



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

DIVISION OF INSURANCE

***REPORT OF EXAMINATION OF*
PEOPLES SERVICE INSURANCE COMPANY**

Woburn, Massachusetts

As of December 31, 2005

NAIC COMPANY CODE 15625

NAIC GROUP CODE 0045

EMPLOYERS ID NO. 04-3190850

PEOPLES SERVICE INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS

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Honorable Commissioners:

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

PEOPLES SERVICE INSURANCE COMPANY

Woburn, Massachusetts

at its main administrative office located at 4 Bouton Street, Concord, New Hampshire 03301.
The following report thereon is respectfully submitted.

Peoples Service Insurance Company

SCOPE OF EXAMINATION

The Peoples Service Insurance Company (hereinafter referred to as “the Company”) was last examined as of December 31, 2000 under the association plan of the National Association of Insurance Commissioners (NAIC) by the Massachusetts Division of Insurance. The current association plan examination was also conducted by the Massachusetts Division of Insurance (the “Division”), and covers the period from January 1, 2001 through December 31, 2005, including any material transactions and/or events subsequent to the examination date and noted during the course of this examination. The Company does not conduct business in any state other than Massachusetts, authorized examiners representing other zones according to the Association Plan of the National Association of Insurance Commissioners (NAIC) were not eligible to participate in the examination.

The examination was conducted in accordance with standards established by the Financial Condition (E) Committee of the NAIC as well as with 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 2005 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, 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 had been 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 2001 through 2004. In 2005 the Company changed their independent certified public accounting firm to UHY LLP, Certified Public Accountants. UHY LLP issued an unqualified opinion for 2005. A review and use of the Certified Public Accountants’ work papers was made to the extent deemed appropriate and effective. The Company is 100% owned by Concord General Mutual Insurance Company (“CGM”). CGM is a New Hampshire domiciled insurer, and is the lead insurer of an inter-company reinsurance pool, which assumes 100% of the Company’s underwriting results.

The Company does not own and maintain its own information processing systems, but rather contracts the function of premium and loss data processing to an outside vendor, CGI Information Systems (“CGI”). CGI specializes in the processing of automobile insurance in Massachusetts and provides all information services including premium processing, claim processing, and statistical reporting to Commonwealth Automobile

Peoples Service Insurance Company

Reinsurers (“CAR”) for the Company. The contract document governing the relationship with CGI and a SAS 70 report performed by Deloitte & Touche, LLP on CGI’s operations were reviewed as part of the examination.

For a summary of findings associated with this report, refer to the accompanying “Notes to Financial Statements” section at the conclusion of this report.

HISTORY

The Company was incorporated on May 4, 1993 under the laws of the Commonwealth of Massachusetts and commenced business on June 4, 1993. The Company was formed with the intention of selling private passenger automobile insurance in Massachusetts as a “preferred provider organization” the Company established relationships with one agent and one auto body shop in each geographic location served. Due to a variety of factors including the Company’s relatively young operation and the advent of industry-wide discounts on personal automobile premium rates, during 1996, the Company failed to meet minimum statutory surplus requirements and began to seek a buyer. The Company was acquired by the CGM on July 18, 1997 by means of the purchase of 100% of the Company’s outstanding common stock. The transaction involved a capital contribution of \$3 million to the Company by CGM in order to bring surplus above the statutory minimum requirement.

On July 18, 1997, the Company entered into a reinsurance agreement with CGM, retroactive to January 1, 1997, whereby the Company cedes to CGM, net of third party reinsurance, all liabilities incurred under insurance policies issued by the Company from its inception. Such liabilities include the Company’s unearned premium reserve, reserve for losses and loss adjustment expense and all other underwriting and administrative expenses incurred by the Company in connection with such business. In addition, the reinsurance agreement provides that all policies written by the Company subsequent to January 1, 1997 are ceded 100% to CGM, net of third party reinsurance. The Company’s net underwriting results are thus 100% assumed by CGM.

