



COMMONWEALTH OF MASSACHUSETTS

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In the Matter of the Proposed Reorganization of the Hospitality Mutual Insurance Company

Docket No. F2024-02

I. Introduction

On August 13, 2024, Hospitality Mutual Insurance Company (“HMIC”), a Massachusetts domiciled mutual insurer, submitted a Plan of Reorganization (“Plan”) to the Massachusetts Insurance Commissioner (“Commissioner”) for approval. The Plan, undertaken pursuant to Massachusetts General Laws (“M.G.L.”) c. 175, §§19F through 19W, incorporates a sequence of transactions through which HMIC ultimately will become part of a new entity, the Hospitality Group Mutual Insurance Holding Company. The first proposed transaction in that Plan, HMIC’s conversion from a mutual insurance company to a stock company, is addressed specifically in M.G.L. c. 175, §19H(c). HMIC has also requested the Commissioner in this proceeding to approve documents creating the holding company and to approve inclusion of “Mutual” in its name following the conversion. The proceedings related to approval of the Plan were assigned Docket Number F2024-02.

To review the Plan, the Commissioner directed the formation of a Working Group that included Division staff representing the Financial Surveillance, Financial Examination and Legal Units and outside consultants. The Working Group’s mandate was to review the Plan to ensure that the proposed transactions complied with the statutory standards. Pursuant to M.G.L. c. 175, §19H(c), the Commissioner must hold a public hearing on the reorganization from a mutual to a stock insurance company contemplated in the Plan.

The Commissioner appointed Jean F. Farrington, Esq., and Matthew A. Taylor, Esq, neither of whom participated in the Working Group, as Presiding Officers for the public hearing. On September 11, 2024, the Commissioner issued a Notice of Hearing (“Notice”) scheduling that hearing for November 12, 2024. The Notice was posted on the Division’s website and published in the Boston Globe, the Worcester Telegram and the Springfield Republican on October 25, 2024. This public hearing, as stated in the Notice, was conducted virtually through Teams, an on-line meeting platform.

The notice also stated that the purpose of the hearing was to afford interested persons an opportunity to participate under terms prescribed by statute and applicable regulation, 211 CMR 144.07. No member of the public filed a written notice to make an oral statement at this hearing or commented by filing a written statement. Neither did the Division receive a notice of intent to participate or to intervene in this proceeding from any person other than representatives of HMIC and the Division. The hearing took place as scheduled on November 12, 2024. Peter Rice, Esq., of DLA Piper represented HMIC and Geoffrey Wood, Esq., the Division’s Deputy General Counsel, represented it. Three witnesses testified: Richard Welch and Richard Brewer for HMIC and Mark Noller, a member of the Working Group, for the Division.

II. Summary of Testimony

1. Richard Welch

Mr. Welch has been the President and CEO of HMIC since January 1, 2018. Previously he was the vice-president for corporate planning at the Concord Group of Insurance Companies and, for eleven years, President and CEO of Premier Insurance Company of Massachusetts. He stated that the purpose of his testimony was twofold: to describe the proposed transactions that would reorganize HMIC as a stock insurance company and subsequently an indirect subsidiary of a newly created mutual insurance holding company in accordance with M.G.L. c. 175, §§19F through 19W, and to explain why the Commissioner should approve those transactions. In his position at HMIC, Mr. Welch has led all aspects of HMIC’s consideration and analysis of the proposed transactions.

Mr. Welch testified that HMIC is a mutual insurance company domiciled, licensed, and transacting business in Massachusetts. It owns a subsidiary stock insurer, Hospitality Insurance Company (“HIC”) that is domiciled in Connecticut and transacts business there and in five other states. The two companies write general liability package coverage, excess liability, commercial

property and package coverage and a business owner's policy, and together have approximately 1844 policyholders. Under the Plan, if approved, HMIC, now a mutual insurance company, will be reorganized as a stock insurance company. HMIC will also form a mutual insurance holding company, Hospitality Group Mutual Insurance Holding Company ("HGMIHC"). The reorganized HMIC will become a subsidiary of the holding company. HGMIHC will then own, indirectly through HMIC's stock intermediate holding company subsidiary, Hospitality Holdings, Inc., all HMIC's stock. HMIC policyholders will automatically become members of HGMIHC. All the insurance policies issued by HMIC to its members will remain in force and unchanged.

