



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, 2011

NAIC GROUP CODE 0057

NAIC COMPANY CODE 21261

EMPLOYERS ID NO. 04-2422119

ELECTRIC INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS

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COMMISSIONER OF INSURANCE

April 3, 2013

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street
Boston, MA 02118-6200

Honorable Commissioner,

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

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

SCOPE OF EXAMINATION

Electric Insurance Company, (hereinafter referred to as “the Company” or “Electric”) was last examined as of December 31, 2006 by the Massachusetts Division of Insurance (the “Division”). The current examination was also conducted by the Division and covers the five-year period from January 1, 2007 through December 31, 2011, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations. All accounts and activities of the company were considered in accordance with the risk-focused examination process.

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 bond and other insurance, employees’ pension and benefits plans, disaster recovery plan, treatment of policyholders 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.

The Company is audited annually by KPMG LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2007 through 2011. A review and use of the Certified Public Accountants’ workpapers were made to the extent deemed appropriate and effective. An independent actuarial consulting firm, PricewaterhouseCoopers LLP (“PwC”) was retained by the Division to evaluate the adequacy of the Company’s loss and loss adjustment expense reserves as of December 31, 2011. Additionally, the Division reviewed the adequacy and effectiveness of the IT systems controls to determine the level of reliance to be placed on the information generated by the data processing systems.

For a summary of findings contained within this report, refer to the “Notes to Financial Statements” section.

Electric Insurance Company

Status of Findings from the Prior Examination

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 for the years under examination verified that Electric's Investment Committee has ratified and approved all investment purchases and sales for all years under examination.

The Division also recommended the Company increase its loss and loss adjustment expense reserves to at least the selected estimate amount which was determined by the Division's independent actuarial consultants from PwC. Based on the results of the Division's actuarial review performed by PwC, the Company has addressed this recommendation with the current carried reserves being above the selected estimate.

HISTORY

General

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, held 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 maintains an excess of loss reinsurance contract with Electric.

Electric owned 100% of the common stock of EIC Electric of Texas, a management services company that was dissolved in July 2010. Electric also had controlling interest in Electric Lloyd's of Texas, a Texas insurer on the Lloyds Plan. Electric Lloyds was dissolved in December 2009 following an assumption agreement between Electric Lloyd's of Texas and the Company.

In 2006, Electric established a Canadian Branch operation based in Toronto, Canada. In 2007, the Branch began writing commercial direct auto and commercial general liability for General Electric. The Branch also assumes 100% of the exposure of the Canadian policies written by ACE.

Electric Insurance Company

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 held in trust by the Wilmington Trust Company.

Dividends to Stockholders

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

Growth of Company

The growth of the Company for the years 2007 through 2011 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.

	Admitted			Direct	Net
<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Premiums</u>	<u>Premiums</u>
				<u>Written</u>	<u>Written</u>
2011	\$ 1,444,555	\$ 984,393	\$ 460,162	\$ 370,466	\$ 377,085
2010	1,406,630	958,863	447,767	392,510	400,525
2009	1,329,122	922,059	407,063	404,685	398,217
2008	1,250,576	900,533	350,043	376,022	370,100
2007	1,246,018	874,042	371,976	354,355	367,744

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 bylaws were last amended in 2005. There have been no amendments or changes to the bylaws during the exam period.

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. The members of the Board of Directors consist of five Company employees and two independent Directors. The Directors elected and serving at December 31, 2011 are as follows:

Marc A. Meiches	Chairman of the Board
Douglas Wm. Barnert	Independent Director
Thomas A. Bottichio	Chief Financial Officer
John T. Farady	Independent Director
David M. Greenbaum	Vice President, General Council
Gerard P. McCarthy	Chief Underwriting Officer
Nicholas L. Schulson	Chief Human Resources Officer

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 bylaws 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 bylaws 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, 2011, Electric's Board had four committees with the following members:

Investment Committee

Marc A. Meiches – Chairman
Thomas A. Bottichio
Gerard P. McCarthy

Compensation Committee

Marc A. Meiches – Chairman
Thomas A. Bottichio
Nicholas L. Schulson

Audit Committee

John T. Farady – Chairman
Douglas Wm. Barnert
Marc A. Meiches

Nominating Committee

Marc A. Meiches – Chairman
David M. Greenbaum
Nicholas L. Schulson

Electric Insurance Company

Officers

The bylaws 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:

