



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

***REPORT OF EXAMINATION OF THE***  
**ENCOMPASS INSURANCE COMPANY OF MASSACHUSETTS**

**Quincy, Massachusetts**

**As of December 31, 2022**

**NAIC GROUP CODE 0008**

**NAIC COMPANY CODE 12154**

**EMPLOYER ID NUMBER 04-3345011**

# **Encompass Insurance Company of Massachusetts**

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**COMMONWEALTH OF MASSACHUSETTS**  
**Office of Consumer Affairs and Business Regulation**  
**DIVISION OF INSURANCE**

1000 Washington Street, Suite 810 • Boston, MA 02118-6200  
(617) 521-7794 • Toll free (877) 563-4467  
<http://www.mass.gov/doi>

**MAURA HEALEY**  
GOVERNOR

**RACHEL M. DAVISON**  
ACTING COMMISSIONER OF INSURANCE

**KIMBERLEY DRISCOLL**  
LIEUTENANT GOVERNOR

May 23, 2024

The Honorable Rachel M. Davison  
Acting Commissioner of Insurance  
Commonwealth of Massachusetts  
Division of Insurance  
1000 Washington Street, Suite 810  
Boston, MA 02118-6200

Honorable Acting 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

**ENCOMPASS INSURANCE COMPANY OF MASSACHUSETTS**

at its administrative office located at 4 Batterymarch Park, Quincy, Massachusetts, 02169-7468.  
The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

Encompass Insurance Company of Massachusetts (“Company” or “Encompass”) was last examined as of December 31, 2018 by the Commonwealth of Massachusetts Division of Insurance (“Division”). The current examination was also conducted by the Division and covers the four-year period from January 1, 2019 through December 31, 2022, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The current 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 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 Deloitte & Touche, LLP (“Deloitte”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2019 through 2022. A review and use of the Certified Public Accountants’ work papers was made to the extent deemed appropriate and effective.

Representatives from the firm Risk & Regulatory Consulting LLC (“RRC”) were engaged by the Division to assist in the examination by performing certain examination procedures at the direction and under the overall management of the Division’s examination staff.

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

There were no significant findings identified during the exam.

## **COMPANY HISTORY**

### **General**

On September 1, 2004, Continental Casualty Company (“CCC”) acquired the common stock of Encompass, a corporate shell formerly known as New England Fidelity Insurance Company (“NEFIC”) from the Division, which was acting in its capacity as permanent receiver of NEFIC. The Certificate of Authority for Encompass to write personal lines insurance in Massachusetts was issued on October 10, 2004 with an effective date of September 1, 2004. The Company did not begin writing substantial business in Massachusetts until 2005.

CCC was a wholly owned subsidiary of the Continental Corporation, which was wholly owned by CNA Corporation (“CNA”), which in turn was approximately 91 percent owned by Loews Corporation. CCC and certain of its insurance affiliates sold their personal lines insurance business to a subsidiary of the Allstate Corporation (“Allstate”) on October 1, 1999. In connection with that transaction, Allstate was granted an option to purchase five designated insurance companies of CCC with Encompass designated as one of them. In anticipation of Allstate’s option being exercised, all of the future personal lines insurance business written by Encompass was ceded to the Allstate Insurance Company (“AIC”) under an indemnity reinsurance agreement dated December 2, 2002. Effective October 1, 2005, Allstate exercised its option to purchase the common stock of Encompass.

On December 24, 2018, AIC moved their Encompass companies including EICMA from direct wholly owned insurers of AIC to be direct wholly owned subsidiaries of Encompass Insurance Holdings, LLC. (“EIH”), a sister company to AIC within the Allstate Insurance Group. This request was approved by the Division on December 19, 2018.

### **Capital Stock**

As a result of the transfer noted above, Encompass Insurance Holdings, LLC owns the Company. As of December 31, 2022, the Company had 50,000,000 shares of \$5 par value common stock authorized and 190,000 shares outstanding with an aggregate statement value of \$950,000.