Mr. Welch reviewed HMIC's process for developing the Plan. The company and its Board considered alternative possibilities for HMIC's future, such as a merger with another mutual insurance company. However, its advisors identified no merger partner and the Board ultimately determined that creating a mutual insurance holding company would best suit the needs of HMIC and its policyholders.

Addressing the expected benefits of the Plan, Mr. Welch stated that forming a mutual insurance holding company will allow HMIC to maintain its mutuality, a format that focuses on the interests of its policyholders. It will also preserve HMIC's Board, management, service philosophy, employees, operations and location. Additionally, it will provide HMIC with more flexibility to take advantage of acquisition and affiliation opportunities as they arise. As part of a mutual holding company, it has options for pursuing additional capital and entering into mergers or acquisitions that may preserve its current interests or enhance future opportunities such as adding insurer subsidiaries or expanding into states where it does not now offer insurance. The reorganization of HMIC as a stock company provides it with a route to obtain additional capital if needed. As a stock company, its stock or debt securities can be offered for sale. The Plan also offers potential opportunities to enhance the efficiency, management and financial flexibility of HMIC's operations, thereby making its insurance products more competitive.

Mr. Welch testified that the Plan protects the interests of HMIC policyholders. He noted that their benefits and rights under their current policies will not be reduced or altered, and that the reorganization itself will not increase or otherwise change the premiums specified in current policies. It will also make no material changes to HMIC's policy service operations. In addition, a mutual insurance holding company such as HGMIHC must always directly or indirectly own at

least 51 percent of the shares of a reorganized mutual insurance company. Under the Plan, HMIC's policyholders become members of HGMIHC and will retain ultimate voting control over HMIC. Their associated rights include voting at HGMIHC's annual meetings for directors and on other matters presented for a vote and receiving distributions in the unlikely event of the holding company's dissolution, liquidation, or demutualization.

Mr. Welch then addressed the notices that HMIC sent to its policyholders about the reorganization Plan and their statutory right to vote on reorganization as a stock company and the opportunity to vote on the creation of HGMIHC. HMIC has scheduled a policyholders' meeting for December 13, 2024. Members will be asked at that time to approve the HGMIHC slate of directors. HMIC mailed a Policy Information Statement to all its policyholders more than 60 days before the scheduled December meeting. That statement included among other things the articles of organization and bylaws of the reorganized HMIC and of HGMIHC and a notice of the members meeting. HMIC also mailed separately to its policyholders the Hearing Notice issued by the Commissioner on September 11, 2024, published that notice in the Boston Globe, Worcester Telegram and Springfield Republican on October 25, 2024, and posted all these materials on the HMIC website.

Mr. Welch stated that after the reorganization of HMIC and the establishment of HGMIHC the current officers and directors of HMIC will become the officers and directors of HGMIHC. HMIC has also requested that after the conversion to a stock insurer HMIC be allowed to retain the word "mutual" in its name as, pursuant to M.G.L. c. 175, §19N, it may do with the Commissioner's approval. The statutory standard for approval is that retention is unlikely to mislead or deceive the public. Mr. Welch opined that its request should be allowed for the following reasons. He pointed out that HMIC has been operating under that name as a brand for over 15 years, has made significant business investments in it and enjoys a positive reputation under that name. HMIC is concerned that losing the word "mutual" in the brand name could erode its value and confuse its customers. In addition, changing the company name requires significant effort and costs. All documents would need to be changed. HMIC would like to avoid expenses that would not enhance the value of the reorganization to HMIC policyholders.

