



COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE

Hospitality Insurance Company

Westborough, Massachusetts

As of December 31, 2011

NAIC GROUP CODE: 4724

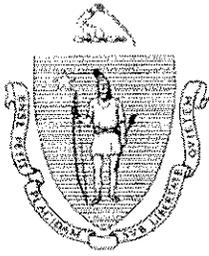
NAIC COMPANY CODE: 14027

EMPLOYER'S ID NUMBER: 04-2724166

Hospitality Insurance Company

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Subsequent Events	2
Company History	3
General	3
Capital Stock	3
Dividends to Stockholders	3
Corporate Records	3
Meeting of the Stockholders	3
Board of Directors Minutes	3
Articles of Organization and Bylaws	4
Conflict of Interest Procedures	4
Disaster Recovery and Business Continuity	4
Management and Control	4
Board of Directors	4
Committees of the Board of Directors	5
Officers	5
Affiliated Companies	6
Organization Chart	6
Transactions and Agreements with Subsidiaries and Affiliates	7
Fidelity Bonds and Other Insurance	7
Pension and Insurance Plans	7
Territory and Plan of Operation	8
Growth of Company	8
Reinsurance	8
Inter-Company Reinsurance Pooling Agreement	8
Accounts and Records	8
Statutory Deposits	9
Financial Statements	9
Statement of Assets, Liabilities, Surplus & Other Funds	10
Statement of Income, Capital and Surplus	11
Acknowledgement	12



COMMONWEALTH OF MASSACHUSETTS
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COMMISSIONER OF INSURANCE

June 24, 2013

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws ("M.G.L."), Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

HOSPITALITY INSURANCE COMPANY

at its home office located at 95A Turnpike Road, Westborough, Massachusetts, 01581. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

This examination is the first examination of Hospitality Insurance Company (hereinafter referred to as “the Company” or “HIC”). The current examination was conducted by the Massachusetts Division of Insurance (“Division”) and covers the intervening period from February 23, 2011 through December 31, 2011, and any material transactions and/or events occurring subsequent and noted during the course of this examination. The examination has been conducted simultaneously and in conjunction with the examination of the Company’s parent, Hospitality Mutual Insurance Company (“HMIC”)

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 Saslow Lufkin & Buggy, LLP (“SLB”), an independent certified public accounting firm. The firm expressed an unqualified opinion on the Company’s financial statements for the 2011 calendar year. A review and use of the certified public accountants’ work papers 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 retained the consulting firm Risk & Regulatory Consulting, LLC (“RRC”) to review 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.

SUBSEQUENT EVENTS

During 2011, the Company only issued policies in Rhode Island. In 2012, the Company began issuing policies in New Hampshire and Vermont. In 2013, the Company began issuing policies in Pennsylvania.

Hospitality Insurance Company

COMPANY HISTORY

General

The Company originated in 1980 as the Eastern Casualty Insurance Company ("Eastern"). Eastern was acquired on February 23, 2011 by the Company's parent HMIC, from the Massachusetts Commissioner of Insurance in his capacity as liquidator of Eastern. Coincident with the acquisition, the Company changed its name to Hospitality Insurance Company and is a wholly owned subsidiary of HMIC. HIC obtained the licenses of Eastern, which include the Commonwealth of Massachusetts and the Commonwealth of Pennsylvania, and the States of Connecticut, New Hampshire, Rhode Island, and Vermont. At the time of acquisition, not all licenses were active. HIC commenced operations in October 2011, and began writing business in Rhode Island. The Company is a member of the HMIC intercompany reinsurance pool, whereby it cedes 100% of all written premium, other underwriting activity, and losses to the pool. HMIC does not retrocede, nor does HIC assume any business from the pool.

Capital Stock

The Company has 25,000 shares of common capital stock issued and outstanding. Common capital stock has a stated aggregate value \$1,250,200. All shares are owned by HMIC.

Dividends to Stockholders

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

CORPORATE RECORDS

Meeting of the Stockholders

The Company's bylaws state that the annual meeting of the stockholders shall be held on the last Thursday in April of each year. According to the bylaws executed on July 29, 2011, the first annual meeting should have been held within six months after the end of the fiscal year 2011. The Company's first annual stockholders' meeting was held on April 26, 2012 and therefore was in compliance with the Company's stated bylaws.

Board of Directors Minutes

The minutes of meetings of the Board of Directors for the period under examination were read and indicated that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts.

