



**THE COMMONWEALTH OF MASSACHUSETTS**  
**OFFICE OF CONSUMER AFFAIRS AND BUSINESS**  
**REGULATION**

**DIVISION OF INSURANCE**

***REPORT OF EXAMINATION OF***  
**HOSPITALITY MUTUAL INSURANCE COMPANY**

**Southborough, Massachusetts**

**As of December 31, 2021**

**NAIC GROUP CODE 4724**

**NAIC COMPANY CODE 13163**

**EMPLOYERS ID NO. 04-2901190**

# HOSPITALITY MUTUAL INSURANCE COMPANY

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

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**MAURA HEALY**  
GOVERNOR

**GARY D. ANDERSON**  
COMMISSIONER OF INSURANCE

**KIM DRISCOLL**  
LIEUTENANT GOVERNOR

May 23, 2023

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 the

**HOSPITALITY MUTUAL INSURANCE COMPANY**

at its home office located at 106 Southville Road, Southborough, MA, 01772. The examination was conducted remotely. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

Hospitality Mutual Insurance Company (“HMIC” or “Company”) was last examined as of December 31, 2016, by the Massachusetts Division of Insurance (“Division”). The current examination was conducted by the Division and covers the five-year period from January 1, 2017, through December 31, 2021, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

A separate examination of Hospitality Insurance Company (“HIC”), which is a member of the Hospitality Insurance Group, was conducted by the Connecticut Insurance Department.

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 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 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 Crowe, LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2017 through 2021. A review and use of the Certified Public Accountants’ workpapers were made to the extent deemed appropriate and effective.

Representatives from the firm of Lewis & Ellis, Inc. (“Lewis & Ellis”) were retained by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division’s examination staff. The assistance included a review of accounting records, information systems, investment and actuarially determined loss and loss adjustment expense reserves.

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

All significant findings noted during the previous examination have been addressed and there are no significant findings related to the current examination.

### **COMPANY HISTORY**

#### **General**

The Company originated in 1985 with the enactment of Chapter 223 of the Acts of 1985 of the Massachusetts Legislature as the Liquor Liability Joint Underwriting Association of Massachusetts ("LLJUA"). The purpose of the enabling legislation was to guarantee the availability of liquor liability insurance to any person lawfully engaged in serving alcoholic beverages as an incident of business. The LLJUA commenced business on January 1, 1986, and under the enabling legislation, was required to provide liquor liability insurance coverage to all applicants which could not secure such insurance elsewhere. Over the years the enabling legislation was amended in various ways and in 2002, Chapter 211 of the Acts of 2002 formerly repealed section 13 of the enabling acts, which in effect made the LLJUA a permanent organization.

On June 20, 2008, Sections 1 through 12 of Chapter 223 was repealed and Massachusetts General Law Chapter 175 was amended by Section 113W which converted the LLJUA into a mutual insurance company, and all assets and liabilities of the LLJUA were assumed by HMIC. Under this amendment, HMIC may provide any line of liability insurance other than automobile coverage. HMIC is still required to guarantee the continued availability of liquor liability coverage to any licensee, or any person lawfully engaged in serving alcoholic beverages in Massachusetts.

In January 2010, the Company received permission from the Division to write property and auto liability insurance and in March 2012, the Company's Certificate of Authority was amended to include boiler and machinery coverage.

On February 23, 2011, HMIC acquired all of the issued and outstanding shares of common stock of Eastern Casualty Insurance Company ("Eastern"). Eastern was acquired from the Massachusetts Commissioner of Insurance in his capacity as liquidator of Eastern. At the date of acquisition, Eastern had 25,000 shares of common stock issued and outstanding with a par value of \$0.008 per share. Consideration paid by the Company for Eastern amounted to \$325,000. Simultaneously, the Eastern name was changed to Hospitality Insurance Company. 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 as a wholly owned subsidiary of HMIC and began writing business in Rhode Island. HIC has since begun writing business in Pennsylvania, Connecticut, New Hampshire, Vermont, and North Carolina. The Company has created an intercompany reinsurance pool, whereby it is the lead insurer and 100% of business written by HIC is ceded to the pool and assumed by HMIC.

## **MANAGEMENT AND CONTROL**

### **Annual Meeting of Members**

In accordance with the Company's bylaws, the annual meeting of members of the company shall be held within the Commonwealth on date, place and at time that is determined by the board of directors, and an imprint upon each policy of insurance issued by the company shall be deemed sufficient notice of such meetings. At any meeting of the members, eight (8) members present in person or by proxy, shall constitute a quorum. The minutes indicate that a quorum was obtained at each annual meeting held during the examination period.

