



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

June 5, 2017

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

MMG Insurance Company

at its statutory home office in Presque Isle, Maine. The following report is respectfully submitted.



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REPORT OF EXAMINATION
MMG INSURANCE COMPANY
AS OF
DECEMBER 31, 2015

ACCEPTANCE OF REPORT OF EXAMINATION

WHEREAS a verified Report of Examination of MMG Insurance Company dated June 5, 2017, was delivered to that insurer on June 9, 2017, and

WHEREAS no hearing with respect to the Report of Examination has been requested by MMG 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: 6-29-17


Eric A. Cioppa, Superintendent

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SCOPE OF EXAMINATION

MMG Insurance Company (“MMG” or “Company”) was last examined as of December 31, 2010, by the State of Maine Bureau of Insurance. This examination covered the period from January 1, 2011 to December 31, 2015.

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 2016 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, and corporate governance, valuation of assets, and determination of liabilities at December 31, 2015. 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.

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

MMG, formerly known as Maine Mutual Fire Insurance Company, was incorporated on May 22, 1897 in the State of Maine and commenced writing business during that year. MMG, a property/casualty insurer, is domiciled in the State of Maine with corporate headquarters located in Presque Isle, Maine.

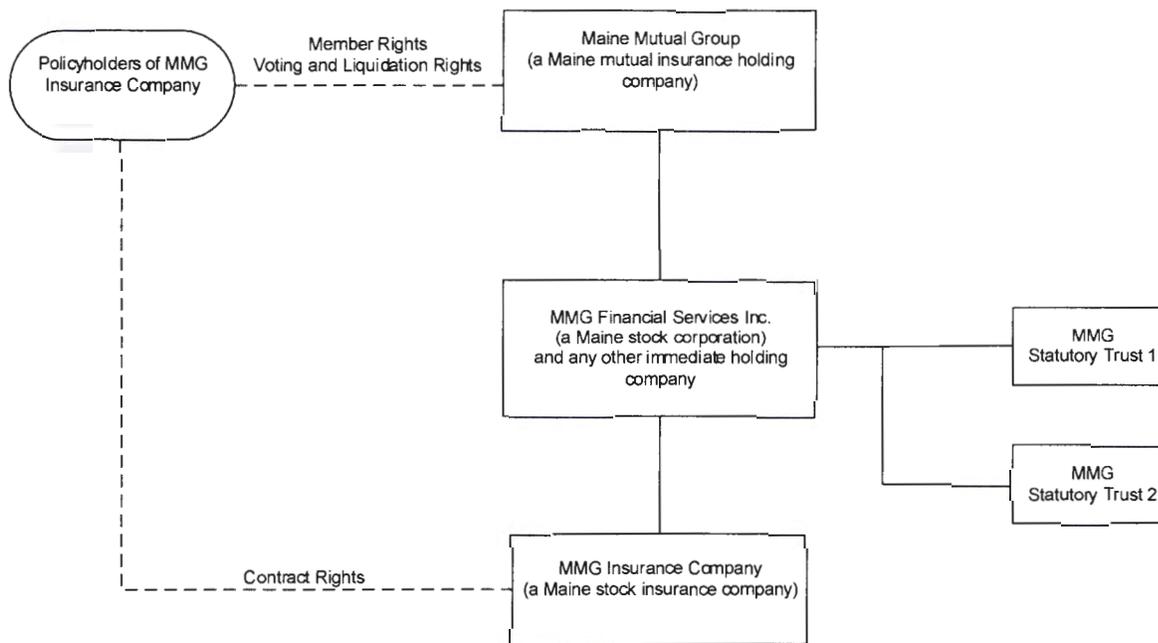
On March 15, 2002, MMG completed the following:

- Conversion of Maine Mutual Fire Insurance Company to MMG Insurance Company, a stock insurance company;
- Formation of Maine Mutual Group, a mutual holding company;
- Formation of MMG Financial Services, Inc., (“MMGFSI”) a stock holding company.

MMG is the same legal entity that it was before conversion. Pursuant to Maine law, the converted insurer is a continuation of the insurer in its mutual form and the conversion does not annul, modify or change any of MMG’s existing suits, rights, contracts or liabilities.

