



**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, 2018**

**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**  
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COMMISSIONER OF INSURANCE

May 29, 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

**ENCOMPASS INSURANCE COMPANY OF MASSACHUSETTS**

at its administrative office located at 3075 Sanders Road, Suite G4E, Northbrook, Illinois 60062-7127. 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, 2013 by the Commonwealth of 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 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 2014 through 2018. 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., 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, 2018, the Company had 50,000,000 shares of \$5 par value common stock authorized and 190,000 shares outstanding with an aggregate state value of \$950,000.

### **Dividends**

There were no dividends paid during the examination period.

## **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, 2018, the Company's Board was comprised of the following directors:

<u>Name</u>	<u>Title</u>
Patrick James Macellaro	Chairman of the Board, Encompass Insurance Company
Sharon Jean Dean	Director, Vice President, Encompass Insurance Company
Paul Kenneth Koehler #	Director, Vice President, Encompass Insurance Company
Joseph Michael Washburn #	Director, Vice President, Encompass Insurance Company

# Denotes member was elected to the Board of Directors in 2018. Mr. Washburn replaced Thomas R. Watson on June 11, 2018. Mr. Koehler replaced James R. Turner on August 3, 2018.

### 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, 2018, the Reinsurance Committee was composed of Patrick J. Macellaro, Chairman, Samuel H. Pilch and Mario Rizzo. Regular meetings of the Reinsurance Committee were conducted and were attended by all members.

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, 2018, AIHLLC was composed of Thomas J. Wilson, Chairman, Samuel H. Pilch, John C. Pintozzi and Eric K. Ferren (non-voting member).

## Encompass Insurance Company of Massachusetts

### 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, 2018, officers of the Company are as follows:

<u>Name of Officer</u>	<u>Title</u>
Patrick J. Macellaro	Chairman and President
John E. Dugenske	Executive Vice President, Chief Investment Officer and Chief Strategy Officer
Susan L. Lees	Executive Vice President and Secretary
Jesse E. Merten	Executive Vice President and Treasurer
Samuel H. Pilch	Senior Group Vice President and Chief Financial Officer
Michael C. Barton	Senior Vice President
Eric K. Ferren	Senior Vice President and Controller
James W. Haidu	Senior Vice President
Eric D. Huls	Senior Vice President
P. Kelly Noll	Senior Vice President, Chief Privacy, Ethics and Compliance Officer

### 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 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.

## Encompass Insurance Company of Massachusetts

### Organization Chart

At December 31, 2018, 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):

The Allstate Corporation (DE)

    Allstate Insurance Holdings, LLC (DE)

        Allstate Insurance Company (IL)

            Allstate County Mutual Insurance Company (TX)

            Allstate New Jersey Insurance Company (IL)

                Allstate New Jersey Property and Casualty Insurance Company (NJ)

                Encompass Insurance Company of New Jersey (IL)

                Encompass Property and Casualty Insurance Company of New Jersey (IL)

        Allstate North American Insurance Company (IL)

        Allstate Northbrook Indemnity Company (IL)

        Allstate Texas Lloyd's, Inc. (TX)

        Allstate Texas Lloyd's (TX)

        Allstate Vehicle and Property Insurance Company (IL)

        Castle Key Insurance Company (IL)

            Castle Key Indemnity Company (IL)

            Encompass Floridian Indemnity Company (IL)

            Encompass Floridian Insurance Company (IL)

        North Light Specialty Insurance Company (IL)

        Allstate Life Insurance Company (IL)

            ALIC Reinsurance Company (SC)

            Allstate Life Insurance Company of New York

        Allstate Fire and Casualty Insurance Company (IL)

        Allstate Indemnity Company (IL)

        Allstate Property and Casualty Insurance Company (IL)

Encompass Insurance Holdings, LLC (DE)

    Encompass Home and Auto Insurance Company (IL)

    Encompass Indemnity Company (IL)

    Encompass Independent Insurance Company (IL)

    Encompass Insurance Company (IL)

    Encompass Insurance Company of America (IL)

**Encompass Insurance Company of Massachusetts (MA)**

    Encompass Property and Casualty Company (IL)

## Encompass Insurance Company of Massachusetts

### 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 by 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 and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination. During the claims test work, it was noted that the Company investigates and settles claims on a timely and fair basis.