### **Board of Directors**

According to the bylaws, the Company's business shall be managed under the direction of the Board of Directors, who may exercise all powers of the Company, except as otherwise provided by law, the articles of organization or the bylaws. The Board of Directors shall consist of not less than seven (7) persons. The number to be determined, by a vote of two-thirds of the directors then in office or by the affirmative vote of two-thirds of the members present in person or by proxy at a meeting called for the purpose.

At December 31, 2021, the Board of Directors was comprised of eight (8) directors which is in compliance with the Company's bylaws. The director's names and business affiliation were as follows:

<b><u>Director</u></b>	<b><u>Business Affiliation</u></b>
William T. McGrail	Chairman, Massachusetts Medical Malpractice Reinsurance Plan
James R. Bacon	Co-Executive Director, 1911 Trust Co-Chair of Leadership Council, Reforest The Tropics Board Member, Gloucester Marine Genomics Institute Member of Board of Advisor, Boston College Carroll School of Business
Richard W. Brewer	Member of Board of Selectman, Town of Westport, MA Member of Investment, Audit & Compliance Committee, Massachusetts Medical Malpractice Reinsurance Plan
Doreen M. Cusolito	None
James J. Donoghue	Bourne Housing Partnership

## Hospitality Mutual Insurance Company

Joseph D. Duffy	Owner, JDD Insurance Regulatory Consulting, LLC
Terrence C. Quinn	President, Allen M. Walker & Co, Inc.
Peter T. Robertson	Consultant, Medical Professional Mutual Insurance Company Member of Governing and Operations Committee, Massachusetts Medical Malpractice Reinsurance Plan

### Officers

The bylaws of the Company provide that the officers of the Company shall be a President, a Treasurer, a Secretary and other officers as deemed necessary. Pursuant to the bylaws, the officers of the Company are elected by the Board of Directors at the first meeting of the Board held after the annual meeting.

The elected officers and their respective titles at December 31, 2021, follow:

<u>Name</u>	<u>Title</u>
William T. McGrail	Chairman, Board of Directors
Richard W. Brewer	Vice Chairman, Board of Directors
Richard E. Welch	President & Chief Executive Officer
James J. Donoghue	Treasurer
Peter T. Robertson	Secretary
Stephanie M. Connon	General Counsel, Senior Vice President of Claims Operations, Assistant Secretary
Sandra B. Haley	Senior Vice President of Underwriting and Marketing
Eric F. Piurkowski	Chief Financial Officer and Senior Vice President of Finance

### Committees of the Board

The bylaws state that the Board of Directors may form an Audit Committee of directors who are not employees of the Company. The audit committee shall oversee the selection and retention of an independent auditor and shall have responsibility for the content and oversight of the audit program, including review of the effectiveness of the Company's corporate accounting and financial practices, and the adequacy of internal controls. Consistent with the prior examination the Board continued to operate primarily under one standing committee, the Executive and Audit Committee. The bylaws state that the Board may establish such standing or special committees in

## Hospitality Mutual Insurance Company

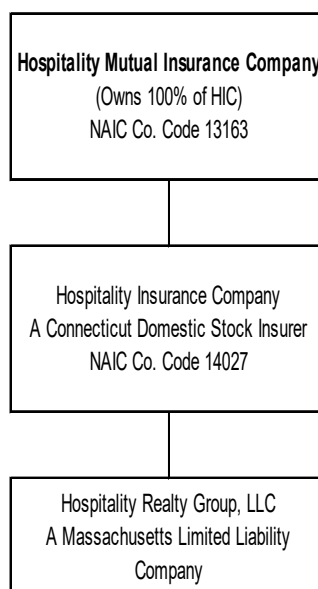
addition to the audit committee as it deems necessary or helpful in carrying out its duties and powers. As of the date of this examination, the Company operated with designated Executive and Audit, Compensation, Investment, Strategic Planning, and Conflict of Interest Committees. The minutes of all committee meetings for the period covered by this examination were reviewed.

### Holding Company

As stated in the Insurance Holding Company System Form B, as filed with the Massachusetts Division of Insurance, the Company is a member of a holding company system and is subject to the registration requirements of Chapter 175, Section 206C and 211 CMR 7.00 of the Massachusetts General Laws. The Company owns 100% of the stock of HIC and is the "ultimate controlling person" of the holding company system.

