

REPORT ON EXAMINATION

OF THE

NOVA CASUALTY COMPANY

AS OF

DECEMBER 31, 2012

DATE OF REPORT

APRIL 25, 2014

EXAMINER

JOSEPH REVERS

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

April 25, 2014

Honorable Benjamin M. Lawsky  
Superintendent of Financial Services  
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31069 dated October 15, 2013, attached hereto, I have made an examination into the condition and affairs of Nova Casualty Company as of December 31, 2012, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Nova Casualty Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s administrative office located at 5 Waterside Crossing, Suite 201, Windsor, CT 06095.

## 1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2007. This examination covered the five-year period from January 1, 2008 through December 31, 2012. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which 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. This 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 financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

## **2. DESCRIPTION OF COMPANY**

Nova Casualty Company was incorporated under the laws of the State of New York on September 13, 1979 as the First Security Corporation. It became licensed and commenced business effective July 18, 1980. On December 30, 1988, the present name, Nova Casualty Company, was adopted.

On August 13, 2008, The Hanover Insurance Group, Inc. (“THIG”), a Delaware publicly traded insurance holding company, filed with the Department an application for the acquisition of control of the Company pursuant to Section 1506 of the New York Insurance Law and Department Regulation 52. The application provided that THIG would acquire all of the outstanding stock of AIX Holdings, Inc., which was the ultimate parent of the Company prior to the acquisition. The aggregate purchase price in connection with this transaction was \$104.5 million. The Application was approved by the Department on November 24, 2008.

Capital paid in is \$4,200,000 consisting of 14,000 shares of \$300 par value per share common stock. Gross paid in and contributed surplus is \$82,871,445. Gross paid in and contributed surplus increased by \$29,000,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2008	Beginning gross paid in and contributed surplus	\$53,871,445
2009	Surplus contribution	\$25,000,000
2011	Surplus contribution	<u>4,000,000</u>
	Total contributed surplus	<u>29,000,000</u>
2012	Ending gross paid in and contributed surplus	<u>\$82,871,445</u>

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than fourteen members. The board meets at least once during each calendar year, and also takes action by unanimous written consents. At December 31, 2012, the board of directors was comprised of the following fourteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Maribeth Nash Bearfield Newton, MA	Executive Vice President and Chief Human Resources Officer, Nova Casualty Company
Mark Richard Derochers Burlington, MA	Vice President, Personal Lines, The Hanover Insurance Company
Frederick Henry Eppinger Grafton, MA	President, The Hanover Insurance Group
Joseph David Freitas Sturbridge, MA	Vice President, Finance, The Hanover Insurance Company
Andrew Christopher Furman North Grafton, MA	Vice President, Nova Casualty Company
David Bruce Greenfield Weston, CT	Executive Vice President and Chief Financial Officer, Nova Casualty Company
J. Kendall Huber Sudbury, MA	Executive Vice President and General Counsel, Nova Casualty Company
Craig Michael Rappaport Hartford, CT	Vice President, AIX Operations, Nova Casualty Company
Andrew Scott Robinson East Greenwich, RI	Executive Vice President, The Hanover Insurance Company
John Conner Roche Hopkinton, MA	Vice President, AIX Commercial Lines, The Hanover Insurance Company
Robert Dean Schultz W. Simsbury, CT	Vice President, AIX Leadership, Nova Casualty Company
Gregory Davidson Tranter Shrewsbury, MA	Executive Vice President, Chief Information and Operations Officer, The Hanover Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Ann Kirkpatrick Tripp Rutland, MA	Vice President and Treasurer, Nova Casualty Company
Marita Zuraitis Sutton, MA	President, Nova Casualty Company

A review of the minutes of the board of directors' meetings held during the examination period and the unanimous written consent indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2012, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Marita Zuraitis	President
Charles Frederick Cronin	Secretary
Ann Kirkpatrick Tripp	Vice President and Treasurer
Maribeth Nash Bearfield	Executive Vice President
David Bruce Greenfield	Executive Vice President and Chief Financial Officer
J. Kendall Huber	Executive Vice President and General Counsel

B. Territory and Plan of Operation

As of December 31, 2012, the Company was licensed to write business in all fifty states and the District of Columbia.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision

<u>Paragraph</u>	<u>Line of Business</u>
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
26	Gap

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$4,000,000.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

<u>Calendar Year</u>	<u>New York State</u>	<u>Total Premiums</u>	<u>Premiums Written in New York State as a percentage of Total Premium</u>
2008	\$24,192,406	\$131,994,056	18.33%
2009	\$19,023,794	\$148,176,904	12.84%
2010	\$20,553,212	\$186,592,129	11.02%
2011	\$21,504,858	\$227,143,787	9.47%
2012	\$25,985,943	\$275,199,164	9.44%

The Company's principal lines of business are commercial multi-peril, workers' compensation, commercial auto, and other liability. This business is written through its licensed and appointed agents. The Company does not appoint brokers.