### **Dividends**

On December 18, 2020, the Company paid an ordinary cash dividend of \$620,000 to its parent, EIH.

## **MANAGEMENT AND CONTROL**

### **Board of Directors Minutes**

The minutes of meetings of the Board of Directors (“Board”) and its Committees for the period under examination were read and they indicated that all actions were taken in accordance with the

## Encompass Insurance Company of Massachusetts

Company's bylaws and the Laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified by the Board.

### Articles of Organization and Bylaws

The bylaws and Articles of Organization and amendments thereto were read. There were no changes to the Articles of Organization since the prior examination.

### Board of Directors

According to the bylaws, the Company shall be managed and controlled by a Board composed of not less than three nor more than eight members. The number of directors may be fixed or changed from time to time, within the minimum and maximum, by the Board without further amendment to the bylaws. Each director shall hold office for the term for which he or she was elected and until the election and qualification of his or her successor.

As of December 31, 2022, the Company's Board was comprised of the following directors:

<u>Name</u>	<u>Title</u>
Peter Andrew Rendall	Chairman of the Board and President, Encompass Insurance Company
Patrick James Macellaro	Director, Vice President and Chief Financial Officer, Encompass Insurance Company
John Thomas Griek	Director, Vice President, Encompass Insurance Company
Ehtisham Rasheed Khan #	Director, Vice President, Encompass Insurance Company

# Denotes member was elected to the Board of Directors in 2022. Mr. Khan replaced Geoffrey C. Williams on November 22, 2022.

### Committees of the Board of Directors

The bylaws grant the directors the power to appoint committees, including, but not limited to an Executive Committee, and to grant them powers not inconsistent with the laws of Massachusetts, the Articles of Organization of the Company, or the bylaws. In accord therewith, the Board appointed a Reinsurance Committee to monitor and approve reinsurance contracts. The minutes of the Reinsurance Committee documented regular meetings of the committee.

At December 31, 2022, the Reinsurance Committee was composed of Patrick J. Macellaro, Chairman, Michael W. Demetre, John C. Pintozzi, Mark Q. Prindiville and Peter A. Rendall. Regular meetings of the Reinsurance Committee were conducted and were attended by all members.

## Encompass Insurance Company of Massachusetts

The Company does not have a formal Audit Committee. This function is addressed by the Audit Committee of Allstate Insurance Holdings (“AIHLLC”). As December 31, 2022, AIHLLC was composed of Thomas J. Wilson, Chairman, Mario Rizzo, and John C. Pintozzi.

### Officers

Pursuant to the bylaws, the Company shall elect the officers of the Company. The officers of the Company shall be the president, two or more vice presidents, a treasurer, a secretary, a controller, and such other officers and agents, with duties and powers as the Board may in its discretion determine. All officers shall be elected annually by the directors at their first meeting following the annual meeting of the stockholders. The term of office for each officer shall be one year or until respective successors are elected and qualified or until earlier resignation or removal. Any two of the aforesaid offices may be filled by the same person, with the exception of the offices of president and vice president or president and secretary.

The bylaws state that the chairman shall be the chief executive officer of the Company. Except as otherwise voted by the Board, the chairman shall preside at all meetings of the stockholders and of the Board at which he is present. The chairman shall have such duties and powers as are commonly incident to the office and such duties and powers as the Board shall from time to time designate. In addition to what is defined explicitly by the bylaws, the Company’s officers shall have such powers and duties as generally permits to their respective offices, as well as such powers and duties as from time to time may be conferred by the Board.

