



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

**DIVISION OF INSURANCE**

***REPORT OF EXAMINATION OF THE*  
ELECTRIC INSURANCE COMPANY**

**Beverly, Massachusetts**

**As of December 31, 2006**

**NAIC GROUP CODE 0057**

**NAIC COMPANY CODE 21261**

**EMPLOYERS ID NO. 04-2422119**

# **ELECTRIC INSURANCE COMPANY**

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# COMMONWEALTH OF MASSACHUSETTS

## Office of Consumer Affairs and Business Regulation

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May 6, 2008

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Honorable Director and 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

### **ELECTRIC INSURANCE COMPANY Beverly, Massachusetts**

at its home office located at 75 Sam Fonzo Drive, Beverly, Massachusetts, 01915-1000. The following report thereon is respectfully submitted.

## Electric Insurance Company

### SCOPE OF EXAMINATION

Electric Insurance Company, (hereinafter referred to as the “Company”, “EIC” or “Electric”) was last examined as of December 31, 2003 under the Association Plan of the National Association of Insurance Commissioners (“NAIC”). The current examination was conducted at the direction of, and under the overall management and control of the examination staff of the Massachusetts Division of Insurance (the “Division”), according to the Association Plan of the NAIC. The statutory examination was performed at the Company’s home office in Beverly, Massachusetts. There was no zone participation for the current statutory examination.

This examination covers the period January 1, 2004 through December 31, 2006, including any material events noted subsequent thereto.

The examination was conducted in accordance with standards established by the NAIC Financial Condition (E) Committee as well as with the requirements of the NAIC Financial Condition Examiner’s Handbook, the examination standards of the Division and with Massachusetts General Laws. The principal focus of the examination was 2006 activity; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

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, employees’ pension and benefits plans, disaster recovery plan, 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. Examination procedures included verification and evaluation of specific assets, determination of various liabilities, and a review of related matters, including income and disbursement items, corporate records, claim files, other records relating to the Company’s operating practices, independent CPA, actuarial, and NAIC reports.

An actuarial review of December 31, 2006 statutory reserves and accrued retrospective premiums as reported by the Company was performed by PricewaterhouseCoopers LLP (hereinafter referred to as “PwC”). The review was performed in support of this examination. There were no issues raised as a result of this review which would question the reasonableness or appropriateness of the methods and underlying assumptions used to determine the Company’s statutory reserves as of December 31, 2006.

The Company is audited annually by KPMG LLP, an independent certified public accounting firm, in accordance with 211 CMR 23.00. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2004 through 2006. A review and use of the Certified Public Accountants’ work papers were made to the extent deemed appropriate and effective.

## Electric Insurance Company

For a summary of findings contained within this report, refer to the “Notes to Financial Statements” and the “Comments and Recommendations” sections.

### Status of Prior Examination Findings

The previous report of examination recommended that the Company’s Board of Directors or committee thereof, acknowledge and approve in the corporate minutes, a report authorizing investment purchases and sales in accordance with Massachusetts General Laws Chapter 175, Section 64. Review of the board and committee minutes through year end 2007 found no evidence of compliance with the previous examination’s recommendation.

### HISTORY

The Company was incorporated in 1966, as a wholly owned subsidiary of Electric Mutual Liability Insurance Company (“EMLICO”), to provide quality, economical insurance products to the employees of General Electric Company (“GE”). Since that time the Company has expanded its service to offering personal lines products to the general public, in addition to the employees of GE, and subsequent to the restructuring of the Company in June 1995, writes commercial lines for GE and its subsidiaries. As of July 1, 1995, Wilmington Trust Company, solely in its capacity as Trustee, acquired all of the issued and outstanding shares of Electric Insurance Company pursuant to a Trust Agreement between EMLICO, Ltd. and Wilmington Trust Company.

In 2005 the Company formed a subsidiary in Ireland, Electric Insurance of Ireland Limited (“EIIL”). EIIL became licensed in 2005 and writes on a direct basis some of the European Union business that previously had been fronted through ACE Insurance. The subsidiary will maintain an excess of loss reinsurance contract with EIC.

