



**COMMONWEALTH OF MASSACHUSETTS**  
**OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION**  
**DIVISION OF INSURANCE**

*REPORT OF EXAMINATION OF THE*  
**THE PAUL REVERE LIFE INSURANCE COMPANY**

**Worcester, Massachusetts**

**As of December 31, 2018**

**NAIC GROUP CODE 565**

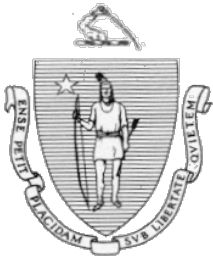
**NAIC COMPANY CODE 67598**

**EMPLOYER ID NUMBER 04-1768571**

# THE PAUL REVERE LIFE INSURANCE COMPANY

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**COMMONWEALTH OF MASSACHUSETTS**  
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**GARY D. ANDERSON**  
COMMISSIONER OF INSURANCE

June 19, 2020

The Honorable Gary D. Anderson  
Commissioner of Insurance  
Commonwealth of Massachusetts  
Division of Insurance  
1000 Washington Street, Suite 810  
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 the

**THE PAUL REVERE LIFE INSURANCE COMPANY**

at its home office located 1 Mercantile Street, Worcester, Massachusetts 01608. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

The Paul Revere Life Insurance Company (“PRL” or the “Company”) was last examined as of December 31, 2013 by the Massachusetts Division of Insurance (“Division”). The current examination was also conducted by the Division and covers the five-year period from January 1, 2014 through December 31, 2018, 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 (“Handbook”), the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify current and 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 175, Section 4, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company is audited annually by Ernst & Young LLP (“EY”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2014 through 2018. A review and use of the Certified Public Accountants’ work papers were made to the extent deemed appropriate and effective.

This examination was conducted as part of a coordinated group financial examination in compliance with the *Coordination of Holding Company Group Exams* framework of the Handbook. The Maine Bureau of Insurance (“MBOI” or “Bureau”) acted as the Lead State, and the Division, acting as a participating state, coordinated with MBOI. The following participating States also coordinated with MBOI and the Division to conduct the examination of members of the Unum Group:

- New York Department of Financial Surveillance
- State of Tennessee Department of Commerce and Insurance
- South Carolina Department of Insurance
- State of Vermont Department of Financial Regulation, Captive Insurance Division

## The Paul Revere Life Insurance Company

MBOI retained representatives from consulting firms to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the MBOI's and the Bureau's examination staff. The principal consultant, Noble Consulting Services, Inc, provided general examination coordination and assistance which included a review of accounting records and information systems. Representatives from Winthrop Capital Management were retained to perform a review of the Unum Group's investment portfolios. The actuarial firm of Lewis & Ellis Inc. ("Lewis & Ellis") was retained to review actuarially determined policy reserves, as well as other significant actuarial estimates for all lines of business except long term care. Lewis & Ellis agreed in its contract with the MBOI to provide the Division with a separate report covering its review of certain life and individual disability insurance reserves held by PRL. Milliman was retained under separate contract by the MBOI to review Unum's long term care policy and claim reserves.

### **SUMMARY OF SIGNIFICANT FINDINGS OF FACT**

There were no significant findings identified during the examination.

### **COMPANY HISTORY**

#### General

The Company was incorporated under the laws of the Commonwealth of Massachusetts on June 10, 1930 and commenced business July 10, 1930. The Company was incorporated as a stock company and is authorized to write life, accident and health insurance. The Company has 1,960,000 authorized, issued, and outstanding shares, with a par value of \$5 per share, all of which is owned by Unum Group. The Company no longer actively writes new business, other than business in the state of New York, but rather focuses most of its operations on managing a closed block of individual disability income insurance.

As of the examination date, the Company was a wholly owned subsidiary of Unum Group, a non-insurance holding company incorporated in the State of Delaware. Unum Group is a leading provider of financial protection benefits in the United States and the United Kingdom.

#### Dividends

The following table illustrates the total dividends paid by the Company to its parent, Unum Group, during the period covered by this examination:

2018	\$ 60,000,000
2017	69,000,000
2016	60,000,000
2015	69,500,000
2014	124,600,000

## The Paul Revere Life Insurance Company

The Company owns 10.1% of Provident Life and Accident Insurance Company (“PLAIC”) and during the period covered by this examination received dividends from PLAIC as illustrated below:

2018	\$ 16,513,500
2017	19,190,000
2016	19,190,000
2015	18,588,000
2014	17,170,000

### **MANAGEMENT AND CONTROL**

#### Board of Directors Minutes

The minutes of meetings of the Board of Directors and its Committees for the period under examination were reviewed and indicated that all meetings were held in accordance with the Laws of the Commonwealth of Massachusetts and the Company’s bylaws, with the exception of a number of meetings for which investment activity was approved without a quorum present. Activities of the Committees were ratified at meetings of the Board of Directors.