MANAGEMENT AND CONTROL

MMG is a wholly owned subsidiary of MMGFSI. The corporate ownership diagram follows:



CORPORATE RECORDS

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

CORPORATE GOVERNANCE

MMG is governed and overseen by its board of directors and the management team of MMG.

As of December 31, 2015, the board of directors of MMG consisted of the following members:

<u>Name</u>	<u>Title</u>
John Henry Cashwell III	Chairman
Samuel Wilson Collins	Director
Harold Anthony Dakin	Director
Jean Marguerite Deighan	Director
Dawn Hill	Director
Michael David MacPherson	Director
Jay York McCrum	Director
James Edwin Nevels	Director
Donald Walker Perkins Jr.	Director
Jon Joseph Prescott	Director
Larry Martin Shaw	Director
Lisa Marie Ventriss	Director

As of December 31, 2015, the executive officers of MMG consisted of the following individuals:

<u>Name</u>	<u>Title</u>
Larry Martin Shaw	President & Chief Executive Officer
Matthew Ricker McHatten	Executive Vice President, Chief Operating Officer, Secretary
Michael Martin Young	Senior Vice President, Chief Financial Officer, Treasurer
Stephen James Gallant*	Senior Vice President External Operations

*Effective February 24, 2017, Stephen James Gallant resigned as Senior Vice President of External Operations.

TRANSACTIONS WITH AFFILIATES

MMG is a party to a written tax sharing agreement with Maine Mutual Group and MMGFSI whereby tax allocation is made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return.

Effective December 30, 2015, MMGFSI issued 225,506 shares of Class A Common Stock to Farm Bureau of Michigan Group (“FBG”), a Michigan insurance corporation, for an aggregate purchase price of \$10,000,041. MMGFSI also granted FBG with warrants to purchase an additional 180,404 shares of Class A Common Stock. The stock purchase by FBG, in conjunction with the redemption of all shares of common and preferred stock owned by Country Mutual Insurance Company, resulted in net proceeds, after legal fees and closing costs, of \$1,244,928, which MMGFSI contributed as capital to MMG.

MMG makes regular dividend payments to MMGFSI. The dividend payments relate to the financing of certain capital transactions.

TERRITORY & PLAN OF OPERATION

MMG is licensed to transact business in the states of Maine, New Hampshire, New York, Pennsylvania, Vermont, and Virginia. MMG is a multi-line property and casualty company writing personal and commercial coverage.

REINSURANCE

MMG's primary reinsurance treaties include property and casualty excess of loss, catastrophe, quota share, and facultative contracts. Summaries of the contracts in place during the examination period follow:

- Property Excess: Prior to 2014, MMG's retention was \$250,000 with three layers of protection limited to \$7,000,000. In 2014, MMG's retention increased to \$300,000.
- Casualty Excess: Throughout the examination period MMG's retention was \$250,000. In 2011, a participation arrangement was adopted on the first layer with MMG retaining a portion of \$250,000 in excess of the \$250,000 retention. The treaty provides four layers of protection limited to \$5,000,000.
- Personal Umbrella: MMG cedes 90% of the first \$1,000,000 and 100% of the next \$4,000,000.
- Commercial Umbrella: Prior to 2013, MMG ceded 95% of the first \$2,000,000 and 100% on the next \$3,000,000. Beginning in 2013, MMG cedes 90% of the first \$1,000,000 and 100% on the next \$4,000,000.
- Facultative Property: Prior to 2014, MMG had facultative property coverage with individual limits. This arrangement was discontinued at the end of 2014. A new treaty commenced in 2014, providing coverage for policies with limits above \$7,000,000 up to \$12,000,000. In 2015, the upper limit increased from \$12,000,000 to \$15,000,000.
- Property Catastrophe Excess: From 2011 through 2013, MMG ceded 95% with limit of \$97,000,000 in excess of the \$3,000,000 retention. Beginning in 2014, MMG cedes 100% with limit of \$106,000,000 excess of \$4,000,000. In 2015, the limit increased to \$116,000,000.