### Capital Stock

The Company has 25,000 authorized shares of \$140 par value of common stock and 25,000 issued and outstanding shares with an aggregate stated value of \$3,500,000. All of the common stock is owned by the Wilmington Trust Company.

### Dividends to Stockholders

The Company did not pay any dividends to its stockholder during the three-year period of examination and had no dividend payable at year-end.

### Growth of the Company

The growth of the Company for the years 2004 through 2006 is shown in the following schedule, which was prepared from the Company’s annual statements, including any changes as a result of the examination. All amounts are in thousands.

## Electric Insurance Company

	Admitted			Direct	Net
<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Premiums</u> <u>Written</u>	<u>Premiums</u> <u>Written</u>
2006	\$ 1,200,095	\$ 868,296	\$ 331,800	\$ 316,155	\$ 371,019
2005	1,142,508	843,949	298,560	327,124	399,259
2004	1,144,329	869,377	274,952	336,557	425,771

### Corporate Structure

All the shares of the Company are held by Wilmington Trust Company, in trust for EMLICO, Ltd., the beneficial owner of the shares. EMLICO's beneficial interest was transferred to GE in 2001. Prior to June 30, 1995, the shares were held directly by EMLICO.

### Corporate Records

The Articles of Incorporation (last amended February, 1994) were read and no changes or issues were noted.

The Company's By-laws were amended on February 3, 2005 to add new officer positions of Chief Compliance Officer and Chief Information Officer. In addition a new article was added to the By-Laws providing for the indemnification of Directors and Officers of the Company in the event of any legal actions resulting from the performance of their corporate duties.

### 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 ss.180M-180Q.

## MANAGEMENT

### Board of Directors

The business, property and affairs of the Company are managed by the Board of Directors, currently set at seven in number. All members of the Board of Directors are employees and officers of the Company. Those elected and serving at December 31, 2006 are as follows:

Marc A. Meiches	Chairman of the Board
Michael G. Crasnick	Chief Underwriting Officer
David M. Greenbaum	Chief Legal Officer
William D. Hartranft	Chief Financial Officer
Gerald P. McCarthy	Vice President – Personal Lines Underwriting
Michael J. Mucher	Vice President – Sales
Nicholas L. Schulson	Chief Human Resources Officer

## Electric Insurance Company

The Board of Directors shall manage and conduct all the business of the Company and shall have and may exercise all such powers of the Company as are not by law or as specified in the By-Laws required to be otherwise exercised. They shall cause the affairs of the Company to be administered by the President and such other agents and under such regulations as they may deem proper. They shall have full power to determine what constitutes net earnings, profits and surplus respectively and what amount, if any, shall be reserved for any purpose. If, in the opinion of the Board of Directors, the payment of dividends to policyholders is warranted, such dividends or refunds may be voted by the Board on such bases, at such rates, in such amounts and subject to such conditions as may at any time be determined by the Board in their absolute discretion, and such determinations shall be final and conclusive.

### Committees

The Company's By-Laws state that the Board shall elect three or more Directors to constitute an Investment Committee and the Board may from time to time elect from its own members such other committees as they may determine. At December 31, 2006, Electric's Board had three committees with the following members:

#### Investment Committee

Marc A. Meiches - Chairman  
Michael G. Crasnick  
William D. Hartranft

#### Compensation Committee

Marc A. Meiches - Chairman  
William D. Hartranft  
Nicholas L. Schulson

#### Audit Committee

Marc A. Meiches - Chairman  
Michael G. Crasnick  
William D. Hartranft

### Officers

The By-laws provide that the principal officers of the Company shall be a Chairman of the Board, a President, Vice Presidents, Treasurer, Secretary, Chief Financial Officer, Chief Legal Officer, Chief Underwriting Officer, Chief Human Resources Officer, Chief Compliance Officer and a Chief Information Officer.