In 2002 the Company decided to withdraw from the Massachusetts automobile market effective December 31, 2002. A Withdrawal Agreement approving the decision was signed by the Commissioner of Insurance on October 24, 2002. Non-renewal of the Company’s automobile policies began January 1, 2003 and continued throughout 2003 resulting in no policies in force at December 31, 2003. The Company is currently operating in “run-off” mode, and plans to continue servicing claims to their eventual settlement.

Capital Stock

The Company has authorized two hundred thousand (200,000) and fifty-one thousand (51,000) shares issued and outstanding of common stock with a stated value per share of \$100. All outstanding stock is owned by CGM.

Peoples Service Insurance Company

Dividends to Stockholders

In 2001 and 2002 the Company paid a return of capital dividend of \$100,000 to CGM with the approval of the Division. These payments are reflected as a reduction to paid-in surplus.

Growth of Company

The growth of the Company for the years 2001 through 2005 is shown in the following schedule, which was prepared from the Company's statutory Annual Statements. The 2005 amounts include changes resulting from this examination.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Direct Premiums Written</u>	<u>Net Premiums Written</u>
2005	\$ 948,538	\$ 81,254	\$ 867,284	0	0
2004	5,202,619	85,209	5,117,410	(1,875)	0
2003	6,934,458	834,371	6,100,087	(497,577)	0
2002	10,585,240	4,506,308	6,078,931	20,841,961	0
2001	12,270,664	6,169,551	6,101,113	22,169,981	0

Management

Annual Meeting of Stockholders

In accordance with the by-laws, the annual meeting of the Company is to be held on the second Wednesday in March of each year. A majority in interest of all stockholders present at any meeting shall constitute a quorum. The minutes indicate that a quorum was obtained at each annual meeting held during the examination period.

Board of Directors

The bylaws of the Company provide that the board of directors shall have general control of the business and affairs of the Company and it may adopt such rules and regulations as it shall deem necessary or convenient for the proper conduct of such business and affairs. The board of directors shall consist of not fewer than five directors. Each director shall hold office for a term of one year.

At December 31, 2005, the board was comprised of five directors which is in compliance with the Company's bylaws.

Directors duly elected and serving at December 31, 2005, with business affiliations, follows:

Peoples Service Insurance Company

<u>Director</u>	<u>Business Affiliation</u>
Warren C. McLean, Jr.	President, Peoples Service Insurance Company
Joseph A. Desmond	Chairman of the Board, Peoples Service Insurance Company and Concord General Mutual Insurance Company
George H. Morehouse	Retired Vice President, Peoples Service Insurance Company Retired President, Concord General Mutual Insurance Company
T. Holmes Moore	Retired Headmaster, New Hampton Preparatory School, Director, Concord General Mutual Insurance Company
Gordon A. Rehnborg, Jr.	Wiggin & Nourie, Law Firm, Director, Concord General Mutual Insurance Company

The bylaws do not specify the number of meetings to be held during a year. The minutes of the board of directors meetings indicated that meetings were held between five and seven times per year during the examination period. The minutes indicated that a quorum was obtained at all meetings of the board of directors held during the examination period.

Executive Committee

In accordance with provisions contained in the by-laws, the Company has chosen to elect an Executive Committee, the following directors being duly elected at the annual meeting of the board and serving as the Executive Committee as of the examination date.

Joseph A. Desmond
Warren C. McLean, Jr.
George H. Morehouse

Officers

The bylaws of the Company provide that the officers of the corporation shall be a president, a treasurer, a secretary and such other officers, including one or more vice presidents, assistant treasurers and assistant secretaries, a chairman of the board and a chief executive officer, as the board of directors may determine. Pursuant to the bylaws, the officers of the company are elected by the board of directors. The elected officers and their respective titles at December 31, 2005 are as follows:

Joseph A. Desmond	Chairman of the Board
Warren C. McLean, Jr.	President and Secretary
Linda J. Day	Vice President
Daniel Rodgers	Treasurer
John E. Forbes	Assistant Vice President
Albert F. Brack, Jr.	Assistant Secretary
Gordon A. Rehnborg, Jr.	Secretary to the Board
Fern G. Bond	Assistant Secretary of the Board

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Conflict of Interest Procedures

The Company has adopted a formal conflict of interest policy for officers and key executives, and has an established procedure for the disclosure to the board of directors of any material interest or affiliation on the part of any officer or director, which is in or is likely to conflict with his/her official duties.