The Company eliminated its net lines quota share in 2013. Additionally, the net lines quota share agreement for the years 2011 and 2012 were commuted effective January 1, 2015 and January 1, 2016, respectively. There was no effect on the operating statement for the year ending December 31, 2015 as a result of commutation.

FINANCIAL STATEMENTS

The Statement of Admitted Assets, Liabilities and Surplus, the Statement of Operations, 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 Maine Bureau of Insurance and thus the Maine Bureau of Insurance does not express an opinion on the financial statements as a whole.

**STATEMENT OF ADMITTED ASSETS, LIABILITIES, AND SURPLUS
AS OF DECEMBER 31, 2015**

<u>Assets</u>	
Bonds	\$ 129,923,119
Common stocks	32,968,826
Real estate occupied	5,264,025
Cash	19,295,629
Receivables for securities	74,033
Investment income due and accrued	1,488,020
Uncollected premiums in the course of collection	6,235,856
Deferred premiums, agents' balances and installments	39,177,108
Amounts recoverable from reinsurers	320,054
Current federal and foreign income tax recoverable	867,980
Net deferred tax asset	5,486,046
EDP equipment and software	515,045
Receivables from parent and affiliates	575,743
Aggregate write-ins	<u>2,966,645</u>
Total assets	<u>\$ 245,158,129</u>
 <u>Liabilities</u>	
Losses	\$ 38,579,336
Loss adjustment expenses	10,667,186
Commissions payable	9,557,196
Other expenses	1,437,242
Taxes, licenses and fees	530,731
Unearned premiums	83,725,428
Advance premiums	2,342,391
Ceded reinsurance premiums payable	2,324,415
Funds held by company under reinsurance treaties	155,839
Amounts withheld or retained for account of others	1,257,379
Drafts outstanding	1,746
Payable for securities	<u>99,463</u>
Total liabilities	<u>150,678,352</u>
 <u>Capital and Surplus</u>	
Common capital stock	2,500,000
Gross paid in and contributed surplus	36,619,065
Unassigned funds	<u>55,360,712</u>
Surplus as regards policyholders	<u>94,479,777</u>
Total liabilities, capital and surplus	<u>\$ 245,158,129</u>

STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2015

Premiums earned	\$ 149,067,377
Deductions:	
Losses incurred	83,008,030
Loss adjustment expenses	14,514,226
Other underwriting expenses	51,291,149
Total underwriting deductions	<u>148,813,405</u>
Total underwriting gain	<u>253,972</u>
Net investment income earned	4,083,847
Net realized capital gains net of capital gains taxes	<u>583,566</u>
Net investment income	<u>4,667,413</u>
Net loss from premiums charged off	(26,657)
Finance and service charges	1,062,522
Aggregate write-ins for miscellaneous income	<u>13,325</u>
Total other income	<u>1,049,190</u>
Net income before federal income taxes	5,970,575
Federal income taxes	<u>1,496,983</u>
Net income	<u>\$ 4,473,592</u>

**STATEMENT OF CAPITAL AND SURPLUS
YEAR ENDED DECEMBER 31, 2015**

Capital and surplus, December 31, 2014	\$ 90,162,794
Net income	4,473,592
Change in net unrealized capital gains (losses), net of capital gains tax	(1,055,387)
Change in net deferred income tax	381,735
Change in nonadmitted assets	(363,940)
Paid in surplus	1,244,928
Dividends to stockholders	(363,937)
Aggregate write-ins for gains and losses in surplus	<u> (8)</u>
Net change in capital and surplus	<u>4,316,983</u>
Capital and surplus, December 31, 2015	<u><u>\$ 94,479,777</u></u>

COMMENTS ON THE FINANCIAL STATEMENTS

NOTE 1 – RESERVES

Lewis & Ellis, Inc. (“consulting actuary”) was engaged to provide actuarial assistance with the financial examination of the Company as of December 31, 2015. The reserves as reported by the Company were determined to be reasonable based on the review performed by the consulting actuary.