#### Article of Incorporation and Bylaws

The articles of organization and bylaws of the Company were reviewed. The current bylaws, as amended, were adopted by the Board of Directors effective November 14, 2016. Changes made during the examination period were non-substantive. There were no amendments to the Articles of Incorporation.

#### Board of Directors

According to the bylaws, the Company's business shall be managed by a Board of Directors which may exercise all of the powers of the Company, except as otherwise provided by the Articles of Incorporation, by law, or the bylaws. The Company’s Board of Directors is a “management board” as all members are affiliated with and members of senior management within the Unum Group. There are no independent Directors. As of the examination date the Company's Board of Directors consisted of the following five individuals:

<u>Name of Directors</u>	<u>Title</u>
Michael Simonds	President and Chief Executive Officer
Puneet Bhasin	Executive Vice President, Chief Information and Digital Officer
Lisa Iglesias	Executive Vice President and General Counsel
John McGarry	Executive Vice President, Chief Financial Officer
Stephen Mitchell	Senior Vice President, Chief Financial Officer

## The Paul Revere Life Insurance Company

### Officers

Officers of the Company as of December 31, 2018 were as follows:

<u>Name of Officers</u>	<u>Title</u>
Michael Simonds	Chairman, President and Chief Executive Officer
Puneet Bhasin	Executive Vice President, Chief Information and Digital Officer
John McGarry	Executive Vice President, Finance
Lisa Iglesias	Executive Vice President, General Counsel
Stephen Mitchell	Senior Vice President, Chief Financial Officer
Cherie Pashley	Senior Vice President, Tax and Treasury
Daniel Waxenberg	Senior Vice President, Chief Accounting Officer
Benjamin Katz	Vice President, Treasurer
Marylou Murphy	Senior Vice President, Chief Actuary and Appointed Actuary
Paul Jullienne	Vice President, Managing Counsel and Corporate Secretary

### Affiliated Companies

As stated in the Insurance Holding Company System Form B as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of Massachusetts General Laws, Chapter 175, Section 206C and 211 Code of Massachusetts Regulations (“CMR”) 7.00.

### Organizational Chart

The Company is a member of the Unum Group, which has operations in the United States, parts of the United Kingdom, and Poland. The following illustrates only insurance companies within the Group with NAIC Company Codes.

<u>Entity</u>	<u>State of Domicile</u>	<u>NAIC CoCode</u>
Unum Group – Non Insurance Holding Company	DE	
First Unum Life Insurance Company	NY	64297
Unum Life Insurance Company of America	ME	62235
Unum Insurance Company	ME	67601
Starmount Life Insurance Company	ME	68985
Colonial Life & Accident Insurance Company	SC	62049
Provident Life and Accident Insurance Company (1)	TN	68195
Provident Life and Casualty Insurance Company	TN	68209
<b>The Paul Revere Life Insurance Company</b>	MA	67598

## The Paul Revere Life Insurance Company

Fairwind Insurance Company	VT	15463
Northwind Reinsurance Company	VT	13031

(1) 85.9% owned by Unum Group; 10.1% owned by The Paul Revere Life Insurance Company, and 4.0% owned by Unum Life Insurance Company of America

### Transactions and Agreements with Subsidiaries and Affiliates

#### *Administrative Services Agreements*

Unum Group provides the Company with facilities, managerial, administrative, investment and technical services pursuant to a General Services Agreement effective on March 28, 1998 as supplemented by notice dated August 8, 2006. Such shared costs and expenses are allocated based on time and usage studies.

#### *Tax Sharing Agreement*

The Company's Federal Income Tax return is consolidated with other affiliates in the Federal Income Tax return of Unum Group. The income tax allocation is subject to a written tax sharing agreement. The agreement provides that the portion of the consolidated tax liability allocated to the Company is based on its separate return tax liability. Under the agreement, additional tax benefits are allocated to the Company for its portion of net operating losses and tax credit carry forwards in the year they are used by the consolidated group.