Principal officers designated and serving as of the date of this examination are:

Marc A. Meiches	- President and Chief Executive Officer
Michael G. Crasnick	- Vice President – Commercial Lines Underwriting, Chief Compliance Officer and Chief Underwriting Officer

## Electric Insurance Company

Jeffery A. Frazee	- Vice President – Information Technology, Chief Information Officer
David M. Greenbaum	- Vice President – General Counsel and Chief Legal Officer
William D. Hartranft	- Vice President – Finance and Administration, Treasurer and Chief Financial Officer
Maureen A. Hegarty	- Vice President – Personal Lines Claims
Gerard P. McCarthy	- Vice President – Personal Lines Underwriting and Pricing
Michael J. Mucher	- Vice President – Sales
Dean L. Murray	- Vice President – Workers’ Compensation
Nicholas L. Schulson	- Vice President – Human Resources and Chief Human Resources Officer
Kimberly C. Koury	- Vice President - Call Center Operations
Virginia A. McCarthy	- Associate General Counsel, Secretary and Clerk

### Conflict of Interest

The Company has a Conflict of Interest Form for Board members and officers to complete annually to disclose to the Board any material interest or affiliation which is likely to conflict with his/her official duties. The completed questionnaires were reviewed, and no discrepancies were noted in the responses.

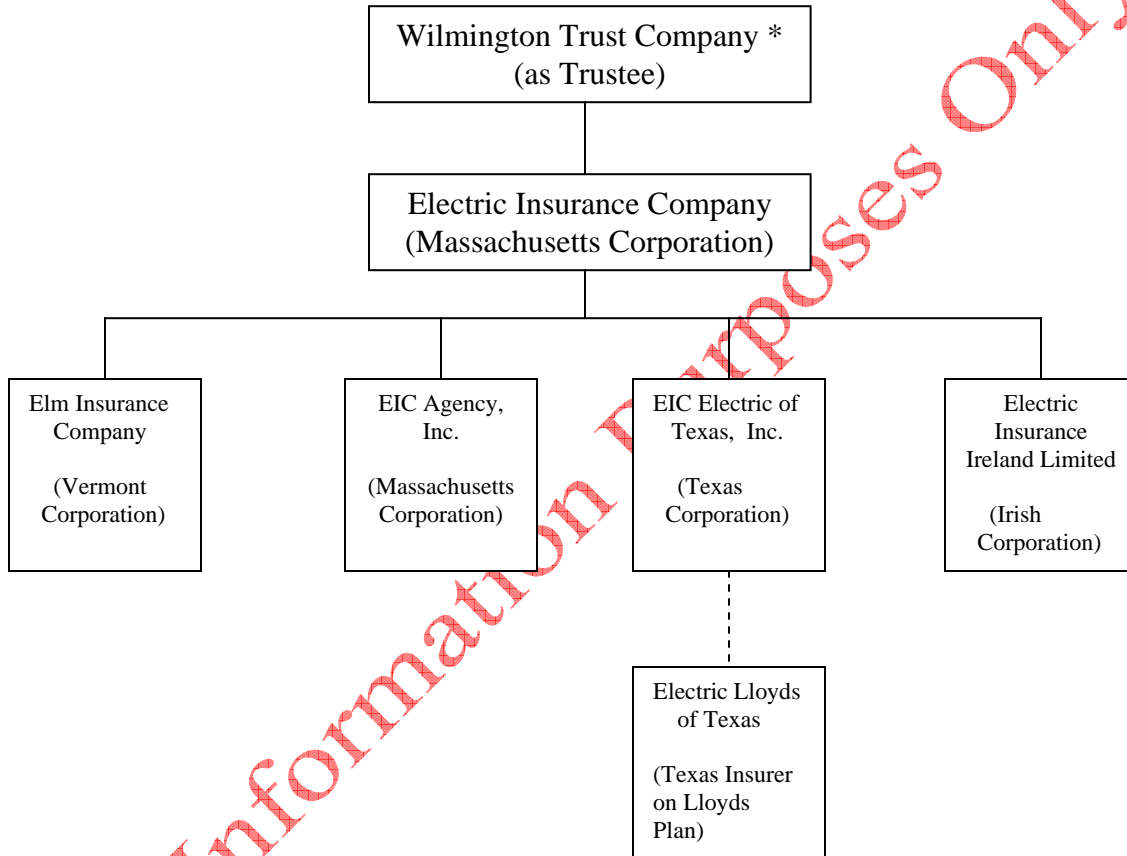


## Electric Insurance Company

### AFFILIATED COMPANIES

Per Form B, as filed with the Massachusetts Division of Insurance, the Company is a member of a holding company system and is subject to the registration requirements of Chapter 175, Section 206C of the Massachusetts General Laws. Wilmington Trust Company is the “ultimate controlling person” for the Company.