<u>Name</u>	<u>Title</u>
Marc A. Meiches	President and Chief Executive Officer
Thomas A. Bottichio	Vice President, Finance and Chief Financial Officer
Michael G. Crasnick	Vice President, International Business Development
David M. Greenbaum	Vice President and General Counsel
Maureen A. Hegarty	Vice President, Claims Operations
Kimberly C. Koury	Vice President, Contact Center Operations
Gerard P. McCarthy	Senior Vice President and Chief Underwriting Officer
Maria B. McGrath	Treasurer
Michael J. Mucher	Vice President, Sales and Marketing
Dean L. Murray	Vice President, Regulatory and Chief Compliance Officer
Nicholas L. Schulson	Vice President, Human Resources and Chief Human Resource Officer
Thomas D. Stumpek	Vice President and Chief Information Officer

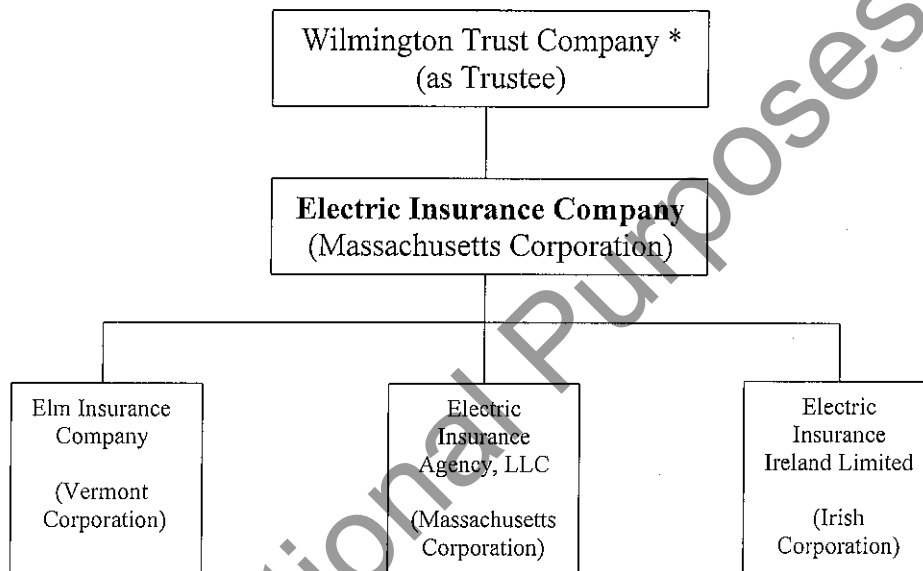
Conflict of Interest

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 as reflected in the Company's 2011 Annual Statement response to General Interrogatory Question 18.

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.

Organization Chart



* Wilmington Trust Company, solely in its capacity as Trustee, held 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 three wholly owned subsidiaries: Elm Insurance Company, Electric Insurance Agency, LLC, and Electric Insurance Ireland Limited. 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. In 2009, EIC Agency, Inc. was converted to a LLC, Electric Insurance Agency, LLC. The Company continues to have controlling interest in the entity. Electric Insurance Ireland Limited was formed in 2005 and is licensed to write property and casualty business in the European Union.

The Company received distributions of \$4,214,980 and \$3,193,670 in 2011 and 2010, respectively, from its affiliates, Elm Insurance Company, Electric Insurance Ireland, Ltd., and Electric Insurance Agency, LLC.

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, and Electric Insurance Agency, LLC. The Tax Sharing Agreement 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.

Service Agreements

- In 2007, Electric and its Canadian Branch entered into a Services Agreement under which Electric performs claims, management and administration services. Electric and the Branch also have a Data Processing Services Agreement under which Electric performs data processing services.
- Electric and Electric Insurance Ireland Limited entered into a services agreement effective January 1, 2007. This agreement provides management, accounting and other services to 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, 2011.

PENSION AND INSURANCE PLANS

Employee Retirement Plans

The Company participated in a funded contributory pension plan covering all employees on payroll as of December 31, 2010. This plan is sponsored by GE and administered by the General Electric Pension Trust ("the Trust"). Employees hired on or after January 1, 2011 will not be eligible to participate in the pension plan, but will participate in a defined contribution retirement

Electric Insurance Company

program. On a monthly basis, the Company contributes the actuarially determined cost of future service benefits after taking into account employee contributions and prior company contributions.