#### *Investment Management Agreement*

Provident Investment Management, LLC ("Provident") was appointed as the Company's investment manager pursuant to the Investment Management Agreement ("Agreement") executed on April 15, 2004. Provident has discretionary authority to manage the Company's investment portfolio assets, as defined in the Agreement, subject to guidelines set forth by the Company's Board of Directors.

### **TERRITORY AND PLAN OF OPERATION**

The Company is licensed in all fifty states and the District of Columbia. Individual disability insurance ("IDI") had been the Company's primary product line since its founding. The Company no longer writes new business other than certain policies in the state of New York for individual life, group life, accident and sickness, individual disability, short-term disability, and critical illness. New business written in the State of New York is sold through the distribution channel of its affiliate, Colonial Life & Accident Insurance, which also administers this new business. PRL continues to manage and administer its existing business of individual disability policies. The Company essentially operates two closed blocks of IDI business. Policies issued before 4/1/1997 have been reinsured with Northwind Reinsurance Company, an affiliated captive reinsurer domiciled in Vermont (approximately 1% of this business is retained by the Company). This block is reinsured under a modified coinsurance agreement with funds held. Business written after



## The Paul Revere Life Insurance Company

4/1/97 through 2004 make up the second closed block and the majority of this business is retained by the Company.

### Treatment of Policyholders – Market Conduct

During the financial examination of the Company, the Division's Market Conduct Section initiated a comprehensive market conduct examination of the Company as of December 31, 2018. The market conduct examination was called pursuant to authority in Massachusetts General Law, Chapter 175, Section 4. The market conduct 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 INS Regulatory Insurance Services, Inc. were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Regulation Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The business areas that were reviewed under this examination include company operations and management, complaint handling, producer licensing, policyholder service, underwriting and rating, and claims. Each business area reviewed includes the identification and evaluation of the insurer's internal controls. The market conduct examination is the subject of a separate report which has not been formally issued.

## **REINSURANCE**

### Assumed Reinsurance

The Company has various assumed reinsurance treaties in place as part of its individual disability closed block. The assumed annual premium has been declining at \$7 to \$10 million per year over the past five years, and the Company assumed \$72.7 million in premium in 2018. The treaties corresponding to this business have been in place for many years through several examination cycles. These treaties, as with direct written business are essentially in run-off.

### Ceded Reinsurance

The Company has various reinsurance agreements in which blocks of business are reinsured in the ordinary course of business. The Company undertakes reinsurance transactions for both risk management and capital management. The Company evaluates the financial condition of reinsurers to whom it cedes business and monitors concentration of credit risk to minimize this exposure. In general, the maximum amount of life insurance risk retained under group or individual life or group or individual accidental death and dismemberment policies during 2018 was \$1 million per covered life per policy.

The majority of the Company's business is reinsured to Northwind Reinsurance Company, an affiliate. This reinsurance transaction covers individual disability income policies issued before April 1, 1997 on a modified coinsurance basis.

## The Paul Revere Life Insurance Company

Effective October 1, 2002, a portion of the Company's group long-term disability business was ceded to Unum Life Insurance Company of America. As of December 31, 2018, the ceded reserves and other liabilities were \$57,727,619.

Each year catastrophe excess of loss reinsurance is purchased that provides coverage for each statutory company within the Unum Group, including PRL. In 2018, there was global catastrophic reinsurance coverage which included four layers of coverage to limit exposure under life, accidental death and dismemberment, long-term care, and disability policies in regard to a catastrophic event. The Unum Group had 50 percent reinsurance coverage in the first layer, 55 percent coverage in the second layer, and 60 percent in the third and fourth layers. Layers one through four provided \$50 million, \$55 million, \$90 million and \$180 million of coverage, respectively, for a total of \$375 million of catastrophic coverage, after a \$100 million deductible. Each layer provided coverage for all catastrophic events, including acts of war and any type of terrorism, up to \$1 million of coverage per person per policy. Events may occur which limit or eliminate the availability of catastrophic reinsurance coverage in future years.

