

**THE COMMONWEALTH OF MASSACHUSETTS**  
**OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION**

**Division of Insurance**

*Report on the Statutory Examination of the*

*United States Branch of*

*Assumption Mutual Life Insurance Company*

*Moncton, New Brunswick, Canada*

*As of December 31, 2008*

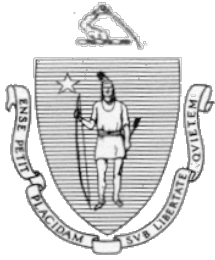
**NAIC GROUP CODE: 0000**

**NAIC COMPANY CODE: 84654**

**EMPLOYERS ID NUMBER: 98-0013963**

## **Table of Contents**

SALUTATION	1
SCOPE OF EXAMINATION	2
HISTORY	2
Growth of Company	3
MANAGEMENT AND CONTROL	3
Annual Meeting	3
Board of Directors	3
Governance and Nomination Committee	4
Investment Committee	4
Audit and Review Committee	5
Human Resources Committee	5
Conduct Review Committee	5
Officers	5
Conflict of Interest	6
Articles of Incorporation and By-Laws	6
Board of Directors Minutes	6
Disaster Recovery and Business Continuity	6
SPECIAL DEPOSITS	7
TREATMENT OF POLICYHOLDERS AND RELATED PRACTICES	7
Dividends to Policyholders	7
REINSURANCE	7
Ceded – Madison National Life Insurance Company	7
Ceded – Optimum Re Insurance Company	8
SUBSEQUENT EVENTS	8
ACCOUNTS AND RECORDS	8
FINANCIAL STATEMENTS	8
Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2008	9
Statement of Operations for the Year Ended December 31, 2008	11
Statement of Changes in Capital and Surplus for the Year Ended December 31, 2008	12
Statement of Changes in Capital and Surplus for the Years Ended December 31, 2006, 2007, 2008	13
ACKNOWLEDGEMENT	14



**COMMONWEALTH OF MASSACHUSETTS**  
**Office of Consumer Affairs and Business Regulation**  
**DIVISION OF INSURANCE**

1000 Washington Street, Suite 810 • Boston, MA 02118-6200  
(617) 521-7794 • <http://www.mass.gov/doi>

**DEVAL L. PATRICK**  
GOVERNOR

**TIMOTHY P. MURRAY**  
LIEUTENANT GOVERNOR

**GREGORY BIALECKI**  
SECRETARY OF HOUSING AND  
ECONOMIC DEVELOPMENT

**BARBARA ANTHONY**  
UNDERSECRETARY OF CONSUMER AFFAIRS  
AND BUSINESS REGULATION

**JOSEPH G. MURPHY**  
COMMISSIONER OF INSURANCE

June 11, 2008

Honorable Alfred W. Gross, Chairman  
Financial Condition (E) Committee, NAIC  
Commissioner of Insurance  
Bureau of Insurance  
Commonwealth of Virginia  
PO Box 1157  
Richmond, Virginia 23218

Honorable Joseph G. Murphy  
Commissioner of Insurance  
Commonwealth of Massachusetts  
Office of Consumer Affairs and Business  
Regulation  
Division of Insurance  
1000 Washington Street, Suite 810  
Boston, Massachusetts 02118-6200

Honorable Commissioners:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of the

**UNITED STATES BRANCH**  
**of**  
**ASSUMPTION MUTUAL LIFE INSURANCE COMPANY**  
**Moncton, New Brunswick, Canada**

at its home office located at 770 Main Street, Moncton, New Brunswick, Canada E1C 8L1. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

The United States Branch of the Assumption Mutual Life Insurance Company (hereinafter referred to as “the Company”) was last examined as of December 31, 2003. The current examination covers the period from January 1, 2004 through December 31, 2008, and any material transactions and/or events occurring subsequent. The financial examination was conducted in accordance with Massachusetts General Laws (“MGL”) Chapter 175, Section 4, and substantially complied with those standards established by the Financial Condition (E) Committee of the National Association of Insurance Commissioners (“NAIC”) and the *NAIC Financial Condition Examiners Handbook*, and examination standards of the Massachusetts Division of Insurance (“the Division”).

The principal focus of the examination was 2008 activity however, transactions both prior and subsequent thereto were reviewed as deemed appropriate. The examination was conducted following the NAIC Risk Focused Examination Model. The examiners considered reliance on the Company’s external auditors, Ernst & Young LLP’s (“E&Y”) IT General Controls review, internal control evaluations and account balance testing conducted by E&Y as part of our statutory compliance examination.