As of December 31, 2022, officers of the Company are as follows:

<u>Name of Officer</u>	<u>Title</u>
Peter A. Rendall	Chairman of the Board and President
Patrick J. Macellaro	Senior Vice President and Chief Financial Officer
Alexandra T. Band #	Senior Vice President and Treasurer
Steven D. Armstrong #	Senior Vice President
Michael W. Demetre	Senior Vice President
John E. Dugenske	President, Investment and Financial Products
Eric D. Huls	Senior Vice President and Chief Data Officer
Christina Hwang	Senior Vice President
Johnathan R. Nader #	Senior Vice President
John C. Pintozzi	Senior Vice President and Controller
Parr T. Schoolman	Senior Vice President and Chief Risk Officer
Courtney V. Welton	Senior Vice President and Chief Privacy, Ethics and Compliance Officer

# Denotes Officer newly elected during the July 13, 2022 Board of Directors meeting.

### Affiliated Companies

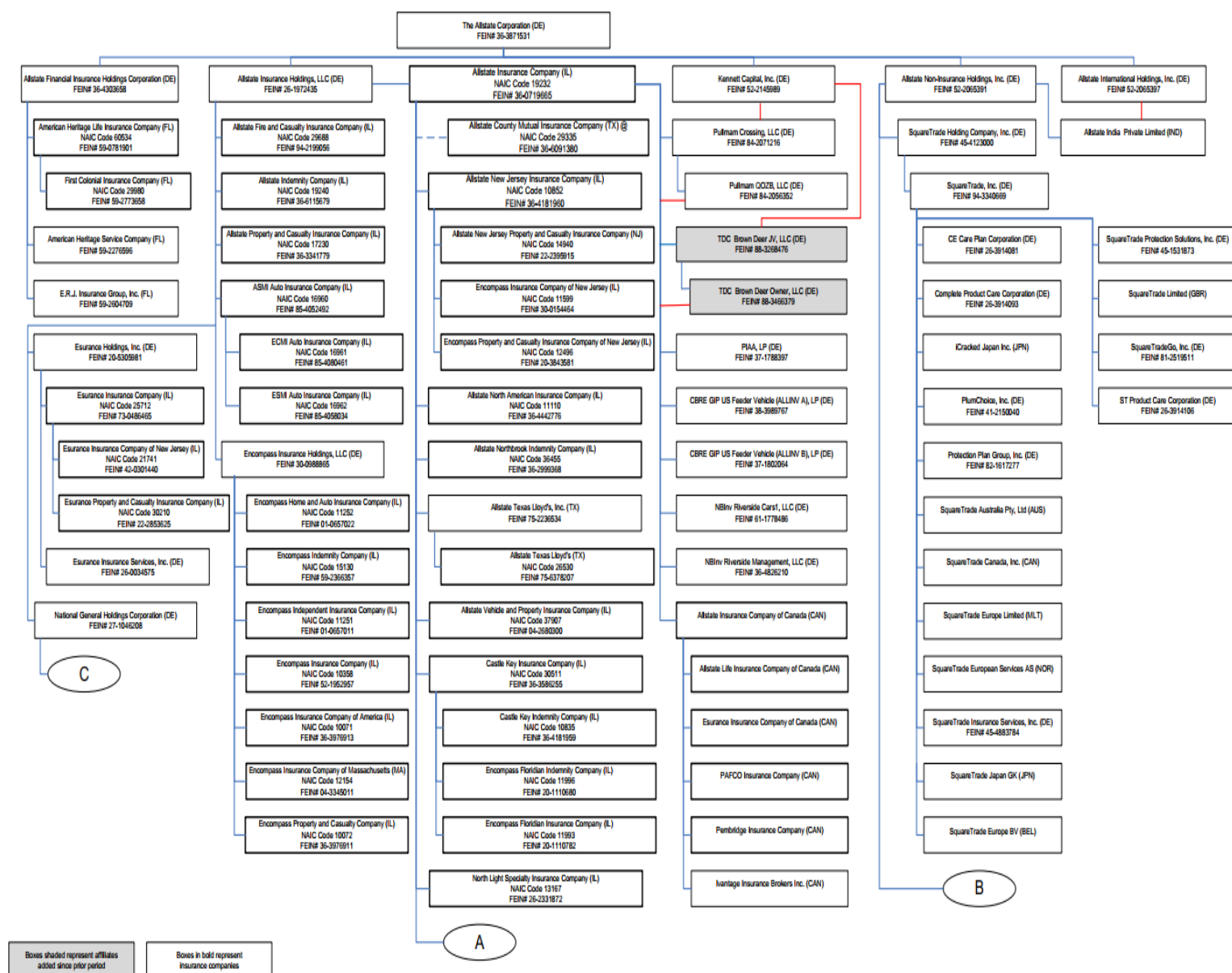
As stated in the Insurance Holding Company System Form B as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements

## Encompass Insurance Company of Massachusetts

of Section 206C of M.G.L., Chapter 175 and Regulation 211 CMR 7.00. Ultimate control of the holding company system is held by The Allstate Corporation (“TAC”), a Delaware corporation, the sole business of which is ownership of the Group. The Company became part of the holding company system on October 1, 2005.

### Organization Chart

At December 31, 2022, the following listing shows the identities and interrelationships of subsidiary companies within the Allstate Insurance holding company system, including the Company. (Jurisdiction of domicile in parenthesis):





Transactions and Agreements with Affiliates

The Company has numerous arrangements with its parent and affiliates. Below is a brief summary of some of the key agreements.

*Investment Management Agreement*

Effective January 1, 2007, the Company entered into an Investment Management Agreement with Allstate Investments, LLC (“AILLC”) whereby AILLC provides investment management services and advice.

*Tax Sharing Agreement*

An Amended and Restated Tax Sharing Agreement dated January 16, 2006 was executed by and among TAC and certain affiliates. The agreement covers the allocation and settlement of current federal income taxes among companies included in the consolidated income tax return of TAC and its subsidiaries. TAC files its consolidated federal income tax return, consolidated foreign, state and local tax returns with certain of TAC subsidiaries. TAC shall pay all taxes due for the Group and each subsidiary shall pay to TAC an amount determined as if such subsidiary had filed its own separate tax return.

*Service and Expense Agreement*

Effective October 1, 2005, the Company became party to the Amended and Restated Service and Expense Agreement between AIC, TAC and certain affiliates pursuant to which AIC furnishes a variety of services. The agreement provides for the cost sharing and allocation of operating expenses among parties.

**TERRITORY AND PLAN OF OPERATION**

Encompass ceased writing new business in 2018, but all net underwriting business continues to be 100% ceded to AIC. The Company is licensed and authorized to transact business only in the Commonwealth of Massachusetts to sell primarily private passenger automobile and homeowners coverage through Encompass’ independent agents. The agents are paid commissions as described in their respective agency contracts, and where applicable, according to state limitations.

As a writer of Massachusetts private passenger automobile insurance, the Company participates in Commonwealth Automobile Reinsurers, the Commonwealth’s reinsurance facility for high-risk drivers. In addition, as a writer of Massachusetts basic property insurance, the Company participates in the Massachusetts Property Insurance Underwriting Association, the Commonwealth’s reinsurance facility for applicants who have been unable to gain insurance through the voluntary market.

Treatment of Policyholders – Market Conduct

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders. This review was limited in nature and was substantially narrower than a full scope market conduct examination.

**REINSURANCE**

Ceded Reinsurance

Effective October 1, 2005, the Company put in place a quota share reinsurance agreement with AIC. Pursuant to the agreement, AIC indemnifies the Company for 100 percent of its net underwriting results, which are ceded to AIC. This agreement is essentially the same treaty which was in place as of the prior examination as of December 31, 2018.

Assumed Reinsurance

Other than mandatory pools and associations, the Company does not assume reinsurance from other affiliated and non-affiliated companies.