Postretirement Benefits

The Company participates in a plan sponsored by GE, which provides certain postretirement healthcare and life insurance benefits for retired employees. Dependent coverage is also provided for healthcare benefits. GE contributes to the plan as claims are incurred and charges each participant in accordance with a cost sharing agreement.

Other Benefits

The Company has a deferred incentive compensation plan and deferred compensation benefits for certain eligible employees.

INSURANCE PRODUCTS AND RELATED PRACTICES

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 2011 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 is the only policyholder for the Company's commercial business, all of which is retrospectively rated with the exception of foreign casualty insurance which has not been retrospectively rated since 2006. The company's commercial lines are comprised of business including workers' compensation, commercial automobile, general liability, 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.

Treatment of Policyholders and Claimants – Market Conduct

During the financial examination of the Company, the Division's Market Conduct Department conducted a comprehensive market conduct examination of the Company for the period January 1, 2011 through December 31, 2011. The market conduct examination was called pursuant to authority in Massachusetts General Laws Chapter, c. 175, Section 4. The market conduct

Electric Insurance Company

examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Conduct Examiner's Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The basic business areas that were reviewed under this market conduct examination are Company Operations/Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; Underwriting and Rating; Claims, in addition to an assessment of the Company's internal control environment.

REINSURANCE

The Company protects its financial position and policyholders with the following reinsurance coverages:

Personal Lines

<u>Line of Business Covered</u>	<u>Contract Limits</u>
Personal Excess Liability & Personal Umbrella Excess of Loss	65% of \$7,000,000 xs \$3,000,000 per occurrence Aggregate Limit of \$9,000,000
Property Catastrophe Excess of Loss	1 st Excess – 90% of \$35,000,000 xs \$30,000,000 2 nd Excess – 100% of \$40,000,000 xs \$65,000,000
Property per Risk Excess	100% of \$9,500,000 xs \$2,500,000 per occurrence
Property Facultative	100% of \$6,050,000 xs \$12,000,000 per occurrence

Commercial Lines

<u>Line of Business Covered</u>	<u>Contract Limits</u>
Catastrophic Workers Compensation	1 st Excess – 100% of \$50,000,000 xs \$15,000,000 2 nd Excess – 100% of \$35,000,000 xs \$65,000,000
Aggregate Foreign Casualty	100% of \$135,050,000 xs \$10,500,000

Reinsurance with Subsidiaries

The Company has a Facultative agreement with Electric Insurance Ireland Limited whereby the Company assumes liabilities for policies covering Employers Liability, Commercial General

Electric Insurance Company

Liability and Commercial Excess Liability. The agreement cedes 100% of the liability of the policies above to Electric in excess of \$1,500,000 up to \$12,000,000. An additional layer cedes 100% of the liability of the policies in excess of \$14,250,000 up to \$50,000,000 subject to a combined annual maximum aggregate limit of \$50,000,000.

The Company's Canadian branch has a Facultative agreement with Elm Insurance Company whereby Elm assumes liabilities for policies covering Commercial General Liability, Commercial Auto Liability and Commercial Excess. The agreement cedes 100% of the liability of the policies above to Elm in excess of \$1,750,000 up to \$4,250,000. An additional layer cedes 100% of the liability of the policies in excess of \$4,950,000 up to \$50,000,000 subject to a combined annual maximum aggregate limit of \$50,000,000. Elm has a Facultative agreement with Electric whereby Electric assumes 100% of the liabilities from the agreement above.

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 controls structure was discussed with management through questionnaires, interviews and through a review of the work performed by the Company's Independent Certified Public Accountants. No material deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the IT systems environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the IT controls. In addition to the questionnaire, interviews with Company staff were conducted to gather supplemental information and corroborate the Company's responses to the questionnaire. A review was also made of the documentation supporting Management and Organization Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls, Logical and Physical Security Controls, Contingency Planning Controls, Personal Computer, Local Area Network (LAN), Wide Area Network (WAN) and Internet Controls. No material deficiencies were noted.