In addition to a review of the financial condition of the Company, the examination included a review of the Company’s business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

During the examination period and for the year ending December 31, 2008, the Company was audited annually by LeBlanc Nadeau Bujold, an Independent Chartered Accountants firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2004 through 2008. Effective for 2009, LeBlanc Nadeau Bujold was acquired by E&Y, and the Company is now audited by E&Y. A review and use of the Chartered Accountants’ work papers were made to the extent deemed appropriate and effective.

## **HISTORY**

The Company, formerly a Society, was originally founded in Waltham, Massachusetts, on September 8, 1903, and entered Canada in 1904. On April 5, 1907, the Society was incorporated as a Fraternal Society by an Act of the Legislature of the Province of New Brunswick, Edward VII, Chapter 78.

The Company on January 1, 1969, became a mutual life insurance company when all requirements for mutualization of the Company were completed in accordance with the Canadian and British Insurance Companies Act as amended by the Parliament of Canada. In the fall of 1972, the Company’s home office was relocated to 770 Main Street, Moncton, New Brunswick.

The Company, in entering the United States, chose the Commonwealth of Massachusetts as its “point of entry”. For this reason the Company must meet the requirements of the Commonwealth of Massachusetts’ General Laws and any additional requirements of other states in which it is licensed to transact business.

The Company is authorized to write life and annuity policies, as well as accident and health insurance. Effective September 1, 2005 the Company entered into an assumption reinsurance agreement with Madison National Life Insurance Company, Inc., (“Madison Life”) a Wisconsin domiciled insurer, to sell its United States insurance policies, annuity contracts, and deposit funds, effectively discontinuing all operations of the US Branch.

### **Growth of the Company**

The growth of the Company for the years 2004 through 2008 is shown in the following schedule, which was prepared from the Company’s Annual Statements.

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written</u>	<u>Surplus</u>
2008	\$10,616,627	\$ 0	\$ 10,562,552
2007	12,414,245	0	12,275,854
2006	11,445,086	0	11,353,378
2005	13,455,797	263,248	12,818,088
2004	48,705,134	407,958	8,990,646

## **MANAGEMENT AND CONTROL**

### **Annual Meeting**

In accordance with the by-laws, the Annual Meeting of the Company is held within the first 60 days of the calendar year. A review of the minutes of the annual meetings indicated that the meetings were held within the established time frame and that a quorum was obtained at each annual meeting held during the examination period.

### **Board of Directors**

The business and affairs of the Company are managed by the Board of Directors, except as otherwise provided in the statute of incorporation. The by-laws provide that the Board of Directors shall consist of not more than twelve (12) members. Directors are elected at the annual meeting by resolution of the policyholders. Each Director holds office for a term of three (3) years or for such shorter period that shall be determined by the Board, in accordance with the by-laws. The by-laws provide that vacancies occurring on the Board before the expiration of a Director’s term may be filled by the Board of Directors.

At December 31, 2008 the Board is comprised of nine Directors, which is in compliance with the Company by-laws. Directors duly elected and serving at December 31, 2008, with principal business affiliations, are as follows:

**Director****Business Affiliation**

Denis Losier	President and Chief Executive Officer
Yves Arseneau	Allen, Paquet & Arseneau, LLP
Maureen E. Reid	President, Boardworks Consulting, Inc.
Allister Surette	Vice President, Universite Sainte-Anne, Campus de Tusket
Philippe DesRosiers	Chairman of the Board, Assumption Mutual Life Insurance Company
Gilles LeBlanc	President, Assurance Goguen Champlain Insurance
Gerald L. Pond	Chairman and Chief Executive Officer, Mariner Partners Inc.
George Marcoux	Vice President, Assumption Mutual Insurance Company
Denis Larocque	Chief Financial Officer, Major Drilling

The by-laws do not specify the number of meetings to be held during a year. The minutes of the Board of Directors meetings indicated that meetings were held at least five times per year during the examination period. At any meeting of the Board, six Directors constitute a quorum.