The Paul Revere Life Insurance Company

**FINANCIAL STATEMENTS**

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2018. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2018

Statement of Income for the Year Ended December 31, 2018

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2018

The Paul Revere Life Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds  
As of December 31, 2018

	Per Annual Statement
<b>ASSETS</b>	
Bonds	\$ 3,017,091,021
Preferred stocks	52,312,438
Commons stocks	61,271,491
Mortgage loans on real estate	62,438,536
Cash, cash equivalents and short-term investments	9,307,237
Contract loans	155,446
Other invested assets	44,463,629
Securities lending reinvested collateral assets	128,750
Subtotals, cash and invested assets	<u>3,247,168,548</u>
Investment income due and accrued	53,341,684
Uncollected premiums and agents' balances	8,651,689
Deferred premiums	1,634,969
Amounts recoverable from reinsurers	48,262,171
Other amount receivable under reinsurance contracts	15,828,095
Current federal tax recoverable	7,681,456
Net deferred tax asset	23,974,763
Guaranty funds receivable or on deposit	2,220,385
Aggregate write-ins	1,403,707
Total Assets	<u>\$ 3,410,167,467</u>

The Paul Revere Life Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds (Continued)  
As of December 31, 2018

	Per Annual Statement
<b>LIABILITIES</b>	
Aggregate reserve for life contracts	\$ 114,126,634
Aggregate reserve for accident and health contracts	2,892,200,036
Liability for deposit-type contracts	903,063
Contract claims: Life	1,400,574
Contract claims: Accident and health	46,087,230
Premiums and annuity considerations received in advance	4,260,837
Other amounts payable on reinsurance	48,713,065
Interest maintenance reserve	53,645,288
Commissions to agents due or accrued	4,835,667
Commissions payable on reinsurance assumed	26,854
General expenses due or accrued	1,340,637
Taxes, licenses and fees due or accrued	906,076
Amounts withheld as agent or trustee	96,503
Remittances and items not allocated	3,089,091
Borrowed money	5,000,389
Asset valuation reserve	27,370,145
Payable to parent, subsidiaries and affiliates	3,492,327
Payable for securities lending	128,750
Aggregate write-ins	11,416,136
Total Liabilities	<u>3,219,039,302</u>
<b>SURPLUS</b>	
Common capital stock	9,800,000
Aggregate write-ins for other than special surplus funds	32,833,025
Gross paid in and contributed surplus	51,815,878
Unassigned funds (surplus)	96,679,262
	<u>181,328,165</u>
Total capital and surplus	<u>191,128,165</u>
Total Liabilities, Surplus and Other Funds	<u><u>\$ 3,410,167,467</u></u>

# The Paul Revere Life Insurance Company

## Summary of Operations For the Year Ended December 31, 2018

	Per Annual Statement
Premiums and annuity considerations	\$ 93,192,090
Net investment income	234,962,954
Amortization of Interest Maintenance Reserve	4,155,715
Commissions and expense allowances on reinsurance ceded	60,575,481
Reserve adjustments on reinsurance ceded	(177,647,445)
Aggregate write-ins for miscellaneous income	41,558,112
Total	256,796,907
Death benefits	2,938,157
Annuity benefits	12,719,133
Disability benefits and benefits under A&H contracts	63,345,365
Surrender benefits and withdrawals for life contracts	159,242
Interest and adjustments on contract	38,839
Payments on supplementary contracts	43,636
Increase in aggregate reserves	(162,172,298)
Total	(82,927,926)
Commissions on premiums	19,859,910
Commissions and expense allowances on reinsurance assumed	2,911,860
General insurance expenses	45,119,478
Insurance taxes, licenses and fees, excluding federal taxes	6,894,851
Increase in loading on deferred and uncollected premiums	70,428
Aggregate write-ins for deductions	192,788,298
Total	184,716,899
Net gain from operations before dividends to policyholders and federal income taxes	72,080,008
Net gain from operations after dividends to policyholders and before federal income taxes	72,080,008
Federal and foreign income taxes incurred	(296,411)
Net gain from operations after dividends to policyholders and federal income taxes and before capital gains (losses)	72,376,419
Net realized capital gains (losses)	(1,932,050)
Net income	\$ 70,444,369