Annually, each officer, director and responsible employee completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed, and no discrepancies were noted.

Corporate Records

Articles of Incorporation and Bylaws

The Company's articles of incorporation and bylaws were reviewed and indicate that no changes have been made to these documents since the prior examination.

Board of Directors Minutes

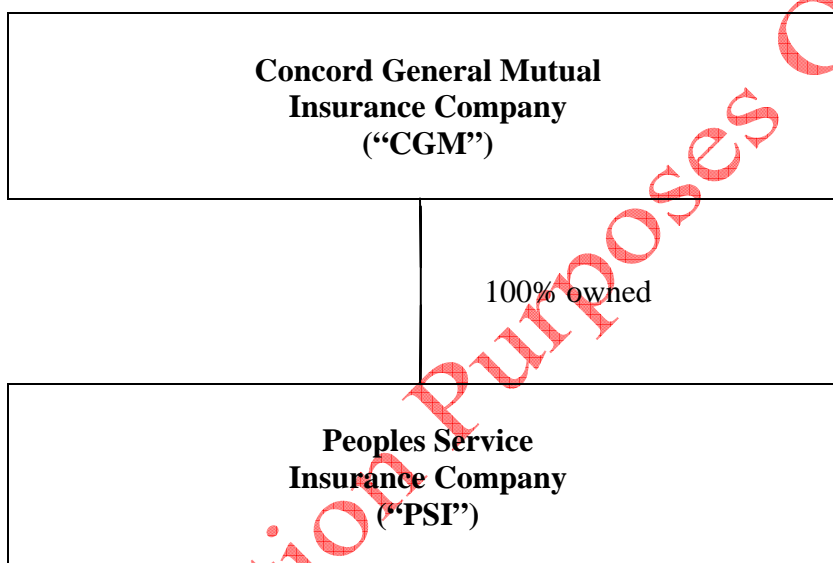
The minutes of the board of directors and committee meetings for the period under statutory examination were read and indicated that all meetings were held in accordance with the Company bylaws and the laws of the Commonwealth of Massachusetts.

Peoples Service 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. The Company is a wholly owned subsidiary of CGM, which is the “ultimate controlling person”.

Organizational Chart



Transactions and Agreements with Affiliates

Insurance Management Agreement – Effective 1/1/97

This agreement provides that CGM will render services with regard to the business of the Company, including advice on insurance programs, accounting services, claims administration services, and underwriting services. The agreement addresses matters such as office records, reports, examinations, investment management and bank accounts, and expressly defines the relationship as parent/subsidiary. We noted that certain aspects of the agreement needed to be updated.

Tax Allocation Agreement – Effective 5/28/99

This agreement governs the relationship between CGM and other members of the group, including the Company, with respect to the filing of consolidated federal income tax returns. The Company participates in a tax allocation agreement with CGM pursuant to Internal Revenue Code Section 1502. The allocation method is based upon the respective

Peoples Service Insurance Company

tax liability of each member computed as if a separate return were filed, in accordance with Internal Revenue Code Section 1552.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, under a Financial Institutions Bond, designed for insurance companies, consistent with Massachusetts General Laws Chapter 175, Section 60. The aggregate limit of liability exceeds the NAIC suggested minimum. The Company has protected its interests and properties by policies of insurance covering other insurable risks. Coverages are provided by insurers licensed in the Commonwealth of Massachusetts and were in force as of December 21, 2005.

PENSION, INSURANCE PLANS AND EMPLOYEE WELFARE

On November 3, 2003 the Company's Massachusetts office was closed. As part of the move, certain key Massachusetts employees transferred to CGM's offices in Concord, New Hampshire. The Company did not have any employees at the time of the Company's purchase by CGM in 1997, all Peoples Service employees became employees of CGM.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is only licensed in Massachusetts and only authorized to write private passenger automobile lines of business.

Treatment of Policyholders

Claims Settlement Practices

Procedures performed in conjunction with claims test work indicated that the Company investigates and settles claims on a timely and equitable basis.