**Governance and Nomination Committee**

The Board of Directors appointed a Governance Committee in accordance with the by-laws. The Governance Committee is comprised of six (6) Directors empowered to act on behalf of the Board. The committee's purpose is to ensure the establishment, development and functioning of the Board of Directors and its committees; that the Company's mission and strategic direction serve the best interests of the Company, its clients and its policyholders; and, to represent the Board of Directors when it is not practical to call a meeting of the entire Board. The members of the Governance Committee as of the examination date are as follows:

Philippe DesRosiers, President  
Denis Larocque  
Gilles LeBlanc  
Denis Losier  
Georges Marcoux  
Maureen Reid

In addition to the Governance Committee, the Company maintains the following committees. The purpose of each committee and members of each as of the examination date are as follows:

**Investment Committee**

Review the investment policy at least once a year and recommend the policy to the Board of Directors for approval. Recommend for approval to the Board of Directors as it deems appropriate, those investments that because of their scope or impact or because of the precedent that might be created, would exceed the authority of the Committee. The members of the Investment Committee

as of the examination date are as follows:

Gilles LeBlanc, President  
Philippe DesRosiers  
Denis Larocque  
Denis Losier

### **Audit and Review Committee**

Review the annual and quarterly financial reports and submits such reports to the Board of Directors for approval. Review all management reports that accompany the financial statements. Review recommendations by external and internal auditors. The members of the Audit and Review Committee as of the examination date are as follows:

Denis Larocque, President  
Yves Arseneau  
Philippe DesRosiers  
Gerald Pond

### **Human Resources Committee**

Establish salaries, benefits, bonuses, and other personnel issues. The members of the Human Resources Committee as of the examination date are as follows:

Maureen Reid, President  
Gilles LeBlanc  
Denis Losier  
Georges Marcoux  
Noel Despres  
Allister Surette

### **Conduct Review Committee**

Examine transactions between the Company and related parties in order to measure the impact on the stability or solvency of the Company and to ensure conformity with applicable laws. The members of the Conduct Review Committee as of the examination date are as follows:

Denis Larocque, President  
Yves Arseneau  
Philippe DesRosiers  
Gerald Pond

### **Officers**

The by-laws of the Company provide that the officers of the Company shall be a Secretary and whomever else the Board of Directors determines. Pursuant to the by-laws, the Board of Directors elect the officers of the Company at the first meeting of the Board held after the Annual Meeting. Vacancies among the officers may be filled and new officer positions created and filled by the Board of Directors. The elected officers and their respective titles as of the examination date are as follows:

<b><u>Name</u></b>	<b><u>Title</u></b>
Philippe DesRosiers	Chairman of the Board
Georges Marcoux	Vice President of the Board
Denis Losier	President and Chief Executive Officer
Odette Snow	Vice President, General Counsel and Corporate Secretary
Larry Boudreau	Vice President, Sales and Marketing
Robert Moreau	Vice President and Chief Financial Officer
Paul LeBlanc	Vice President, Administration
Raymond Martin	Vice President, Actuarial Service
Luc Farmer	Appointed Actuary

### **Conflict of Interest**

The Company has adopted a policy statement pertaining to conflict of interest in accordance with Question 13 of the General Interrogatories of the Annual Statement. The Company has an established procedure for the disclosure to the Board of Directors of any material interest or affiliation on the part of any officer or director, which is in or is likely to conflict with his/her official duties. Annually, each officer, director and responsible employee completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed, and no discrepancies were noted.

### **Articles of Incorporation and By-laws**

The by-laws and amendments thereto were reviewed. During the examination period the only amendment to the by-laws, adopted by the Board of Directors at the meeting held on February 21, 2008 was to provide that the quorum for a meeting of the Board of Directors is reduced from seven to six.

### **Board of Directors Minutes**

The minutes of the Board of Directors and Committee meetings for the period under examination were provided and reviewed and indicated that all meetings were held in accordance with the Company by-laws and the laws of the Commonwealth of Massachusetts.

### **Disaster Recovery and Business Continuity**

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L. c.175 § 180M-180Q.



## **SPECIAL DEPOSITS**

Special deposits of the Company at December 31, 2008 are as follows:

<b><u>State</u></b>	<b><u>Purpose of Deposit</u></b>	<b><u>Book Value</u></b>	<b><u>Fair Value</u></b>
Rhode Island	Benefit of Rhode Island Policyholders	\$300,000	\$300,000

## **TREATMENT OF POLICYHOLDERS AND RELATED PRACTICES**

The Company reports its business written in the United States separately from its Canadian based business. Although licensed in five States the Company no longer issues new business, and its US Branch Operations have been 100% ceded to Madison Life. The reinsurance agreements with Madison Life include a 100% Coinsurance Agreement, an Assumption Reinsurance Agreement and an Administrative Agreement whereby Madison Life will provide full and complete policyholder administrative and related services to the transferred policies. Refer to the Reinsurance Section later in this report for additional details relating to this event.