The Company maintains its accounts and records on an electronic data processing basis. All entries are input to this data processing system, which then generates general ledger and supporting reports as well as other reports common to the insurance industry. No material exceptions were noted.

Electric Insurance Company

The books and records of the Company are audited annually by KPMG LLP, independent Certified Public Accountants, in accordance with 211 CMR 23.00.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts and by the National Association of Insurance Commissioners as of December 31, 2011:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2011

Statement of Income for the year ended December 31, 2011

Statement of Capital and Surplus for the year ended December 31, 2011

Reconciliation of Capital and Surplus for the Five-Year Period ended December 31, 2011

For Informational Purposes Only

Electric Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2011

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination
Bonds	\$ 847,651,660	\$ 0	\$ 847,651,660
Common stocks	128,084,865		128,084,865
Real estate occupied by the company	7,542,254		7,542,254
Cash and short-term investments	11,707,736		11,707,736
Other invested assets	3,846,831		3,846,831
Receivable for securities	97,007		97,007
Subtotals, cash and invested assets	998,930,353		998,930,353
Investment income due and accrued	10,175,166		10,175,166
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	4,690,603		4,690,603
Deferred premiums, agents' balances and installments booked but deferred and not yet due	32,504,096		32,504,096
Accrued retrospective premiums	361,484,640		361,484,640
Amounts recoverable from reinsurers	92,783		92,783
Current federal and foreign tax recoverable	1,280,263		1,280,263
Net deferred tax asset	27,163,016		27,163,016
Electronic data processing equipment	313,798		313,798
Receivable from parent, subsidiaries and affiliates	228,473		228,473
Aggregate write-ins for other than invested assets	7,691,864		7,691,864
Total Assets	<u>\$1,444,555,055</u>	<u>\$ 0</u>	<u>\$1,444,555,055</u>

Electric Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2011

Liabilities	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Losses	\$ 754,649,463	\$ 0	\$ 754,649,463	(1)
Reinsurance payable on paid losses and loss adjustment expenses	220,092		220,092	
Loss adjustment expenses	111,136,637		111,136,637	(1)
Commissions payable	515,000		515,000	
Other expenses	10,586,602		10,586,602	
Taxes, licenses and fees	12,018,662		12,018,662	
Borrowed money	1,586,153		1,586,153	
Unearned premiums	84,821,117		84,821,117	
Advance premium	1,177,979		1,177,979	
Ceded reinsurance premiums payable	(765,650)		(765,650)	
Funds held by company under reinsurance treaties	497,261		497,261	
Provision for reinsurance	115,298		115,298	
Net adjustments in assets and liabilities due to foreign exchange rates	456,842		456,842	
Aggregate write-ins for liabilities	7,377,100		7,377,100	
Total Liabilities	<u>984,392,556</u>		<u>984,392,556</u>	
Aggregate write-ins for special surplus funds	10,991,958		10,991,958	
Common capital stock	3,500,000		3,500,000	
Gross paid in and contributed surplus	99,941,000		99,941,000	
Unassigned funds (surplus)	345,729,544		345,729,544	
Surplus as regards policyholders	<u>460,162,502</u>		<u>460,162,502</u>	
Total Liabilities, Capital and Surplus	<u>\$1,444,555,055</u>	<u>\$ 0</u>	<u>\$1,444,555,055</u>	

Electric Insurance Company
Statement of Income
For the Year Ended December 31, 2011

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premiums earned	\$ 373,300,052	\$ 0	\$ 373,300,052
Deductions:			
Losses incurred	259,814,323		259,814,323
Loss adjustment expenses incurred	69,422,567		69,422,567
Other underwriting expenses incurred	63,771,122		63,771,122
Total underwriting deductions	393,008,012		393,008,012
Net underwriting gain (loss)	(19,707,960)		(19,707,960)
Net investment income earned	39,489,924		39,489,924
Net realized capital gains (losses)	2,085,885		2,085,885
Net investment gain (loss)	41,575,809		41,575,809
Net gain (loss) from agents' or premium balances charged off	(299,021)		(299,021)
Finance and service charges not included in premiums	1,209,937		1,209,937
Aggregate write-ins for miscellaneous income	237,898		237,898
Total other income	1,148,814		1,148,814
Net income before dividends to policyholders and before federal and foreign income taxes	23,016,663		23,016,663
Net income, after dividends to policyholders but before federal and foreign income taxes	23,016,663		23,016,663
Federal and foreign income taxes incurred	428,046		428,046
Net Income	\$ 22,588,617	\$ 0	\$ 22,588,617