Mr. Welch noted that in determining whether to approve the reorganization of a domestic insurer the Commissioner must examine seven statutory factors. In his opinion, the reorganization is in HMIC's best interests because it provides the company with more strategic

flexibility, allows it to obtain additional capital and enhances the efficiency and management of its insurance operations. He considers it fair and equitable to the company's policyholders because it preserves the company's mutuality and maintains their policyholder rights. Mr. Welch commented further that the reorganization will enhance HMIC's operations by providing additional opportunities to develop new products and services, expand its sales, generate additional premium that may reduce its expense ratio, and offer more competitive products to better serve its customers. He opined that the reorganization will not substantially lessen competition in the marketplace; HMIC hopes to expand into new markets. Mr. Welch testified as well that the reorganization will not reduce HMIC's capital stock, which is now in excess of the statutory minimums.

Mr. Welch then summarized each aspect of the Plan for which HMIC seeks the Commissioner's approval through this proceeding. In addition to the conversion of HMIC from a mutual to a stock company, it asks for approval of the articles of organization and proposed bylaws of the stock company and of HGMIHC, the ultimate indirect owner of HMIC stock. It further requests approval to retain "mutual" in its name.

2. Richard Brewer

Mr. Brewer is the Chairperson of HMIC with extensive experience in the insurance industry, including serving as president and CEO of Arbella Mutual Insurance Company for 12 years and holding the same positions at Coverys for 10 years. He stated that if the conversion from a mutual to a stock company is approved he will continue to be the chairperson of the stock company Board and that if the Plan is approved he will become the Chairperson of the Board of the new HGMIHC. Mr. Brewer testified that the purpose of his testimony is to describe how the HMIC's Board of Directors was involved in developing and adopting the Plan addressed in Mr. Welch's testimony and, further, confirmed the accuracy of that testimony.

In 2019, the HMIC Board formed an Ad Hoc Capital Committee, chaired by Mr. Brewer, to consider HMIC's options for its organizational structure, evaluate its financial position and review its key strategic audiences. It also evaluated its capital management options for improving profitability, generating capital and reducing loss reserves. Over the next few years the committee met regularly to review investment and partnership strategies to address HMIC's capital needs. In January 2023 the committee was made aware of the Mutual Capital Investment Fund ("MCIF") and decided to pursue a transaction with it. In April 2023, HMIC's Board met

with representatives of MCIF. After extensive due diligence and arm's length negotiations HMIC entered into a preliminary financing agreement with MCIF and an outline of the reorganization that were incorporated into the Plan presented to the HMIC Board in December 2023. The Board voted to direct HMIC management to begin the formal requirements for implementing the Plan. In August 2024 the HMIC Board voted to submit the Plan to the Commissioner and to HMIC policyholders.

Addressing the factors that the Plan must meet in order to be approved, Mr. Brewer testified that he agreed with Mr. Welch's testimony on the Plan.

3. Mark Noller

Mr. Noller is a principal in the consulting firm of Rudmose & Noller Advisors, LLC ("RNA"), a provider of financial analysis and consulting services to state insurance regulators nationwide and to the National Association of Insurance Commissioners. He has 39 years of experience performing audits, statutory financial examinations, and financial analyses of insurance companies, including insurance company corporate restructurings, mergers and acquisitions. RNA was engaged by the Division to participate with Division staff in a Working Group to review HMIC's application for reorganization submitted to the Commissioner on August 13, 2024.

Mr. Noller reviewed the series of proposed transactions included in the Plan; one goal is reorganization of HMIC from a domestic mutual insurance company to a domestic stock insurance company that will continue to be named and conduct business as HMIC. He testified that the Working Group conducted an extensive review of the HMIC application and Plan and met with its senior management and outside counsel, keeping in mind the six standards in M.G.L. c.175, §19H(d) that, if satisfied, require the Commissioner to approve a reorganization plan.

Applying the first standard to the subject matter of this hearing, Mr. Noller opined that the reorganization of HMIC as a stock company is in the best interests of HMIC. The reorganization would benefit the company by allowing it to maintain mutuality while preserving its board, management and operations, provide greater operating flexibility with the ability to pursue acquisitions, affiliation opportunities and strategic alliances and to raise capital through stock sales. He noted that the Working Group found no evidence that the reorganization would not be in the best interests of HMIC.