#### C. Reinsurance

Assumed reinsurance accounted for less than 1% of the Company's gross premium written at December 31, 2012 and consisted solely of business assumed from mandatory pools.

The Company cedes 100% of its business to The Hanover Insurance Company, an affiliated company. The agreement was non-disapproved in conjunction with the sale of the Company to THIG.



The ceded reinsurance agreement in effect as of the examination date was reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

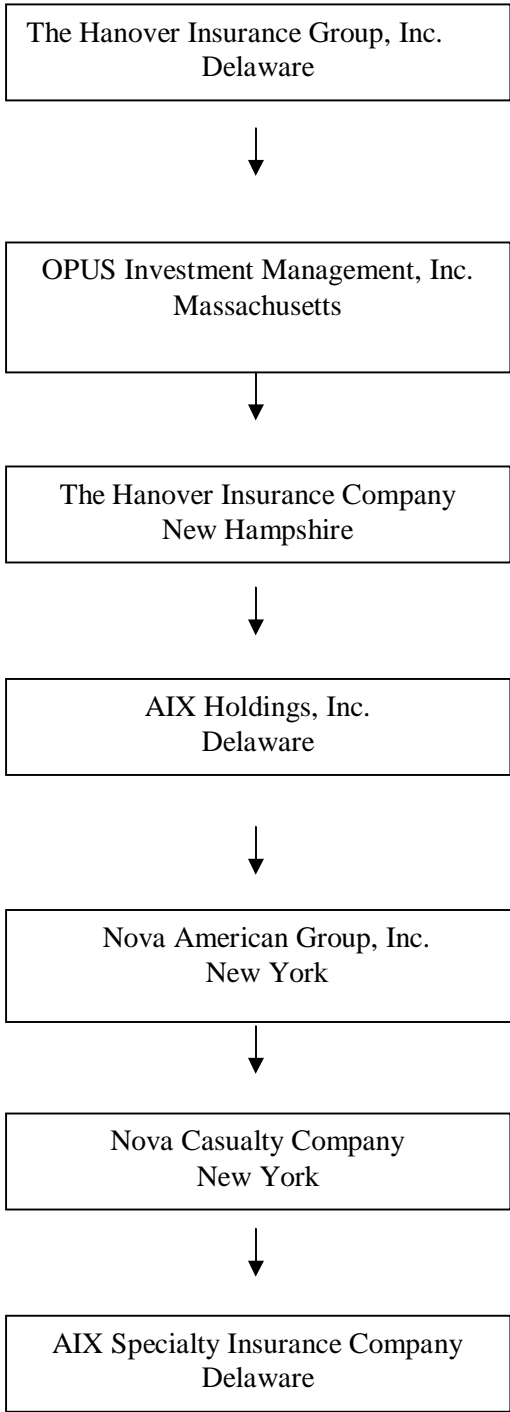
Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62.

D. Holding Company System

The Company is a member of The Hanover Insurance Group, which is ultimately controlled by The Hanover Insurance Group, Inc. (“THIG”), a publicly traded Delaware insurance holding corporation.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2012:



At December 31, 2012, the Company was party to the following agreements with other members of its holding company system:

Tax Allocation Agreement

Upon its acquisition in 2008, the Company became part of a consolidated income tax agreement between The Hanover Insurance Group, Inc. (the “Parent”) and its subsidiaries (the “Affiliated Group”). The agreement, which originally became effective for the tax year ending December 31, 2001, and as amended on September 14, 2007, provides that the Parent will file a consolidated tax return for the Affiliated Group. The consolidated liability shall be allocated among the members of the Affiliated Group in the same proportion that each member’s separate return tax liability bears to the sum of the separate return tax liabilities for all members.

The tax allocation agreement was submitted to the Department in conjunction with the application for acquisition of control of the Company by its ultimate parent.

Management Service Agreement

Effective January 1, 2010, the Company entered into a consolidated service agreement with its ultimate parent, The Hanover Insurance Group, Inc. Pursuant to the terms of the agreement, THIG provides such services as it may require for the Company’s operations. The management service agreement was submitted to the Department in conjunction with the application for acquisition of control of the Company by its ultimate parent.