NOTE 2 – CAPITAL AND SURPLUS

The following table describes the capital and surplus changes for the five year period since the Maine Bureau of Insurance's last examination of the Company, dated December 31, 2010:

Capital and surplus, December 31, 2010	\$	69,344,383
Net income		25,703,531
Change in net unrealized capital gains or (losses), net of capital gains tax		(87,320)
Change in net deferred income tax		1,149,800
Change in nonadmitted assets		(243,149)
Surplus adjustments: Paid in		1,244,928
Dividends to stockholders		(2,842,899)
Aggregate write-ins for gains and losses in surplus		210,503
Capital and surplus, December 31, 2015	\$	<u>94,479,777</u>

NOTE 3 – PERMITTED PRACTICES

Guaranty Fund Assessments

MMG was granted a permitted practice related to guaranty fund assessments effective January 1, 2001. The permitted practice allows MMG to book future guaranty fund assessments on a paid basis.

Airplane Classified as Admitted Asset

MMG was granted a permitted practice allowing them to account for an airplane as an admitted asset. This permitted practice was approved as of 12/31/2012.

SUBSEQUENT EVENTS

Beginning on August 1, 2016, and continuing for an initial period of eleven years, until July 31, 2027, the Company entered into a system operating lease agreement with its parent, MMGFSI. Through this lease agreement, the Company leases an operating software technology platform integrated into its upgraded Core Operating System for use in the operation of its business.

Effective January 1, 2017, the Company moved the responsibility for equity advisory services from UBS Financial Services to New England Asset Management, Inc. Also effective January 1, 2017, TD Bank, NA assumed custodianship of the Company’s equity portfolio.

SUMMARY OF RECOMMENDATIONS

There are no report level recommendations.

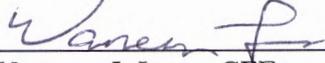
**STATE OF MAINE
COUNTY OF KENNEBEC, SS**

Vanessa J. Leon, 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

MMG INSURANCE COMPANY

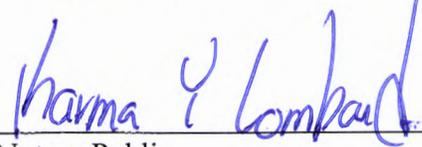
located in Presque Isle, Maine as of December 31, 2015, and that the foregoing report of examination subscribed to by her is true to the best of her knowledge and belief. The following examiners from the Bureau of Insurance assisted:

Arias Wan, CPA, CFE
Audrey L. Wade, CFE, CISA
Jason M. Freedman, CFE
Sarah A. Hyde
Rebecca J. Nelson



Vanessa J. Leon, CFE

Subscribed and sworn to before me
This 29 day of June, 2017



Notary Public
My Commission Expires:

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

APPENDIX A – STATEMENT OF ACTUARIAL OPINION

APPENDIX

MMG Insurance Company Statement of Actuarial Opinion as of December 31, 2015

I, Patrick Glenn am Vice President of the firm of Lewis & Ellis, Inc. ("L&E"). I am a Member of the American Academy of Actuaries and meet its qualification standards and I am an Associate of the Casualty Actuarial Society. I was retained by the Maine Bureau of Insurance ("MBOI") to render this Opinion on the liabilities of MMG Insurance Company ("Company").

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by the Company and the data contained in the actuarial report prepared by Jeffrey Carlson, FCAS, MAAA, of Willis Towers Watson, a consulting actuary. We conclude that the aforementioned reserves carried by the Company make a reasonable provision for the associated liabilities through December 31, 2015.

We believe the calculations were performed in accordance with commonly accepted reserving methods and are based on appropriate actuarial factors given the risk exposures under the policy provisions. Our estimates of the reserves make no provision for the extraordinary future emergence of either new classes of losses or post-contractual expansions of policy coverages.

With respect to ceded losses and loss adjustment expenses and unearned premiums, I have relied on the Company's assertion that all ceded reinsurance is valid and collectible.

I have examined the reserves listed in Exhibit A, as shown in the Company's Annual Statement as prepared for filing with state regulatory officials as of December 31, 2015. The items in the SCOPE, on which I am issuing an opinion, reflect the Loss Reserve Disclosure items (8 thru 13) in Exhibit B.