Hospitality Insurance Company

Articles of Organization and Bylaws

The articles of organization of the Company were restated and filed with the Secretary of State on July 28, 2011. The Commissioner of Insurance approved the restated articles of organization as submitted on August 9, 2011 and the Secretary of the Commonwealth approved the restated articles of organization on August 11, 2011. The articles of organization and bylaws were read and reviewed.

Conflict of Interest Procedures

The Company has adopted the Code of Conduct and Ethics Policy of its parent, HMIC, which includes a specific section addressing conflict of interest. Conflict of interest is also addressed in Article V, Section 8 of the Company's bylaws. In support of its answer to Question 14 of Part 1 Common Interrogatories of the annual statement, the Company 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 or responsible employee which is in or is likely to conflict with his/her official duties. Annually, each officer and director is required to complete and submit an annual disclosure statement confirming their compliance with the conflict of interest policy. The disclosure statements were reviewed and no discrepancies were noted in the disclosures to contradict the Company's response to the General Interrogatory regarding conflicts of interests reported in the Company's 2011 Annual Statement.

Disaster Recovery and Business Continuity

The Company's bylaws do not include any article or language that provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L., Chapter 175, Sections 180M-180Q.

MANAGEMENT AND CONTROL

Board of Directors

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, December 31, 2011:

<u>Name of Director</u>	<u>Principal Occupation</u>
E. Thomas McCabe, Jr.	Chairman of the Board of HMIC Owner, Restaurant Resources
William T. McGrail	Vice Chairman of the Board of HMIC Chairman, Massachusetts Medical Malpractice Reinsurance Plan

Hospitality Insurance Company

John W. Tympanick	President, Chief Executive Officer and Chief Financial Officer
Peter T. Robertson	Secretary and Clerk to the Board of HMIC Director, ProSelect National Insurance Company, Inc.; Founder, RightFind Technology Company, LLC; Founder, RightFind Auto, Inc.; Director, Proselect Insurance Company
James J. Donoghue	Treasurer President, Tweed's Pub Restaurant
Gerald J. Cassidy	Insurance Consultant
Robert O. Bonin	Restaurant Quality Control Specialist, Cole & Bonin, Inc.
Harry A. Delano	Former Restaurateur, Jardel Corp. dba Delano's Restaurant
Joseph D. Duffy	Consultant, Owner, JDD Insurance Regulatory Services, LLC
Terrence C. Quinn	President, Allen M. Walker & Co., Inc. Independent Insurance Agency
Robert E. Shaughnessy	Restaurant Owner and President, Shaughnessy Family Entertainment, Inc.

The business of the Company shall be managed under the direction of the Board of Directors, who may exercise all such powers of the Company as are not by law, the Articles of Organization or the bylaws required to be otherwise exercised.

Committees of the Board of Directors

The Company's bylaws indicate that the Board may elect from its membership an Executive Committee and may establish such other committees as it may determine and delegate to such committees some or all of its powers except those, which by law, the articles of organization or the bylaws is prohibited. It is noted that the Board has not exercised this power and the Board does not have any standing committees thereof.

Officers

The bylaws state that the officers of the Company shall be the President, the Treasurer, the Secretary who shall also be the Clerk unless the Board determines otherwise and such other officers as the Board may determine, including but not limited to a Chairman of the Board of Directors, a Vice-Chairman, a Chief Executive Officer, who may be the President, a Chief

Hospitality Insurance Company

Financial Officer, who may be the Treasurer, a Chief Operating Officer, one or more Vice-Presidents, Assistant Treasurers, Assistant Secretaries, and such other officers as the Board may determine.

Any officer elected or appointed by the Board may be removed with or without cause by vote of a majority of the Directors then in office. Removal for cause may only occur after a reasonable notice and opportunity to be heard before the Board. Vacancies in any office may be filled by the Board.