Examining the second standard, Mr. Noller testified that the Plan is fair and equitable to HMIC policyholders. The Working Group obtained information of the financial, operational and regulatory aspects of the Plan. It noted that the reorganization will not affect the contractual rights that policyholders now have under their insurance policies and will not change current policy terms and dividend rights. They will no longer have equity rights in the mutual company but in the future will have equity rights in the insurance holding company. When the Plan is fully implemented, policyholders, through the mutual holding company, will retain at least 51 percent of HMIC's voting stock and 51 percent of its equity value, ensuring that they will always have a controlling interest. The reorganization will not result in any material changes to HMIC's existing insurance operations or its service to policyholders. The Working Group found no evidence that the proposed Plan, if implemented, would not be fair and equitable to HMIC policyholders.

The third standard is that the Plan must provide for the enhancement of HMIC's operations. Mr. Noller observed that the transactions proposed under the Plan are not expected to create any material changes to HMIC's current insurance operations or policyholder services. He noted that ultimately it may produce financial flexibility that will allow it to optimize its reinsurance program, offer more competitive products in the insurance market, and better serve its policyholders. Based on that information, the Working Group found no evidence that the transactions incorporated in the Plan, if implemented, would not enhance HMIC's operations.

The fourth standard requires that the Plan will not lessen competition in the insurance marketplace. Mr. Noller stated that HMIC has an extremely low market share of commercial lines business in Massachusetts and that the Plan will therefore have no anticompetitive effect in that market.

The fifth standard requires that the reorganized entity will continue to meet its capital requirements as a Massachusetts domiciled insurer. Mr. Noller further commented that HMIC, a Massachusetts domiciled property/casualty insurer will, after the reorganization, continue to meet the requirements for a domestic stock insurer and maintain its license as an authorized Massachusetts domiciled insurer.

The sixth standard is that the Plan must comply with the requirements of M.G.L. c. 175, §§19F through 19W. Based on the Working Group's review of the Plan, it concluded that it met both those requirements and the substantive requirements of procedural regulation 211 CMR

144. This proceeding considers a matter addressed in §19H; Mr. Noller's testimony confirms that it complies with the standards in that section.

M.G.L. c. 175, §19N permits a reorganizing insurer that already uses the word "mutual" in its name to continue to do so after reorganization as a stock company, unless the Commissioner makes a specific finding that to do so would be likely to mislead or deceive the public. HMIC has indicated that it intends to retain its current name after conversion to a stock company. As part of its review, the Working Group considered that request and recommends that HMIC be allowed to do so. Mr. Noller testified that the Working Group concluded that retaining the word "mutual" in name of the reorganized HMIC does not appear likely to mislead or deceive the public for several reasons. He pointed out that the Plan is expected to provide a mutual form of ownership and control of HMIC and will publicly disclose as it will be a stock insurer. Keeping mutual in the name will prevent the possibility of greater public confusion if the name is changed and avoid a potential loss of brand name.

Mr. Noller concluded his testimony with the statement that the Working Group had identified no matters that would lead to an adverse determination on the standards set out in M.G.L. c. 175, §19H.

III. Analysis

A domestic mutual insurance company may be reorganized as a domestic stock insurance company if the requirements of M.G.L. c. 175, §19F through §19W, inclusive, are met. The Commissioner shall approve the reorganization if, after the hearing required by c. 175 §19H(c), he finds that: 1) the proposed reorganization is in the best interests of the reorganizing insurer; 2) the plan is fair and equitable to the reorganized insurer's policyholders; 3) the plan provides for the enhancement of the operations of the reorganizing insurer; 4) the plan will not substantially lessen competition in any line of insurance business; 5) the plan, when completed, provides for the reorganized insurer's paid in capital stock to be in an amount at least equal to the minimum paid in capital stock and the net surplus required of a new domestic stock insurer upon its initial authorization to transact like kinds of insurance; and 6) the plan complies with the requirements of sections 19F to 19W, inclusive. Each of those conditions will be addressed in turn.