## The Paul Revere Life Insurance Company

### Reconciliation of Capital and Surplus For Each Year in the Five-Year Period Ended December 31, 2018

	2018	2017	2016	2015	2014
Surplus as regards policyholders, December 31, prior year	\$177,342,451	\$251,396,331	\$257,711,693	\$278,031,190	\$336,087,198
Net income/(loss)	70,444,369	55,372,486	65,620,142	63,101,154	76,458,317
Change in net unrealized capital gains or (losses) less capital gains tax	137,607	(12,520,273)	64,784	815,997	14,010,904
Change in net deferred income tax	(5,280,737)	(62,985,878)	3,046,047	(4,974,919)	(3,166,909)
Change in non-admitted assets	19,952,539	14,930,619	9,097,049	(29,902)	2,560,156
Change in liability for reinsurance in unauthorized and certified companies	45,249	11,480,974	(11,526,223)	6,079,463	(6,079,463)
Change in reserve on account of change in valuation basis	-	(1,010,190)	-	-	-
Change in asset valuation reserve	3,999,229	3,691,263	(164,099)	(908,442)	1,383,109
Change in surplus as a result of reinsurance	(15,512,542)	(14,012,881)	(12,453,062)	(14,902,847)	(18,622,123)
Dividends to stockholders	(60,000,000)	(69,000,000)	(60,000,000)	(69,500,000)	(124,600,000)
Change in surplus as regards policyholders for the year	13,785,714	(74,053,880)	(6,315,362)	(20,319,497)	(58,056,009)
Surplus as regards policyholders, December 31, current year	<u>\$191,128,165</u>	<u>\$177,342,451</u>	<u>\$251,396,331</u>	<u>\$257,711,693</u>	<u>\$278,031,190</u>

**ANALYSIS OF CHANGE IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION**

There were no changes in the financial statements resulting from the examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

In connection with the Division's examination of the Company and its 2018 Annual Statement, the services of Lewis & Ellis ("Consulting Actuary") were retained to perform a detailed review of the reserves for the companies within the Unum Group, including PRL's actuarial items, reserves and claims liability.

Lewis & Ellis concluded the Company uses appropriate methodology and reserve assumptions for their life, annuity and accident and health policy reserves. Claim lag studies are utilized for the unreported claim reserves. Claim expense reserves are based on projected claim run-outs and expenses based on historical claim expense adjudication. This method is common in the health insurance industry. The Consulting Actuary believes the methodology used is appropriate.

Furthermore, Lewis & Ellis indicated that overall, they believe the Company's processes and controls for the risk areas reviewed are strong. They did not note any material misstatements of the reserves and liabilities reviewed. Reserves and liabilities tested by Lewis & Ellis as of December 31, 2018, appear to be sufficient.

Additionally, the Consulting Actuary reviewed the Company's asset adequacy and cash flow testing ("CFT"). The Company's Appointed Actuary concluded that cash flow testing results demonstrate that all of the tested blocks of reserves make adequate provision for current liabilities under a variety of interest rate scenarios. No additional reserves were determined to be necessary. Based on the review of the testing performed and the resulting outcomes, Lewis & Ellis would concur with that conclusion.

The Consulting Actuary examined the actuarial assumptions and actuarial methods used in determining policy reserves and related actuarial items listed below, as shown in the NAIC Annual Statement of the Company at December 31, 2018.

Aggregate reserve for life policies and contracts (Page 3, Line Item 1)	\$ 114,126,636
Aggregate reserve for accident and health policies (Page 3, Line Item 2)	2,892,200,036
Liability for deposit-type contracts (Page 3, Line Item 3)	903,063
Life policy and contract claims liability (Page 3, Line Item 4.1)	1,400,574
Accident and health policy and contract claims liability (Page 3, Line Item 4.2)	46,087,230
Life insurance premiums and annuity considerations deferred and uncollected (Page 2, Line Item 15.1 and 15.2)	10,286,658



### **SUBSEQUENT EVENTS**

#### Long-Term Care Reserve Deficiency

As part of the coordinated examination, the MBOI examined Unum Life Insurance Company of America (“ULA”). As part of that examination, the MBOI retained Milliman to review the adequacy of ULA’s Long Term Care reserves. This review ultimately determined ULA’s statutory reserves to be deficient by \$2.1 billion dollars as of December 31, 2018. MBOI has agreed to allow ULA a permitted practice to phase-in the additional statutory reserves over a seven-year period beginning 12/31/2020 and ending 12/31/2026. Although there is no direct or immediate impact of this action to PRL, as a wholly-owned subsidiary of Unum Group and affiliate of ULA the effects of this deficiency could indirectly impact PRL in the future as a member of Unum Group.

### **SUMMARY OF RECOMMENDATIONS**

There were no significant recommendations noted by the examination team for improvements in process, activities, and/or controls that should be noted in this report.

**SIGNATURE PAGE**

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by the following examiner participating in this examination is acknowledged.

Michael Lewandowski, Financial Examiner II

*John M Curran*

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John M. Curran, CFE  
Supervising Examiner and EIC  
Commonwealth of Massachusetts  
Division of Insurance