Electric Insurance Company
Capital and Surplus
For the Year Ended December 31, 2011

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Surplus as regards policyholders, December 31, prior year	\$ 447,766,572	\$ 0	\$ 447,766,572
Net income	22,588,617		22,588,617
Change in net unrealized capital gains or (losses)	(4,747,938)		(4,747,938)
Change in net unrealized foreign exchange capital gain (loss)	(717,131)		(717,131)
Change in net deferred income tax	(1,147,016)		(1,147,016)
Change in nonadmitted assets	(823,955)		(823,955)
Change in provision for reinsurance	(62,832)		(62,832)
Aggregate write-ins for gains and (losses) in surplus	<u>(2,693,815)</u>		<u>(2,693,815)</u>
Change in surplus as regards policyholders for the year	<u>12,395,930</u>		<u>12,395,930</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$ 460,162,502</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 460,162,502</u></u>

Electric Insurance Company
Reconciliation of Capital and Surplus
For the Five-Year Period Ended December 31, 2011

	2011	2010	2009	2008	2007
Capital and surplus, December 31, prior year	\$447,766,572	\$407,063,242	\$350,042,969	\$371,976,118	\$331,799,832
Net income	22,588,617	26,512,288	25,479,583	14,303,337	46,408,137
Change in net unrealized capital gains or (losses)	(4,747,938)	8,617,477	13,872,668	(24,975,927)	(8,498,030)
Change in net unrealized foreign exchange capital gain (loss)	(717,131)	(582,911)	2,916,987	(3,598,402)	3,103,072
Change in net deferred income tax	(1,147,016)	184,327	(2,398,316)	3,689,340	(4,821,540)
Change in nonadmitted assets	(823,955)	5,947,223	17,165,657	(11,292,737)	3,971,332
Change in provision for reinsurance	(62,832)	24,926	(16,306)	(58,760)	13,315
Aggregate write-ins for gains and (losses) in surplus	(2,693,815)				
Net change in capital and surplus for the year	12,395,930	40,703,330	57,020,273	(21,933,149)	40,176,286
Capital and surplus, December 31, current year	<u>\$460,162,502</u>	<u>\$447,766,572</u>	<u>\$407,063,242</u>	<u>\$350,042,969</u>	<u>\$371,976,118</u>

NOTES TO FINANCIAL STATEMENTS

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

The Division engaged PricewaterhouseCoopers LLP to review the reasonableness of the Loss and Loss Adjustment Expense Reserves (the “Reserves”) of the Company as of December 31, 2011. 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.

Electric held net loss and LAE reserves of \$865.8 million as of December 31, 2011. These reserves are net of: anticipated salvage and subrogation; assumed and ceded reinsurance; and tabular discount for the time value of money for workers’ compensation indemnity claims.

PwC’s actuarial review utilized accident year paid and incurred loss data at annual valuations through December 31, 2011. PwC’s actuarial central estimate of the net loss and LAE reserves is \$847.2 million. PwC also calculated a range of estimates that it considered reasonable and acceptable. The overall reasonable range of estimates extends from \$804.9 million to \$928.5 million.

The results of PwC’s actuarial review indicated that Electric’s booked net loss and LAE reserves at December 31, 2011 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.

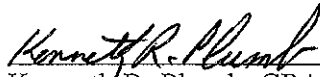
The table below summarizes a comparison of PwC’s range of reasonable estimates for Loss and LAE Reserves to the Company’s net carried Loss and LAE Reserves as of December 31, 2011. All amounts shown are in thousands (000’s omitted):

	Low Point of Range	Selected Estimate	High Point of Range
PricewaterhouseCoopers Estimate	\$804,865	\$847,226	\$928,474
Company Carried	865,786	865,786	865,786
Company Carried Over / (Under) PwC	60,921	18,560	(62,688)

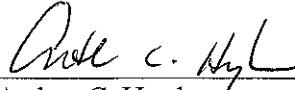
Electric Insurance Company

ACKNOWLEDGEMENT

Acknowledgement 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.



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Commonwealth of Massachusetts
Division of Insurance



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