The Company's officers and their respective titles at December 31, 2011 were as follows:

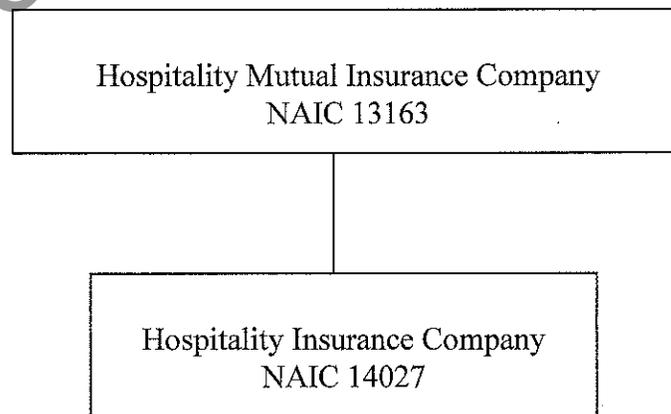
<u>Name of Officer</u>	<u>Title</u>
E. Thomas McCabe, Jr.	Chairman of the Board
William T. McGrail	Vice Chairman
John W. Tympanick	President, Chief Executive Officer and Chief Financial Officer
Peter T. Robertson	Secretary
James J. Donoghue	Treasurer
Sandra Healy	Sr. Vice President - Underwriting

Affiliated Companies

As stated in the Insurance Holding Company System Form B and Form C as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L., Chapter 175, Section 206C and Regulation 211 CMR 7.06(1). The Company is 100% owned by HMIC, which is the "ultimate controlling person" of the holding company system.

Organization Chart

A summary of ownership of the Company as of December 31, 2011 is illustrated below:



Hospitality Insurance Company

Transactions and Agreements with Subsidiaries and Affiliates

Inter-Company Services Agreement

The Company has in place an Inter-Company Services Agreement with HMIC. The agreement establishes services provided, the responsibilities of each party to the agreement, and the allocation of costs and expenses associated with the operation of, and participation in the Inter-Company Reinsurance Pooling Agreement. (see "Reinsurance" Section later in this report)

The Inter-Company Services Agreement provides that HMIC will make available to the Company all necessary services to assist the Company in the establishment, conduct and management of its business operations, including all necessary services in connection with the underwriting and management of the Company's insurance business. All costs, facilities and resources as outlined in the agreement are allocated between the Company and HMIC at their actual cost in accordance with the percentages set forth in the Inter-Company Reinsurance Pooling Agreement. Per the Inter-Company Reinsurance Pooling Agreement, the Company cedes 100% of all underwriting activity to HMIC, which assumes and retains 100% of the pooled business.

Items that are not allocated under this agreement include investment income, depreciation on real estate (none), investment gains or losses, fixed asset gains or losses (none), investment custodial fees, investment advisor fees, service charges, accounts receivable charge-offs, and federal taxes.

Tax Sharing Agreement

Effective January 1, 2011, the Company entered into a tax sharing agreement with HMIC, whereby the Group will file a consolidated federal income tax return or consolidated or combined state and/or local income or franchise tax return for the tax year ending December 31, 2011. "Group" is defined as the affiliated group of corporations as defined in §1504 of the Internal Revenue Code of 1986 as amended, of which the Company is the common parent. The intent is to fairly allocate among themselves the federal, state, or local tax liabilities, credits, refunds, benefits, and similar items related to the consolidated federal income tax return for the tax year ended December 31, 2011 and subsequent years.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintains fidelity bond coverage as a named insured on a fiduciary bond policy issued to HMIC by an authorized Massachusetts insurer consistent with M.G.L. Chapter 175, Section 60. The aggregate limit of liability exceeds the NAIC suggested minimum.

In addition to the fiduciary bond insurance, the Company is also a named insured on policies that further protect its interests and properties covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2011.

PENSION AND INSURANCE PLANS

All employees are employees of HMIC and entitled to benefits offered by HMIC.

Hospitality Insurance Company

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in the Commonwealth of Massachusetts, New Hampshire, Pennsylvania, Rhode Island and Vermont. The Company also holds a license in Connecticut, which is inactive as of December 31, 2011. During 2011, the Company only issued policies in Rhode Island. The primary line of business is liquor liability coverage and its target market is business establishments in the hospitality industry serving or selling liquor. The Company has expanded its lines of coverage to include property, general liability, assault and battery and excess liability coverage. During 2012, the Company added boiler and machinery coverage and issued policies in New Hampshire, and Vermont. The Company cedes 100% of all direct business to HMIC under the Inter-Company Reinsurance Pooling Agreement.