#### **2006 Organizational Chart**



\* Wilmington Trust Company, solely in its capacity as Trustee, acquired all of the outstanding shares of Electric Insurance Company pursuant to a Trust Agreement between Electric Mutual Liability Insurance Company, Ltd. and Wilmington Trust Company, dated July 1, 1995.

The Company has four wholly owned subsidiaries: Elm Insurance Company, EIC Agency, Inc., Electric Insurance Ireland Limited and EIC Electric of Texas, Inc. Elm Insurance Company was formed by the Company in 1983 as a Vermont captive insurance company. The Company provides Elm Insurance Company with management, accounting and other services and is reimbursed based on the cost of these services. EIC Agency Inc. was formed by the Company in 1992 primarily to place business with the National Flood Program. Currently it places personal auto business that doesn't meet the Company's underwriting criteria in other insurance

## Electric Insurance Company

companies. EIC Electric of Texas, Inc. is a management services company for Electric Lloyd's of Texas, a Texas insurer on the Lloyd's plan. The Company has a controlling interest in Electric Lloyd's of Texas. Electric Insurance Ireland Limited was formed in 2005 and is licensed to write property and casualty business in the European Union.

### Transactions and Agreements with Subsidiaries and Affiliates

#### Tax Sharing Agreement

The Company's tax return is consolidated with Electric Mutual Insurance Company Ltd., Elm Insurance Company, EIC Agency Inc., EIC Electric of Texas and Electric Lloyd's of Texas. The agreement, effective August 1, 2001, covers the allocation, settlement and financial statement presentation of current federal income taxes among companies included in the consolidated income tax return. The taxable income in any of the companies of the consolidated group may continue to be used to offset taxable losses in any of the companies of the consolidated group. Each company's tax liability is calculated separately and to the extent that the tax liability in any company is used to offset losses in another company the taxable company will remit cash representing "in lieu of taxes" to the company utilizing the offset. Intercompany tax balances are settled following final calculation of each company's liability.

#### Services Agreements

- EIC and Electric Lloyd's of Texas, entered into a Services Agreement under which EIC performs policy administration services and processes claims for Electric Lloyd's of Texas.
- EIC and its Canadian branch entered into (i) a Services Agreement under which EIC performs claims, management and administration services and (ii) a Data Processing Services Agreement under which EIC performs data processing services.
- EIC and Electric Insurance Ireland Limited have entered into a Services Agreement under which EIC performs certain policy related services for EIIL.

### FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with M.G.L. c.175 s.60. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and the policies were in force as of December 31, 2006.

## Electric Insurance Company

### TERRITORY AND PLAN OF OPERATION

The Company is currently licensed in all 50 states, the District of Columbia, Puerto Rico and Canada. The Company provides commercial and personal lines coverage on a direct and assumed basis. The net written premium in 2006 was split between commercial and personal lines approximately 60% and 40%, respectively.

The Company's ongoing personal lines principally include automobile, homeowners, and umbrella business, with approximately one-half of policyholders being current or former GE employees. Personal lines business is primarily generated directly (via internet and mail) and the Company is actively pursuing additional personal lines business through targeted marketing, on-line sales, and independent agents.

The General Electric Company ("GE") is the primary policyholder for the Company's commercial business, virtually all of which is retrospectively rated. The company's commercial lines are comprised of business including workers' compensation, commercial automobile, marine, property and foreign casualty, which do not have asbestos and environmental exposures. The Company primarily writes workers' compensation, commercial automobile liability and general liability.