E. Significant Operating Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination\*:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$29,625,649	75.27%
Other underwriting expenses incurred	16,410,504	41.69
Net underwriting loss	<u>(6,677,107)</u>	<u>(16.96)</u>
 Premiums earned	 <u>\$39,359,046</u>	 <u>100.00%</u>

\* It is noted that the underwriting income and expenses were all incurred in calendar year 2008, the year that the Company was acquired by THIG. Since that time, the Company cedes 100% of its business to THIG; therefore, its underwriting income and expenses are \$0.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2012 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Examination</u>	
		<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$28,661,467	\$ 0	\$28,661,467
Preferred stocks	0	0	0
Common stocks	50,613,040	0	50,613,040
Cash, cash equivalents and short-term investments	9,430,000	0	9,430,000
Receivables for securities	24	0	24
Investment income due and accrued	280,264	0	280,264
Amounts recoverable from reinsurers	3,120,737	0	3,120,737
Current federal and foreign income tax recoverable and interest thereon	9,348	0	9,348
Net deferred tax asset	1,051,016	0	1,051,016
Electronic data processing equipment and software	645,102	405,064	240,038
Furniture and equipment, including health care delivery assets	186,299	186,299	0
Receivables from parent, subsidiaries and affiliates	1,884,604	0	1,884,604
Aggregate write-ins for other than invested assets	<u>2,805,526</u>	<u>2,805,526</u>	<u>0</u>
Totals	<u>\$98,687,427</u>	<u>\$3,396,889</u>	<u>\$95,290,538</u>

#### Liabilities

#### Examination

Losses and loss adjustment expenses		\$ 0
Payable to parent, subsidiaries and affiliates		<u>329,631</u>
Total liabilities		\$ 329,631
Common capital stock	\$ 4,200,000	
Gross paid in and contributed surplus	82,871,445	
Unassigned funds (surplus)	<u>7,889,462</u>	
Surplus as regards policyholders		<u>94,960,907</u>
Totals		<u>\$95,290,538</u>

Note: Audits covering tax years 2009 and 2010 are currently under examination. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2011 and 2012. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Surplus as regards policyholders increased \$29,401,193 during the five-year examination period January 1, 2008 through December 31, 2012, detailed as follows:

Underwriting Income

Premiums earned		\$39,359,046
Deductions:		
Losses and loss adjustment expenses incurred	\$29,625,649	
Other underwriting expenses incurred	<u>16,410,504</u>	
Total underwriting deductions		<u>46,036,153</u>
Net underwriting gain or (loss)		\$(6,677,107)

Investment Income

Net investment income earned	\$ 6,601,735	
Net realized capital gain or (loss)	<u>(1,152,379)</u>	
Net investment gain or (loss)		5,449,356

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (432,555)	
Finance and service charges not included in premiums	582,712	
Aggregate write-ins for miscellaneous income	<u>208,117</u>	
Total other income		<u>358,274</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ (869,477)
Dividends to policyholders		<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ (869,477)
Federal and foreign income taxes incurred		<u>(2,591,263)</u>
Net Income		\$ <u>1,721,786</u>

Surplus as regards policyholders per report on examination as of December 31, 2007			\$65,559,714
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income	\$1,721,786		
Net unrealized capital gains	4,036,132		
Change in net deferred income tax		\$2,228,792	
Change in nonadmitted assets	872,067		
Change in surplus notes		4,000,000	
Surplus adjustments paid in	<u>29,000,000</u>	<u>0</u>	
Net increase (decrease) in surplus	<u>\$35,629,985</u>	<u>\$6,228,792</u>	<u>\$29,401,193</u>
Surplus as regards policyholders per report on examination as of December 31, 2012			<u>\$94,960,907</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$0 is the same as reported by the Company as of December 31, 2012. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained four recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Accounts and Records</u>	
<u>Investments</u>	
i. It is recommended that the Company submit its investment guidelines or policies for approval by the board of directors in accordance with the requirements of its investment guidelines and good management practice.	15
The Company has complied with this recommendation.	
ii. <u>Losses and Premium Data</u>	
It is recommended that the Company develop an integrated system for the loss and premium data for its program business in order that it can readily produce transactional data.	15
The Company has complied with this recommendation.	
B. <u>Market Conduct</u>	
i. <u>Claims and Complaint Handling</u>	
It is recommended that the Company appoint a Consumer Service Officer or Representative pursuant to Part 216.4(c) of Department Regulation No. 64 and Circular Letter No. 11 (1978).	20
The Company has complied with this recommendation.	
ii. It is further recommended that the Company prepare quarterly reports from the complaint log for key officers and the president of the Company pursuant to Department Circular Letter 11 (1978).	20
The Company has complied with this recommendation.	

## 6 SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

Respectfully submitted,

\_\_\_\_\_  
/s/

Joseph Revers, CFE  
Senior Insurance Examiner

STATE OF NEW YORK    )  
                                  )ss:  
COUNTY OF NEW YORK )

JOSEPH REVERS, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

\_\_\_\_\_  
/s/

Joseph Revers

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2014.



*NEW YORK STATE*

*DEPARTMENT OF FINANCIAL SERVICES*

*I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

*Joseph Revers*

*as a proper person to examine the affairs of the*

*Nova Casualty Company*

*and to make a report to me in writing of the condition of said*

*COMPANY*

*with such other information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York*

*this 15th day of October, 2013*

*BENJAMIN M. LAWSKY  
Superintendent of Financial Services*



*By:*

*Jean Marie Cho  
Deputy Superintendent*