Policyholder Complaints

During the course of the examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. This review was general in nature and was substantially less in scope than a full scope market conduct examination. The review was primarily directed at claim settlement practices and consumer complaints. Based on our review, the Company has adequate guidelines in place to appropriately address policyholder,

Peoples Service Insurance Company

claimant and consumer complaints arising out of the normal course of conducting its insurance operations. The complaints reviewed did not indicate any pattern in the types of complaints reported.

REINSURANCE

Commonwealth Automobile Reinsurance (CAR)

As a writer of private passenger automobile insurance in Massachusetts, the Company is required to participate in the State's mandatory reinsurance facility, Commonwealth Automobile Reinsurers ("CAR"). As such, the Company cedes to CAR exposures it deems of high risk and under-priced. The Company must also participate in the overall results of CAR by assuming from CAR its proportionate share of the total deficit generated by CAR based on a utilization formula. In October 2002, the Company made a payment of \$4,223,000 to CAR to buy-out their CAR obligations for policy year 2003 and all years subsequent. The Company still participates with CAR for policy years 2002 and prior. See the Subsequent Events section on page 10 of this report for additional information.

Inter-Company Reinsurance

As mentioned previously, the Company entered into a reinsurance agreement with its parent, CGM, effective January 1, 1997, whereby the Company cedes to CGM, net of third party reinsurance, all of the liabilities incurred under insurance policies issued by the Company from its inception and in addition, all obligations subsequent to January 1, 1997 are ceded 100% to CGM. Such liabilities include the Company's unearned premium reserve, reserve for losses and loss adjustment expenses and all other underwriting and administrative expenses incurred by the Company in connection with such business. See the Subsequent Events section on page 10 of this report for additional information.

Other Reinsurance

The Company is a named insured along with other affiliates, on certain catastrophe and excess of loss reinsurance agreements initiated and managed by its parent, CGM. The Company's participation in these treaties is limited and not considered material.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires and examined through transaction testing and a review of the work performed by the Company's independent Certified Public Accountants. No material deficiencies were noted.

Peoples Service Insurance Company

The NAIC provides a questionnaire covering the evaluation of the controls in the information systems (IS) environment. The Company operates using an outside vendor (CGI) and with information systems owned, operated and maintained by CGM, which completed the NAIC Exhibit C Questionnaire. 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, from which the Company generates general ledger and supporting reports as well as other reports common to the insurance industry. Trial balances were traced from the general ledger and supporting documents to the 2005 annual statement, and no material exceptions were noted.

SUBSEQUENT EVENTS

In 2007, the Company has voluntarily submitted a Withdrawal Plan to the Commissioner to withdraw from the business of insurance and thereafter continue its existence as a business corporation. If the Commissioner approves the plan the Company and CGM will enter into an Assignment and Assumption Agreement with an effective date the same as the Commissioner's approval date of the Withdrawal Plan. Under the Assignment and Assumption Agreement, CGM will assume all liabilities and obligations of the Company that arise out of any policy issued by Peoples, regardless whether any such liabilities and obligations existed prior to the effective date or arise at any time on or after such date.

In addition, on the effective date of the Withdrawal Plan the Company, CGM and CAR will enter into an agreement whereby CGM will assume all of the Company's obligations to CAR. The Company will be discharged and released from all its rights, interests, liabilities and obligations with respect to CAR.

FINANCIAL STATEMENTS

The following financial statements reflect the assets, liabilities, capital and surplus as determined by our examination, showing the Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2005, together with a Summary of Operations for the year ended December 31, 2005, and a Reconciliation of Capital and Surplus for the five year period ended December 31, 2005.