1. The Reorganization Must be in the Best Interest of the Insurer

Richard Welch and Richard Brewer, on behalf of HMIC, testified that the proposed reorganization was in the best interest of the insurer. The transaction would allow the company

to maintain mutuality while preserving its board, management and operations, provide greater operating flexibility with the ability to pursue acquisitions, affiliation opportunities and strategic alliances and to raise capital through stock sales. Mark Noller testified that the Working Group found no evidence that the reorganization would not be in the best interests of the insurer. For these reasons, we find that the proposed reorganization meets the first requirement of M.G.L. c. 175 §19H(d).

2. The Reorganization Must be Fair and Equitable to the Policyholders

Richard Welch and Richard Brewer, on behalf of HMIC, testified that the proposed reorganization would maintain the benefits and premiums of policy holders. Additionally, the mutual holding company will be mandated to hold controlling voting interests in the company, preserving the voting control of policy holders. Mark Noller testified that the Working Group found no evidence that the proposed Plan, if implemented, would not be fair and equitable to HMIC policyholders. For these reasons, we find that the proposed reorganization meets the second requirement of M.G.L. c. 175 §19H(d).

3. The Reorganization Must Enhance the Operations of the Insurer

Richard Welch and Richard Brewer, on behalf of HMIC, testified that the proposed reorganization would enhance the operations of the company. They stated that the proposed reorganization would allow the company to raise additional capital and enhance the efficiency of its management and insurance operations. Mark Noller testified that the Working Group found no evidence that the transactions incorporated in the Plan, if implemented, would not enhance HMIC's operations. For these reasons, we find that the proposed reorganization meets the third requirement of M.G.L. c. 175 §19H(d).

4. The Reorganization Must Not Substantially Lessen Competition in Any Line of Insurance Business

Richard Welch and Richard Brewer, on behalf of HMIC, testified that the proposed reorganization would not substantially lessen competition in any line of insurance. Mark Noller testified that the Working Group found no evidence that the transactions incorporated in the Plan, if implemented, would substantially lessen competition in any line of insurance. He noted HMIC's low market share and the absence of any anticompetitive aspects of the plan. For these reasons, we find that the proposed reorganization meets the fourth requirement of M.G.L. c.175 §19H(d).

5. The Reorganization Must Provide for the Necessary Paid-in Capital

Richard Welch and Richard Brewer, on behalf of HMIC, testified that the proposed reorganization would not decrease HMIC's capital stock, which already exceeds statutory requirements. Mark Noller testified that the Working Group found no evidence that the transactions incorporated in the Plan, if implemented, would result in insufficient paid-in capital. For these reasons, we find that the proposed reorganization meets the fifth requirement of M.G.L. c.175 §19H(d).

6. The Reorganization Must Comply with §§19F-19W, Inclusive

Richard Welch and Richard Brewer, on behalf of HMIC, testified that a vote had been scheduled to approve the proposed plan per the requirements of the above sections. Additionally, they testified that continuing to use the HMIC name would not be deceptive to the public and should be allowed under §19N. Mark Noller testified that the Working Group found no evidence that the reorganization was not in compliance with the requirements of §§19F-19W. For these reasons, we find that the proposed reorganization meets the final requirement of M.G.L. c. 175 §19H(d).

IV. Conclusion

In conducting the hearing required by M.G.L. c. 175 §19H(c), we examined the factors enumerated in M.G.L. c. 175 §19H(d). We conclude that the proposed Plan of Reorganization meets the requirements for approval under §19H(d). Accordingly, the proposed Plan of Reorganization is Approved.

SO ORDERED this sixth day of December, 2024.

Matthew Taylor

Matthew Taylor, Esq.
Hearing Officer

Jean F. Farrington

Jean Farrington, Esq.
Hearing Officer

APPROVED this sixth day of December, 2024.

Michael T. Caljouw

Michael T. Caljouw
Commissioner of Insurance