**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, 2022. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2022

Statement of Income for the Year Ended December 31, 2022

Reconciliation of Capital and Surplus for Each Year in the Four -Year Period Ended December 31, 2022

Encompass Insurance Company of Massachusetts

Statement of Assets, Liabilities, Surplus and Other Funds  
as of December 31, 2022

	Per Annual Statement
<b>ASSETS</b>	
Bonds	\$ 5,894,705
Cash, cash equivalents, and short-term investments	29,282
Subtotals, cash and invested assets	<u>5,923,987</u>
Investment income due and accrued	25,951
Receivable from parent, subsidiaries and affiliates	<u>42</u>
Total Assets	<u><u>\$ 5,949,980</u></u>

Encompass Insurance Company of Massachusetts

Statement of Assets, Liabilities, Surplus and Other Funds (Continued)

As of December 31, 2022

	Per Annual Statement
<b>LIABILITIES</b>	
Current federal and foreign income taxes	\$ 28,330
Net deferred tax liability	3,999
Payable to parent, subsidiaries and affiliates	1,067
Total Liabilities	<u>33,396</u>
Common capital stock	950,000
Gross paid in and contributed surplus	4,514,255
Unassigned funds (surplus)	452,329
Surplus as regards policyholders	<u>5,916,584</u>
Total Liabilities, Surplus and Other Funds	<u><u>\$ 5,949,980</u></u>

Encompass Insurance Company of Massachusetts

Statement of Income

For the Year Ended December 31, 2022

	Per Annual Statement
<b>Investment Income</b>	
Net investment income earned	\$ 102,930
Net realized capital gains less capital gains tax	<u>21,152</u>
Net investment gain	<u>124,082</u>
<b>Other Income</b>	
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>124,082</u>
Federal and foreign income taxes incurred	<u>21,657</u>
<b>Net income</b>	<u><u>\$ 102,425</u></u>

# Encompass Insurance Company of Massachusetts

## Reconciliation of Capital and Surplus

For Each Year Ended in the Four-Year Period Ending December 31, 2022

	2022	2021	2020	2019
Surplus as regards policyholders, Decebmer 31 prior year	\$ 5,814,117	\$ 5,722,262	\$ 6,232,048	\$ 6,095,870
Net income	\$ 102,425	\$ 92,352	\$ 112,059	\$ 135,558
Change in net deferred income tax	42	(497)	(1,845)	(5,610)
Change in nonadmitted assets	-	-	-	6,230
Dividends to stockholders	-	-	(620,000)	-
Change in surplus as regards policyholders for the year	\$ 102,467	\$ 91,855	\$ (509,786)	\$ 136,178
Surplus as regards policyholders, Decebmer 31 current year	<u>\$ 5,916,584</u>	<u>\$ 5,814,117</u>	<u>\$ 5,722,262</u>	<u>\$ 6,232,048</u>

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

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

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

As a result of the examination, no significant issues with non-compliance, adverse findings, or material changes to the financial statements were identified. The Company's total net carried reserves are \$0 as of December 31, 2022 due to its quota share reinsurance agreement with AIC.

**SUBSEQUENT EVENTS**

The following events and transactions that occurred after the December 31, 2022 examination date were noted that could have had a material effect on the Company's financial statements.

In August 2023, Standard & Poor's ("S&P") lowered its long-term issuer credit rating on the Holding Company from A- to BBB+ and lowered the issuer credit and financial strength ratings on the core operating subsidiaries from AA- to A+. The stable outlook reflects S&P's expectation that Allstate's underwriting and capitalization will stabilize with underwriting returning to profitability in the next 12-18 months. The downgrade reflects Allstate's continued weak underwriting performance given elevated CAT losses, persistently high loss costs for the personal auto business, and the increased exposure, measured by premiums, consuming higher levels of capital. This rating primarily reflects the first 2-3 quarters of Allstate's 2023 results as the 4<sup>th</sup> quarter of 2023 saw significant improvements in overall net income.

Jennifer Brown was appointed Assistant Secretary of the Company on March 1, 2023.

Christine M. DeBiase was elected Executive Vice President and Secretary of the Company on March 1, 2023 and was added to the Jurat page in first quarter 2023.

In April 2024, Toby Tomlin replaced Patrick James Macellaro as the Company's Chief Financial Officer.

**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 Risk and Regulatory Consulting, LLC who participated in the examination is hereby acknowledged.

*R. J. Ciaramella, Jr.*

Raffaele J. Ciaramella, Jr., CFE

Supervising Examiner

Commonwealth of Massachusetts

Division of Insurance