Peoples Service Insurance Company

Peoples Service Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2005

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Bonds	\$ 320,132	\$ 0	\$ 320,132	
Cash and short-term investments	584,408		584,408	
Investment income due and accrued	2,244		2,244	
Amounts recoverable from reinsurers	35,754		35,754	
Net deferred tax asset	6,000		6,000	
Receivables from parent	4,300,233	(4,300,233)	0	(1)
Total Assets	\$ 5,248,771	\$ (4,300,233)	\$ 948,538	
Liabilities				
Aggregate write-ins for liabilities				
Reserve for checks charged off	\$ 81,254	\$ 0	\$ 81,254	
Total Liabilities	81,254		81,254	
Surplus				
Common capital stock	2,040,000		2,040,000	
Gross paid in and contributed surplus	5,601,241		5,601,241	
Unassigned funds (surplus)	(2,473,724)	(4,300,233)	(6,773,957)	
Surplus as regards policyholders	5,167,517	(4,300,233)	867,284	
Total Liabilities and Surplus	\$ 5,248,771	\$ (4,300,233)	\$ 948,538	

Peoples Service Insurance Company

Peoples Service Insurance Company
Statement of Income and Capital and Surplus
For the Year Ended December 31, 2005

	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Net investment income earned	\$ 44,159	\$ 0	\$ 44,159	
Net income before dividends to policyholders and before federal and foreign income taxes	44,159		44,159	
Dividends to policyholders	<u>0</u>		<u>0</u>	
Net income, after dividends to policyholders but before federal and foreign income taxes	44,159		44,159	
Federal and foreign income taxes incurred	<u>0</u>		<u>0</u>	
Net Income	<u>\$ 44,159</u>	<u>\$ 0</u>	<u>\$ 44,159</u>	
Capital and Surplus Account				
Surplus as regards policyholders, December 31 prior year	\$ 5,117,410	\$ 0	\$ 5,117,410	
Net income	44,159		44,159	
Change in net deferred income tax	(15,014)		(15,014)	
Change in nonadmitted assets	<u>20,962</u>	<u>(4,300,233)</u>	<u>(4,279,271)</u>	(1)
Change in surplus as regards policyholders for the year	<u>50,107</u>	<u>(4,300,233)</u>	<u>(4,250,126)</u>	
Surplus as regards policyholders for the year	<u>\$ 5,167,517</u>	<u>\$ (4,300,233)</u>	<u>\$ 867,284</u>	

Peoples Service Insurance Company

Peoples Service Insurance Company
Five Year Reconciliation of Capital and Surplus
For the Period Ended December 31, 2005

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Surplus as regards policyholders, December 31 previous year	\$ 5,117,410	\$ 6,100,087	\$ 6,078,931	\$ 6,101,113	\$ 5,925,607
Net income (loss)	44,159	45,242	53,077	109,649	203,012
Change in net deferred income tax	(15,014)	332,997	1,376,879	376,364	(419,033)
Change in non admitted assets	20,962	(333,524)	(1,408,800)	(408,195)	3,471
Cumulative effect of changes in accounting principles					488,056
Surplus adjustments: Paid in				(100,000)	(100,000)
Aggregate write-ins for gains and losses in surplus	<u>(4,300,233)</u>	<u>(1,027,392)</u>	<u>21,156</u>	<u>(22,182)</u>	<u>175,506</u>
Change in surplus	<u>(4,250,126)</u>	<u>(982,677)</u>	<u>21,156</u>	<u>(22,182)</u>	<u>175,506</u>
Surplus as regards policyholders, December 31 current year	<u>* \$ 867,284</u>	<u>\$ 5,117,410</u>	<u>\$ 6,100,087</u>	<u>\$ 6,078,931</u>	<u>\$ 6,101,113</u>
* Per Exam					

NOTES TO FINANCIAL STATEMENTS

Note (1) – The examiners have non-admitted the inter-company receivable balance of \$4,300,233. This receivable is actually inter-company reinsurance as the Company's parent Concord General Mutual Insurance Company assumes all of the Company's losses and loss adjustment expenses. In accordance with annual statement instructions for the aging of reinsurance recoverable, this asset is considered overdue and therefore non-admitted for examination purposes.

As noted in the Subsequent Events section of this report, the Company has submitted a Withdrawal Plan to the Commissioner. If approval is granted, the inter-company balance will be settled. CGM has been funding a significant portion of the Company's obligations in recent years due to the Company's limited asset base to fund their own obligations.

ACKNOWLEDGEMENT

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

John M. Curran, CFE
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