separate return calculations with current credit for net losses.

ACCOUNTS AND RECORDS

The 2011 accounts and records were reviewed and tested in order to assess the impact on financial condition and conformity with related laws.

STATUTORY DEPOSITS

The Company reported the following securities on deposit with the State of Maine as of December 31, 2011:

<u>Asset Description</u>	<u>Face Value</u>	<u>Fair Value</u>
US Treasury Note 1.5% 6/30/2016	\$ 30,000	\$ 33,454
Victory Government Reserve Select Money Market	70,000	<u>70,000</u>
		<u>\$103,454</u>

The security deposit at December 31, 2011, with the State of Maine met the requirements set forth in 24-A M.R.S.A. §412.

REINSURANCE

The Company has an excess of loss agreement with General Reinsurance Corporation wherein the Company’s net retention for automobile business is \$150,000 with coverage up to \$1,850,000 in excess of its net retention. The three layers of coverage are as follows:

- First Layer: \$50,000 in excess of \$150,000
- Second Layer: \$300,000 in excess of \$200,000
- Third Layer: \$1,500,000 in excess of \$500,000

The Company has a quota share and excess of loss reinsurance agreement with General Reinsurance Corporation that covers personal umbrella business issued by the Company. The limit of liability of the reinsurer is 95% of the first \$1,000,000 for each occurrence; and 100% of the difference, if any, between the policy limit and the first \$1,000,000 for each occurrence. The Company’s retention is 5% of the first \$1,000,000 each occurrence.

The Company cedes 100% of its net business to the OMIG pool and assumes 8% of the net pooled underwriting results.

OMIC and UOIC, other members of the OMIG pool, had excess casualty reinsurance coverage of \$4,500,000 in excess of \$500,000 and excess property reinsurance coverage of \$2,000,000 in excess of \$500,000. A catastrophic reinsurance contract covering OMIC, UOIC and the Company amounted to 95% of \$46,000,000 in excess of \$4,000,000 and 100% of \$5,000,000 in excess of \$50,000,000.

LITIGATION

The Company is not aware of potential lawsuits or other legal action beyond the ordinary course of business which would be considered material in relation to the financial position of the Company.

FINANCIAL STATEMENTS

The accompanying financial statements fairly present, in all material respects, the Company's statutory financial position as of December 31, 2011, and statutory results of operations for the period then ended.

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

	<u>2011</u>
<u>Assets</u>	
Bonds	\$ 8,822,713
Common stocks	3,689,773
Cash & short-term investments	339,098
Receivables for securities	-
Investment income due & accrued	102,751
Premiums and considerations	3,028,009
Reinsurance recoverable	499,561
Funds held for reinsurance	12,198,818
Federal income tax recoverable	28,045
Net deferred tax asset	736,327
EDP equipment and software	-
Aggregate write-ins for other than invested assets	-
Total assets	<u>\$ 29,445,095</u>
 <u>Liabilities</u>	
Losses	\$ 5,192,895
Loss adjustment expenses	1,172,067
Commissions payable	314,973
Other expenses	286,799
Taxes, licenses, and fees	-
Unearned premiums	5,833,856
Advance premiums	107,632
Ceded reinsurance premiums payable	64,978
Amounts withheld for account of others	693
Provision for reinsurance	628
Payable to parent, subsidiaries, and affiliates	10,557,165
Aggregate write-ins for liabilities	13,302
Total liabilities	<u>23,544,988</u>
 <u>Surplus</u>	
Common capital stock	2,500,000
Gross paid in and contributed surplus	2,900,000
Unassigned funds	500,107
Surplus	<u>5,900,107</u>
Liabilities and surplus	<u>\$ 29,445,095</u>

STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31

2011

Premiums earned	\$ 13,452,890
Underwriting deductions	<u>14,145,587</u>
Net underwriting gain/(loss)	(692,697)
Net investment income earned	356,337
Net realized capital gains /(losses)	<u>34,616</u>
Net investment gain/(loss)	390,953
Other Income	303,621
Net income before federal income taxes	1,877
Federal income taxes	<u>(45,848)</u>
Net income	<u>\$ 47,725</u>

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

2011

Surplus, December 31, prior year	\$ 6,287,311
Net Income	47,725
Change in net unrealized gains/(losses)	(7,889)
Change in net deferred income tax	92,203
Change in nonadmitted assets	(523,449)
Change in provision for reinsurance	(628)
Aggregate write-ins gains/(losses) in surplus	<u>4,834</u>
Change in surplus for the year	<u>(387,204)</u>
Surplus, December 31, current year	<u>\$ 5,900,107</u>

COMMENTS ON THE FINANCIAL STATEMENTS

None noted.

CONCLUSION

The Company's financial condition, as reported by management, is reflected in the statements and supporting exhibits contained in this report. The basis of preparation of such statements conforms to laws, rules, and regulations prescribed and/or permitted by the Maine Bureau of Insurance.

Acknowledgement of cooperation and assistance extended to the examiners by all Company personnel is hereby expressed.

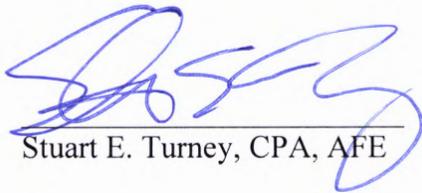
STATE OF MAINE
COUNTY OF KENNEBEC, SS

Stuart E. Turney, being duly sworn according to law deposes and says that, in accordance with authority vested in him by Eric A. Cioppa, Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, he has made an examination of the condition and affairs of the

CASCO INDEMNITY COMPANY

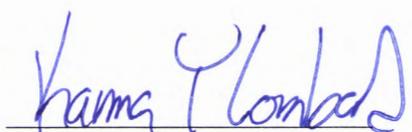
located in Saco, Maine as of December 31, 2011, and that the foregoing report of examination subscribed to by him is true to the best of his knowledge and belief. The following examiners from the Bureau of Insurance assisted:

Graham S. Payne
Margaret S. Boghosian, CPA, CFE
Arias Wan, AFE
Debra L. Blaisdell, AFE



Stuart E. Turney, CPA, AFE

Subscribed and sworn to before me
This 4 day of September, 2012



Notary Public
My Commission Expires:

KARMA Y. LOMBARD
Notary Public, Maine
My Commission Expires June 12, 2018