### REINSURANCE

The Company assumes 100% of the net liability retained by Electric Lloyd's of Texas. The Company assumes 90% of Electric of Ireland's liabilities subject to per loss and an annual aggregate maximum of \$250,000. The Company protects its financial position and policyholders with the following reinsurance coverages:

#### Personal Lines

<u>Lines Covered</u>	<u>Type of Contract</u>	<u>Net Retention</u>	<u>Contract Limits</u>
Property per risk	Per Risk Excess of Loss	\$ 1.6 million	\$ 11 million excess of \$ 1.6 million per risk
Property	Catastrophe Excess Of loss 2 <sup>nd</sup> Layer	\$ 7.5 million	90% of \$ 2.5 million excess of \$ 7.5 million per occurrence
Property	Catastrophe Excess Of loss 3 <sup>rd</sup> Layer	\$ 10.0 million	90% of \$ 10.0 million excess of \$ 10.0 million per occurrence
Property	Catastrophe Excess Of loss 4 <sup>th</sup> Layer	\$ 20.0 million	90% of \$ 20.0 million excess of \$ 20.0 million per occurrence

## Electric Insurance Company

Property	Catastrophe Excess	\$ 40.0 million	75% of \$ 15.0 million excess of \$ 40.0 million per occurrence
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### **Commercial Lines**

#### **Workers' Compensation**

The Company retains the first \$25 million per occurrence and cedes the next \$50 million. The other layers for Workers' Compensation are as follows:

- Second layer - \$15 million excess of \$75million per occurrence with a maximum of \$30 million per year.
- Third layer - \$35 million excess of \$90 million per occurrence with a maximum of \$70 million per year.

#### **Pools and Association**

The Company participates in various pools and associations. In most cases participation in these pools is mandatory. Under most of these involuntary plans, the participating insurance company will write the business, but due to the high risk associated with the policy, the company will cede this policy to the pool. The pool will accumulate all of the ceded risk from the various companies licensed to write business in that state. The pool will accumulate the operating results of the pool and distribute them back to the participating insurance companies based on participation ratio developed from prescribed formulas. The majority of states use a servicing carrier whose sole purpose is to compile reporting information for the involuntary pool.

### **ACCOUNTS AND RECORDS**

The internal control structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent Certified Public Accountants, KPMG LLP. The examiners also reviewed internal controls for certain cycles where we relied on controls to reduce the amount of substantive testing. No material internal control weaknesses were noted in connection with the examination, nor were any such matters reported in the CPA Firm's filings with the Division.

The NAIC Evaluation of Controls in Information Systems Questionnaire was completed by the Company and reviewed to evaluate the adequacy of the controls in the Company's information systems. No material deficiencies were noted.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2006 Annual Statement. No material exceptions were noted.

Electric Insurance Company

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and the NAIC as of December 31, 2006:

- Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2006;
- Statement of Income for the year ended December 31, 2006;
- Statement of Capital and Surplus for the year ended December 31, 2006;
- Reconciliation of Capital and Surplus for each year in the Three Year Period ended December 31, 2006.

For Information Purposes Only

Electric Insurance Company  
Statement of Assets, Liabilities, Surplus and Other Funds  
As of December 31, 2006

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Bonds	\$ 645,072,570	\$ 0	\$ 645,072,570	
Common stocks	139,038,347		139,038,347	
Real estate occupied by the company	2,862,513		2,862,513	
Cash and short-term investments	62,995,318		62,995,318	
Other invested assets	2,539,055		2,539,055	
Receivable for securities	5,921,237		5,921,237	
Aggregate write-ins for invested assets	1,683,295		1,683,295	
Subtotals, cash and invested assets	860,112,335		860,112,335	
Investment income due and accrued	7,289,401		7,289,401	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	5,483,308		5,483,308	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	33,037,750		33,037,750	
Accrued retrospective premiums	265,834,800		265,834,800	( 2 )
Amounts recoverable from reinsurers	816,695		816,695	
Net deferred tax asset	17,824,316		17,824,316	
Electronic data processing equipment	873,564		873,564	
Receivable from parent, subsidiaries and affiliates	159,777		159,777	
Aggregate write-ins for other than invested assets	8,663,435		8,663,435	
Total Assets	<u>\$ 1,200,095,381</u>	<u>\$ 0</u>	<u>\$ 1,200,095,381</u>	

Electric Insurance Company  
Statement of Assets, Liabilities, Surplus and Other Funds (Continued)  
As of December 31, 2006