GROWTH OF COMPANY

The Company began operations in 2011 as a subsidiary of HMIC. The below table reflects key financial numbers compiled from the Company's 2011 Annual Statement filing.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Net Income</u>
2011	\$ 7,574,023	\$ 29,571	\$7,544,452	\$31,537

REINSURANCE

Inter-Company Reinsurance Pooling Agreement

The Company operates under an Inter-Company Reinsurance Pooling Agreement (the "Pooling Agreement") with its parent, HMIC. The Pooling Agreement became effective as of January 1, 2011. HMIC is the lead insurer in the Pool and as the lead insurer, agrees to assume, and HIC agrees to cede, 100% of all net insurance liabilities, as defined, of HIC. HIC agrees to cede to HMIC 100% all net premiums written by HIC. The Company's participation ratio in the pooled accounts is 0%

ACCOUNTS AND RECORDS

The Company's internal control structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent certified public accountants, Saslow Lufkin & Buggy, LLP, ("SLB") including work papers generated to support the audit of the Company's 2011 statutory financial statements.

The NAIC's Information Systems Questionnaire ("ISQ") completed by the Company was reviewed and interviews with Company management and IT consultants were conducted to gather supplemental information and corroborate the Company's responses to the ISQ. Included was a review of the documentation supporting Management and Organization Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls, Logical and

Hospitality Insurance Company

Physical Security Controls, Contingency Planning Controls, and Local Area Network (“LAN”) controls. The Division retained the professional consulting services of Risk & Regulatory Consulting, LLC to assist in performing this review. The control environment of the Company’s information systems was found to have in place sufficient internal controls for the purpose of examination reliance; however, numerous recommendations were made by RRC based on their review of the IT environment as a whole.

No material internal control weaknesses were noted in connection with the examination, nor were any such matters reported in SLB’s filings with the Division. The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2011 Annual Statement. No material exceptions were noted.

STATUTORY DEPOSITS

<u>State</u>	<u>Purpose of Deposit</u>	<u>Book Value</u>	<u>Fair Value</u>
New Hampshire	Trust	\$509,576	\$509,231

FINANCIAL STATEMENTS

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

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

Statement of Income, Capital and Surplus for the Year Ended December 31, 2011

Hospitality Insurance Company

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

	Per Company	Examination Changes	Per Examination
Assets			
Bonds	\$509,576	\$0	\$509,576
Cash on hand and on deposit	7,010,583		7,010,583
Receivable for securities	1,557		1,557
Subtotals, cash and invested assets	<u>7,521,716</u>		<u>7,521,716</u>
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	46,178		46,178
Receivable from parent, subsidiaries and affiliates	6,129		6,129
 Total Assets	 <u>\$7,574,023</u>	 <u>\$0</u>	 <u>\$7,574,023</u>
Liabilities, Surplus and Other Funds			
Commissions payable, contingent commissions and other similar charges	\$5,825	\$0	\$5,825
Other expenses	7,500		7,500
Current federal income taxes	16,246		16,246
Total Liabilities	<u>29,571</u>		<u>29,571</u>
			0
Common Capital Stock	1,250,200		1,250,200
Gross paid-in and contributed surplus	6,262,715		6,262,715
 Unassigned funds (surplus)	 <u>31,537</u>		 <u>31,537</u>
 Surplus as regards policyholders	 <u>7,544,452</u>		 <u>7,544,452</u>
 Total liabilities and policyholder surplus	 <u>\$7,574,023</u>	 <u>\$0</u>	 <u>\$7,574,023</u>

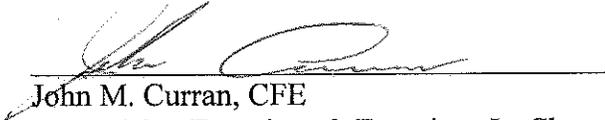
Hospitality Insurance Company

**Statement of Income, Capital and Surplus
For the Year Ended December 31, 2011**

	Per Company	Examination Changes	Per Examination
Investment Income			
Net investment income earned	\$47,783	\$0	\$47,783
Net investment gain or (loss)	47,783	0	47,783
Net income before dividends to policyholders and before federal income taxes	47,783		47,783
Foreign and federal income taxes incurred	16,246		16,246
Net income	\$31,537	\$0	\$31,537
Capital and Surplus Account			
Surplus as regards policyholders, December 31 prior year	\$0	\$0	\$0
Net income	31,537		31,537
Capital changes			
Paid in	1,250,200		1,250,200
Surplus Adjustments			
Paid in	6,262,715		6,262,715
Change in surplus as regards policyholders	7,544,452	0	7,544,452
Surplus as regards policyholders, December 31 current year	\$7,544,452	\$0	\$7,544,452

ACKNOWLEDGEMENT

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


John M. Curran, CFE
Supervising Examiner & Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance

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