**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, 2013.

**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, 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

Encompass Insurance Company of Massachusetts

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

	Per Annual Statement
<b>ASSETS</b>	
Bonds	\$ 6,013,479
Cash, cash equivalents, and short-term investments	84,442
Subtotals, cash and invested assets	<u>6,097,921</u>
Investment income due and accrued	34,896
Net deferred tax asset	3,911
Receivable from parent, subsidiaries and affiliates	16,779
Aggregate write-ins for other than invested assets	<u>19,407</u>
Total Assets	<u><u>\$ 6,172,914</u></u>

Encompass Insurance Company of Massachusetts

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

	Per Annual Statement
<b>LIABILITIES</b>	
Current federal and foreign income taxes	\$ 34,628
Ceded reinsurance premiums payable	42,416
Total Liabilities	<u>77,044</u>
Common capital stock	950,000
Gross paid in and contributed surplus	4,514,255
Unassigned funds (surplus)	631,615
Surplus as regards policyholders	<u>6,095,870</u>
Total Liabilities, Surplus and Other Funds	<u><u>\$ 6,172,914</u></u>

Encompass Insurance Company of Massachusetts

**Statement of Income**  
**For the Year Ended December 31, 2018**

	Per Annual Statement
<b>Investment Income</b>	
Net investment income earned	\$ 182,479
Net realized capital losses less capital gains tax	(767)
Net investment gain	<u>181,712</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>181,712</u>
Federal and foreign income taxes incurred	<u>34,832</u>
<b>Net income</b>	<u><u>\$ 146,880</u></u>

# Encompass Insurance Company of Massachusetts

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

	2018	2017	2016	2015	2014
Surplus as regards policyholders, December 31 prior year	\$ 5,949,689	\$ 5,817,996	\$ 6,301,478	\$ 6,833,604	\$ 6,696,738
Net income	146,880	139,665	142,871	145,085	143,760
Change in net unrealized capital gains or (losses) less					
Change in net deferred income tax	(4,230)	(8,245)	(5,511)	(5,335)	(3,676)
Change in nonadmitted assets	3,531	273	9,158	8,124	(3,218)
Surplus adjustments: Paid in					
Dividends to stockholders			(630,000)	(680,000)	
Change in surplus as regards policyholders for the year	146,181	131,693	(483,482)	(532,126)	136,866
Surplus as regards policyholders, December 31 current year	<u>\$ 6,095,870</u>	<u>\$ 5,949,689</u>	<u>\$ 5,817,996</u>	<u>\$ 6,301,478</u>	<u>\$ 6,833,604</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, 2018 due to its quota share reinsurance agreement with AIC.

**SUBSEQUENT EVENTS**

The following events and transactions that occurred after the December 31, 2018 examination date were noted that could have had a material effect on the Company's financial statements.

In March 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there was significant uncertainty on the effect that the pandemic would have on the insurance industry, economy, and society at large. Any impact to the Company will take time to assess and will be specific to the class and mix of business they underwrite. The Division will continue to monitor how the pandemic might impact the Company.

On January 30, 2019, Michael W. Demetre replaced Samuel H. Pilch on the Company's Board and replaced Jesse M. Merten as Treasurer. On July 8, 2019, Michael A. Pedraja replaced Samuel H. Pilch as Chief Financial Officer. On October 10, 2019, John T. Griek replaced Joseph M. Washburn on the Company's Board, and Brian J. Savage was elected to the Board.

On April 4, 2019, various members of the Joint Reinsurance Committee, including EICMA, reviewed the terms of the Nationwide Wrap Fill Layer Excess Catastrophe Reinsurance Contract ("Wrap Reinsurance Contract"), retroactively effective April 1, 2019, to ensure the reinsurers' financial strength and performance record. It was resolved that the terms of the Reinsurance Contract were approved for placement and the Joint Reinsurance Committee authorized the various companies to enter into the Wrap Reinsurance Contract.

On May 1, 2019, various members of the Joint Reinsurance Committee, including EICMA, reviewed the terms of the Nationwide Gap Fill layer Excess Catastrophe Reinsurance Contract ("Gap Reinsurance Contract"), effective as of May 23, 2019, and the reinsurers' financial strength rating and performance record. It was resolved that the terms of the Gap Reinsurance Contract were approved for placement and the Joint Reinsurance Committee authorized the various companies to enter into the Gap Reinsurance Contract.

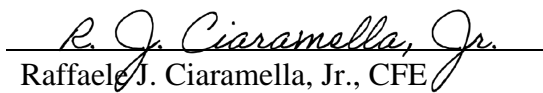
**SUMMARY OF RECOMMENDATIONS**

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.

  
Raffaele J. Ciaramella, Jr., CFE

Supervising Examiner

Commonwealth of Massachusetts

Division of Insurance