Liabilities	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Losses	\$ 650,279,302	\$ 0	\$ 650,279,302	( 1 )
Loss adjustment expenses	75,497,669		75,497,669	( 1 )
Commissions payable	330,200		330,200	
Other expenses	9,349,384		9,349,384	
Taxes, licenses and fees	10,221,909		10,221,909	
Current federal and foreign income taxes	2,100,000		2,100,000	
Borrowed money	2,419,546		2,419,546	
Unearned premiums	91,624,222		91,624,222	
Advance premiums	842,323		842,323	
Ceded reinsurance premiums payable	4,851,771		4,851,771	
Funds held by company under reinsurance treaties	16,402,968		16,402,968	
Amounts withheld or retained by company for account of others	44		44	
Provision for reinsurance	15,641		15,641	
Net adjustments in assets and liabilities due to foreign exchange rates	1,629,236		1,629,236	
Aggregate write-ins for liabilities	2,731,330		2,731,330	
Total Liabilities	<u>868,295,545</u>		<u>868,295,545</u>	
Common capital stock	3,500,000		3,500,000	
Gross paid in and contributed surplus	99,941,000		99,941,000	
Unassigned funds (surplus)	<u>228,358,834</u>		<u>228,358,834</u>	
Surplus as regards policyholders	<u>331,799,834</u>		<u>331,799,834</u>	
Total Liabilities, Capital and Surplus	<u>\$1,200,095,381</u>	<u>\$ 0</u>	<u>\$1,200,095,381</u>	

Electric Insurance Company  
Statement of Income  
For the Year Ended December 31, 2006

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premiums earned	\$ 401,212,609	\$ 0	\$ 401,212,609
Deductions:			
Losses incurred	290,753,557		290,753,557
Loss expenses incurred	60,080,807		60,080,807
Other underwriting expenses incurred	57,914,287		57,914,287
Total underwriting deductions	408,748,651		408,748,651
Net underwriting gain (loss)	(7,536,042)		(7,536,042)
Net investment income earned	36,104,841		36,104,841
Net realized capital gains (losses)	7,874,761		7,874,761
Net investment gain (loss)	43,979,602		43,979,602
Net gain (loss) from agents' or premium balances charged off	(394,235)		(394,235)
Finance and service charges not included in premiums	1,498,572		1,498,572
Aggregate write-ins for miscellaneous income	125,391		125,391
Total other income	1,229,728		1,229,728
Net income before dividends to policyholders and before federal and foreign income taxes	37,673,288		37,673,288
Dividends to policyholders	2,300,000		2,300,000
Net income, after dividends to policyholders but before federal and foreign income taxes	35,373,288		35,373,288
Federal and foreign income taxes incurred	4,750,513		4,750,513
Net Income	\$ 30,622,775	\$ 0	\$ 30,622,775



Electric Insurance Company  
Capital and Surplus  
For the Year Ended December 31, 2006

	As Reported by the Company	Examination Changes	Per Statutory Examination
Surplus as regards policyholders, December 31, 2005	\$ 298,559,613	\$ 0	\$ 298,559,613
Net income	30,622,775		30,622,775
Change in net unrealized capital gains or (losses)	1,740,781		1,740,781
Change in net unrealized foreign exchange capital gain (loss)	207,849		207,849
Change in net deferred income tax	(2,618,936)		(2,618,936)
Change in nonadmitted assets	3,302,135		3,302,135
Change in provision for reinsurance	(14,383)		(14,383)
Change in surplus as regards policyholders for the year	<u>33,240,221</u>		<u>33,240,221</u>
Surplus as regards policyholders, December 31, 2006	<u>\$ 331,799,834</u>	<u>\$ 0</u>	<u>\$ 331,799,834</u>

Electric Insurance Company  
Reconciliation of Capital and Surplus  
For the Three Year Period Ended December 31, 2006