### **Dividends to Policyholders**

The Company annually determines the amount of divisible surplus available as dividends to eligible policyholders. Surplus in excess of what the Company's Board of Directors determines to be necessary to meet its future policy and operating obligations, is distributed annually in the form of dividends on the Company's participating policies, subject to statutory mandates. Policyholder dividends for the examination period are as follows:

<b><u>Year</u></b>	<b><u>Dividends to Policyholders</u></b>
2008	\$ 54,512
2007	64,835
2006	139,573
2005	139,366
2004	144,644

## **REINSURANCE**

### **Ceded - Madison National Life Insurance Company**

Effective September 1, 2005, the Company entered into a series of agreements with Madison Life to essentially sell and reinsure the entire block of US Branch policies. Included in the series of agreements is a 100% Coinsurance Agreement, an Assumption Reinsurance Agreement, a Funding Trust Agreement, and an Administration Agreement. Under this series of agreements, the Company agreed to cede, and Madison Life agreed to assume 100% of all US based policies, administer those policies, and execute as part of the Assumption Agreement, assumption certificates to any policyholder wishing to accept the assumption by Madison Life. In addition, Madison Life entered into an agreement to administer and reinsure 100% of all policies ceded whereby the policyholder

chooses to reject the assignment and assumption by Madison Life.

The Reinsurance Trust Agreement was established to maintain a trust account in the United States to consist of funds equal to 102% of the required statutory reserves of the reinsured policies.

### **Ceded – Optimum Re Insurance Company**

The Company has in place a reinsurance agreement to cede its universal life business to Optimum Re Insurance Company under an automatic coinsurance treaty. The Company's retention is \$75,000 per life and its retention on the disability business is \$250 per month. This treaty remains in effect and includes those policies not fully assumed by Madison Life due to the election of certain policyholders rejecting the assignment and assumption by Madison Life.

### **SUBSEQUENT EVENTS**

Since the Company discontinued writing new business in the United States, the US Branch operations has consisted entirely of a closed block of policies. With the execution of the Assumption Reinsurance Agreement relating to this closed block of policies effective September 1, 2005 through December 31, 2009, there remained only 1,356 policyholders. As noted above, this business is 100% reinsured and administered by Madison Life. During 2010, the Company requested permission from the Division to surrender its Certificate of Authority to transact business in Massachusetts. In addition the Company expressed its desire to surrender the licenses it holds in Connecticut, Maine, New Hampshire and Rhode Island. This issue is currently under consideration by the Division.

### **ACCOUNTS AND RECORDS**

The internal control structure was discussed with management and the Company's Independent Chartered Accountants. Upon consideration of the reinsurance agreement in place with Madison Life, as well as the corresponding administrative services agreement, the applicable general and IT controls relating to the US Branch operations are minimal. Based on these agreements and discussions with management and E&Y, and our overall observation of the Company's control environment, no deficiencies were noted.

### **FINANCIAL STATEMENTS**

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and by the NAIC as of December 31, 2008.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2008

Summary of Operations for the Year Ended December 31, 2008

Statement of Changes in Capital and Surplus for the Year Ended December 31, 2008

Statement of Changes in Capital and Surplus for each Year in the Five Year Period Ended December 31, 2008

**The United States Branch of Assumption Mutual Life Insurance Company**

**Statement of Assets, Liabilities, Surplus and Other Funds**

**As of December 31, 2008**

<b>Assets</b>	<b>As Reported by the Company</b>	<b>Examination Changes</b>	<b>Per Statutory Examination</b>
Bonds	\$ 7,188,632	\$ 0	\$ 7,188,632
Cash, cash equivalents and short-term investments	3,078,168		3,078,168
Receivable for securities	206,761		206,761
Subtotals, cash and invested assets	10,473,562		10,473,561
Investment income due and accrued	103,321		103,321
Reinsurance:			
Other amounts receivable under reinsurance contracts	1,384		1,384
Current federal and foreign income tax recoverable	38,360		38,360
Total Assets	<u>\$ 10,616,627</u>	<u>\$ 0</u>	<u>\$ 10,616,627</u>

**The United States Branch of Assumption Mutual Life Insurance Company**  
**Statement of Assets, Liabilities, Surplus and Other Funds (Continued)**  
**As of December 31, 2008**