In my opinion, the amounts carried in Exhibit A on account of the items identified:

- (i) are consistent with reserves amounts computed in accordance with generally accepted actuarial standards and principles;
- (ii) meet the requirements of the insurance laws of Maine; and,
- (iii) make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company, in the aggregate, under the terms of its policies and agreements.

LEWIS & ELLIS, INC.



Patrick Glenn, A.C.A.S., A.S.A., M.A.A.A.
Vice President & Consulting Actuary

April 28, 2017

Appendix (continued)

STATEMENT OF ACTUARIAL OPINION

MMG Insurance Company

Exhibit A: SCOPE

<u>Loss and Loss Adjustment Expense Reserves:</u>	<u>Amount:</u>
(1) Reserve for Unpaid Losses (Liabilities, Surplus, and Other Funds page, Line 1)	<u>\$ 38,579,336</u>
(2) Reserve for Unpaid Loss Adjustment Expenses (Liabilities, Surplus, and Other Funds page, Line 3)	<u>\$ 10,667,186</u>
(3) Reserve for Unpaid Losses - Direct and Assumed (Schedule P, Part 1, Totals from Cols. 13 and 15)	<u>\$ 45,152,000</u>
(4) Reserve for Unpaid Loss Adjustment Expenses - Direct & Assumed (Schedule P, Part 1, Totals from Cols. 17, 19, and 21)	<u>\$ 12,846,000</u>
(5) The Page 3 write-in item reserve, "Retroactive Reinsurance Reserve Assumed"	<u>\$ 0</u>
(6) Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (list separately)	<u>\$ 0</u>
<u>Premium Reserves:</u>	
(7) Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	<u>\$ 0</u>
(8) Reserve for Net Unearned Premiums for Long Duration Contracts	<u>\$ 0</u>
(9) Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion	<u>\$ 0</u>

Appendix (continued)

MMG Insurance Company

Exhibit B: DISCLOSURES

	Column 1	Column 2	Column 3	Column 4
1. Name of the Appointed Actuary		Glenn	Patrick	D.
2. The Appointed Actuary's Relationship to the Company. Enter E or C based upon the following: E if an Employee C if a Consultant			<u>C</u>	
3. The Appointed Actuary is a Qualified Actuary based upon what qualification? Enter F, A, M, or O based upon the following: F if a Fellow of the Casualty Actuarial Society (FCAS) A if an Associate of the Casualty Actuarial Society (ACAS) M if not a member of the Casualty Actuarial Society, but a Member of the American Academy of Actuaries (MAAA) approved by the Casualty Practice Council, as documented with the attached approval letter. O for Other			<u>A</u>	
4. Type of Opinion, as identified in the OPINION paragraph. Enter R, I, E, Q, or N based upon the following: R if Reasonable I if Inadequate or Deficient Provision E if Excessive or Redundant Provision Q if Qualified. Use Q when part of the OPINION is qualified. N if No Opinion			<u>R</u>	
5. Materiality Standard expressed in US dollars (Used to answer question #6)	<u>\$ 18,896,000</u>			
6. Is there a Significant Risk of Material Adverse Deviation?			Yes []	No [X]
7. Statutory Surplus	<u>\$94,479,777</u>			
8. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P	<u>\$ 400,000</u>			
9. Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P				
9.1 Nontabular Discount	<u>\$ 0</u>			
9.2 Tabular Discount	<u>\$ 0</u>			
10. The net reserves for losses and expenses for the company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines	<u>\$ 18,427</u>			
11. The net reserves for losses and loss adjustment expenses that the company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines. *				
11.1 Asbestos, as disclosed in the Notes to Financial Statements	<u>\$ 0</u>			
11.2 Environmental, as disclosed in the Notes to Financial Statements	<u>\$ 0</u>			
12. The total claims made extended loss and expense reserve (Schedule P Interrogatories)				
12.1 Amount reported as loss reserves	<u>\$ 0</u>			
12.2 Amount reported as unearned premium reserves	<u>\$ 0</u>			
13. Other items on which the Appointed Actuary is providing Relevant Comment (list separately)	<u>\$ 0</u>			