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Capital and surplus, December 31, prior year	\$298,559,613	\$274,952,161	\$268,238,336
Net income	30,622,775	20,609,343	11,176,616
Change in net unrealized capital gains or (losses)	1,740,781	1,766,452	(7,189,644)
Change in net unrealized foreign exchange capital gain	207,849		
Change in net deferred income tax	(2,618,936)	(7,421,523)	594,892
Change in nonadmitted assets	3,302,135	9,872,315	2,067,888
Change in provision for reinsurance	(14,383)	131,990	64,073
Aggregate write-ins for gains and (losses) in surplus		(1,351,125)	
Net change in capital and surplus for the year	<u>33,240,221</u>	<u>23,607,452</u>	<u>6,713,825</u>
Capital and surplus, December 31, current year	<u><u>\$331,799,834</u></u>	<u><u>\$298,559,613</u></u>	<u><u>\$274,952,161</u></u>

## Electric Insurance Company

### NOTES TO FINANCIAL STATEMENTS

#### Note 1 - Summary of Loss and Loss Adjustment Expense Reserves (“Loss and LAE Reserves”)

The Division engaged PricewaterhouseCoopers (“PwC”) to review the reasonableness of the Loss and Loss Adjustment Expense Reserves (the “Reserves”) of the Company as of December 31, 2006. The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the Standards of Practice adopted by the Actuarial Standards Board.

EIC held net loss and LAE reserves of \$725.8 million as of December 31, 2006. These reserves are net of: anticipated salvage and subrogation; assumed and ceded reinsurance; and discount for the time value of money for workers’ compensation indemnity pension claims.

PwC’s actuarial review utilized accident year paid and incurred loss data at annual valuations through December 31, 2006. PwC’s estimate of the net loss and LAE reserves is \$753.3 million. PwC also calculated a range of estimates that it considered reasonable and acceptable. The overall reasonable range of estimates extends from \$720.1 million to \$814.8 million. The low-end and high-end estimates were first determined for each line of business, considering the preliminary projections from different methods applied to various data and PwC’s guidelines for acceptable low and high differences. Then, the individual line of business low and high estimates were summed across all lines of business in order to determine the overall low and high estimates.

The results of PwC’s actuarial review indicated that EIC’s booked net loss and LAE reserves at December 31, 2006 fell within the range of reasonable estimates for all unpaid loss and LAE obligations of the Company under the terms of its policies and reinsurance agreements and are, therefore, considered reasonable.

The table below summarizes a comparison of PwC’s range of reasonable estimates for Loss and LAE Reserves to the Company’s net carried Loss and LAE Reserves as of December 31, 2006. All amounts shown are in thousands (000’s omitted):

	Low Point of Range	Selected Estimate	High Point of Range
PricewaterhouseCoopers Estimate	\$720,123	\$753,303	\$814,851
Company Carried	725,775	725,775	725,775
Company Carried Over / (Under) PwC	5,652	(27,528)	(89,076)

## Electric Insurance Company

The indicated deficiency in EIC's net carried loss and loss adjustment expense reserves as of December 31, 2006 was \$27.5 million or 3.7% of the selected estimate (an indicated redundancy of \$5.7 million at the Low Point and an indicated deficiency of \$89.1 million at the High Point).

Principally, the position of the Company's carried loss and loss adjustment expense reserves falls at the low point of the range of reasonableness. This also holds true when considering anticipated retrospectively rated policies which result in additional retrospective premiums (see below). It is the belief after considering factors such as company coverages, socio-economic changes, operations of the company, net retained risk profile of the company, that Electric will develop potentially adverse (versus the potential for favorable development) loss and loss expense reserves into the future as it has done since the last Financial Examination. Thus, the Division of Insurance recommends that Electric Insurance Company increase Loss and Loss Expense Reserve levels to at least the Selected Estimate (approximately an additional \$27.5 million) and potentially more, as the High Point of the range indicates an approximate deficiency of \$89.1 million, and, the belief as heretofore mentioned is that there is more potential for adverse development than favorable development going forward. This action will allow the Company more fiscal conservativeness and prudence in managing this complex insurance company and its varying coverages (approximately 50% long tail line of workers' compensation), its changing operations and socio-economic environment, and its net retained risk profile.