<b>Liabilities</b>	<b>As Reported by the Company</b>	<b>Examination Changes</b>	<b>Per Statutory Examination</b>
Contract claims:			
Life	\$ 5,449	\$ 0	\$ 5,449
Amounts withheld or retained by company as agent or trustee	27,060		27,060
Asset valuation reserve	21,566		21,566
Total Liabilities	<u>54,075</u>		<u>54,075</u>
Aggregate write-ins for other than special surplus funds	<u>10,562,552</u>		<u>10,562,552</u>
Total Surplus	10,562,552		10,562,552
Total Liabilities, Capital and Surplus	<u>\$ 10,616,627</u>	<u>\$ 0</u>	<u>\$ 10,616,627</u>

For Informational Purposes Only

**The United States Branch of Assumption Mutual Life Insurance Company**  
**Summary of Operations**  
**For the Year Ended December 31, 2008**

	<b>As Reported by the Company</b>	<b>Examination Changes</b>	<b>Per Statutory Examination</b>
Net investment income	\$ 439,888	\$ 0	\$ 439,888
Amortization of interest maintenance reserve	(45,569)		(45,569)
<b>Total</b>	<b>394,319</b>		<b>394,319</b>
General insurance expenses	620		620
Insurance taxes, licenses and fees, excl. federal income taxes	36,522		36,522
Aggregate write-ins for deductions	13,232		13,232
<b>Totals</b>	<b>50,374</b>		<b>50,374</b>
Net gain from operations before dividends to policyholders and federal income taxes	343,946		343,946
Federal income taxes incurred (excluding tax on capital gains)	69,316		69,316
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	274,630		274,630
Net realized capital gains or (losses)	(43,162)		(43,162)
<b>Net Income</b>	<b>\$ 231,468</b>	<b>\$ 0</b>	<b>\$ 231,468</b>

**The United States Branch of Assumption Mutual Life Insurance Company**  
**Capital and Surplus**  
**For the Year Ended December 31, 2008**

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Capital and surplus, December 31, prior year	\$ 12,275,854	\$ 0	\$ 12,275,854
Net income	231,468		231,468
Change in net unrealized foreign exchange capital gain (loss)	(1,005,587)		(1,005,587)
Change in net deferred income tax	9,154		
Change in nonadmitted assets and related items	40,811		9,154
Change in asset valuation reserve	8,983		40,811
Aggregate write-ins for gains and losses in surplus	(998,131)		8,983
			(998,131)
Net change in capital and surplus for the year	(1,713,302)		(1,713,302)
Capital and surplus, December 31, 2008	<u>\$ 10,562,552</u>	<u>\$ 0</u>	<u>\$ 10,562,552</u>

**The United States Branch of Assumption Mutual Life Insurance Company**  
**Reconciliation of Capital and Surplus**  
**For the Five Year Period Ended December 31, 2008**

	2008	2007	2006	2005	2004
Capital and surplus, December 31, prior year	\$12,275,854	\$11,353,378	\$12,818,088	\$8,990,646	\$8,356,673
Net income	231,468	457,536	370,010	4,193,719	437,035
Change in net unrealized capital gains or (losses)	0	0	175	(100,397)	(448)
Change in net unrealized foreign exchange capital gain (loss)	(1,005,587)	987,617	124,110	6,113	172,316
Change in net deferred income tax	9,154	88,956	(2,884)	(547,253)	(384,260)
Change in non-admitted assets and related items	40,811	(32,504)	(254,835)	509,544	648,801
Change in reserve on account of change in valuation basis	0	0	0	895,031	308,451
Change in asset valuation reserve	8,983	(989)	12,360	108,325	(782)
Aggregate write-ins for gains and (losses) in surplus	(998,131)	(578,139)	(1,713,645)	(1,237,640)	(547,142)
Net change in capital and surplus for the year	(1,713,302)	922,477	(1,464,710)	3,827,443	633,970
Capital and surplus, December 31, current year	<u>\$10,562,552</u>	<u>\$12,275,855</u>	<u>\$11,353,378</u>	<u>\$12,818,088</u>	<u>\$8,990,643</u>

### **ACKNOWLEDGEMENT**

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Company to the examiners during the course of the examination.

---

John M. Curran, CFE  
Examiner-in-Charge and Supervising Examiner  
Commonwealth of Massachusetts  
Division of Insurance

For Informational Purposes Only