### Note 2 - Accrued Retrospective Premiums

EIC has several retrospectively rated commercial policies with General Electric (GE) that would result in additional expected retrospective premiums due from GE as of 12/31/06. PwC examined the retrospective rating formulas and parameters provided by EIC, including the ultimate losses and ALAE used. It was noted that a large portion of the \$268.5 million retrospective rating accrual relates to losses for the workers compensation line of business.

PwC estimates that EIC would collect an additional \$14.7 million in retrospective premiums based on their indicated loss and allocated loss adjustment expense ("ALAE") reserves which are higher than EIC's carried amounts in total for the major lines of business subject to retrospective rating. Thus, the retrospective rating feature on these commercial policies provides a premium offset to any adverse development of loss and LAE reserves.

The table below summarizes a comparison of PwC's range of retrospective premium estimates for the calculated range of reasonable reserves. All amounts shown are in thousands (000's omitted):

## Electric Insurance Company

<u>Accrued Retro Premiums</u>	Low Point of Range	Selected Estimate	High Point of Range
PricewaterhouseCoopers Estimate	\$268,202	\$280,559	\$303,482
Company Carried	265,835	265,835	265,835
Difference	2,367	14,724	37,647

PwC also calculated a range of reasonable estimates for EIC's net loss and LAE reserves offset by the anticipated retrospective premiums collectable from GE as of 12/31/06. The range of reasonable estimates for loss and LAE reserves reflecting offset by anticipated retrospective premiums was derived by first subtracting the estimate of the anticipated retrospective premiums of \$280.6 million from PwC's best estimate of net loss and LAE reserves, which yielded \$472.8 million. PwC then applied the same relative percentages derived for the net loss and LAE reserve range to the net loss and LAE reserve amount reflecting anticipated retrospective premiums. Thus, the low and high end percentages of the reasonable range of estimates for reserves net of retrospective premiums were 95.6% and 108.2%, respectively. The resulting low and high ends of the reasonable range of reserves net of retrospective premiums were then \$451.9 million and \$511.4 million, respectively. The table below summarizes a comparison of PwC's range of reasonable estimates for the net loss and LAE reserves offset by anticipated retrospective premiums to the Company's net carried loss and LAE reserves offset by anticipated retrospective premiums reserves as of December 31, 2006 (in thousands):

	PwC Actuarial Estimate		
	Low	Selected	High
PwC's Net Loss & LAE Reserves – Net of Anticipated Retro Premiums	\$451,921	\$472,744	\$511,369
EIC's Net Carried Balance	459,940	459,940	459,940
Net Surplus Change before Income Taxes	8,019	(12,804)	(51,429)

The results indicated that EIC's booked net loss and LAE reserves offset for anticipated retrospective premiums at December 31, 2006 fell within the range of reasonable estimates (Low Point) for all obligations of the Company under the terms of its policies and reinsurance agreements and are, therefore, considered reasonable for this examination for adjustment to the financial statements as of 12/31/06 purposes.

Please note, though, the Comments and Recommendation section for The Division of Insurance's recommendations to the Company for its loss and loss adjustment expense reserves (also, see above discussion under Note 1).

Electric Insurance Company

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company acknowledge and approve in the corporate minutes, the Investment Committee's report of purchases and sales of investments per Massachusetts General Laws Chapter 175, Section 64.

The Division of Insurance recommends that Electric Insurance Company increase Loss and Loss Adjustment Expense Reserve levels to at least the Selected Estimate (approximately an additional \$27.5 million) and potentially more, as the High Point of the range indicates an approximate deficiency of \$89.1 million, and, the belief as heretofore mentioned is that there is more potential for adverse development than favorable development going forward. This action will allow the Company more fiscal conservativeness and prudence in managing this complex insurance company and its varying coverages (approximately 50% long tail line of workers' compensation), its changing operations and socio-economic environment, and its net retained risk profile. (See Note 1 above for a full discussion of Loss and Loss Adjustment Expense Reserves). (See Pages 17 - 19)

ACKNOWLEDGEMENT

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

In addition to the undersigned, the assistance rendered by the following Division examiners who participated in this examination hereby is acknowledged:

Richard Looney, AFE, CIE  
Arthur Hughes  
Lin La

Insurance Examiner III  
Insurance Examiner III  
Insurance Examiner II

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