### Organization Chart

The Company's insurance subsidiaries are shown on the organization chart below. At December 31, 2021, the Company is a member of the following organizational structure:



### Transactions and Agreements with Subsidiaries and Affiliates

#### *Inter-Company Reinsurance Pooling Agreement*

The Company operates under an Inter-Company Reinsurance Pooling Agreement ("Pooling Agreement") with its wholly owned subsidiary, HIC. The Pooling Agreement became effective January 1, 2011. The Company is the lead insurer in the pool and assumes 100% of all net insurance



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liabilities of HIC. The Company's participation in the pooled accounts is 100% and HIC's ultimate participation in the pooled accounts is 0%

### *Inter-Company Services Agreement*

The Company has in place an Inter-Company Services Agreement with its wholly owned subsidiary, HIC. 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.

The Inter-Company Services Agreement provides that the Company will make available to HIC all necessary services to assist HIC in the establishment, conduct and management of its business operations, including all necessary services in connection with the underwriting and management of HIC's insurance business. All costs, facilities and resources as outlined in the agreement are allocated between the Company and HIC 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 assumes and retains 100% and HIC cedes 100% and retains 0% of business written.

### *Tax Sharing Agreement*

Effective January 1, 2011, the Company established and entered into a tax sharing agreement with its wholly owned subsidiary, HIC, whereby the Group will file a consolidated federal and state income tax return. 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 tax return.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed to write business in the Commonwealth of Massachusetts. 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 is mandated to provide liquor liability insurance to any Massachusetts business meeting applicable underwriting guidelines. The Company has expanded its lines of coverage to include property, general liability, business owner, cyber, assault and battery and excess liability, and boiler and machinery coverage.

With the acquisition of HIC in 2011, the Company also acquired licenses to write business in additional states. HIC currently writes business in Connecticut, New Hampshire, North Carolina, Pennsylvania, Rhode Island, and Vermont. HIC cedes, and HMIC assumes, 100% of all business written by HIC via the Inter-Company Reinsurance Pooling Agreement.

### **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

## Hospitality Mutual Insurance Company

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**

The Company and its affiliates participate in the intercompany pooling agreement described above. Ceded reinsurance with unaffiliated companies is also subject to the inter-company pooling agreement, as described below.

#### **Assumed Reinsurance**

The Company operates under an Inter-Company Reinsurance Pooling Agreement ("Pooling Agreement") with its wholly owned subsidiary, HIC. The Pooling Agreement became effective January 1, 2011. The Company is the lead insurer in the pool and assumes 100% of all net insurance liabilities of HIC. The Company's participation in the pooled accounts is 100% and HIC's ultimate participation in the pooled accounts is 0%

#### **Ceded Reinsurance**

After assuming all business from HIC, the Company cedes business to external reinsurers based on line of business. For liquor and general liability, the Company entered into an excess of loss reinsurance agreement with various reinsurers for liquor liability and general liability coverages for \$400,000 excess of \$600,000 per occurrence. In addition, the agreement also covers claims under both the general liability and liquor liability policies where the reinsurance treats the loss as one claim and provides coverage for \$3,000,000 excess of \$1,000,000 per occurrence. In 2021, the Company entered into a reinsurance agreement with various reinsurers on the previously mentioned liquor liability and general liability coverages for \$300,000 excess of \$300,000 per occurrence in which 51.33% is reinsured on a quota share basis and 48.67% is retained by HMIC. There are no aggregates on this reinsurance coverage. In 2021, the Company reinsures liquor liability and general liability claims that reach \$1,000,000 up to \$4,000,000 per occurrence on a facultative basis with Gen Re in which 95% is ceded for the first \$1,000,000 and once a claim reaches \$2,000,000, a claim is 100% ceded. There is no provision in the facultative reinsurance agreement to cover both a liquor liability and general liability claim in the same occurrence.

In 2021, the Company entered into an excess of loss reinsurance agreement with various reinsurers for its property coverage for \$400,000 excess of \$600,000 per occurrence. There is an annual aggregate of \$1,200,000 on this reinsurance coverage. In 2021, the Company also entered into an excess of loss reinsurance contract on the property coverage, which provides for reinsurance coverage of \$3,000,000 excess of \$1,000,000 each loss occurrence.

In 2021, the Company entered an excess of loss reinsurance contract on property catastrophe coverage, which provides for reinsurance coverage of \$1,000,000 excess of \$1,000,000 each loss occurrence, subject to a maximum liability of \$1,000,000. The agreement includes a reinstatement provision for additional premium if triggered. The Company's property policies cover certified terrorism losses as defined under the Terrorism Risk Insurance Act of 2002 ("TRIA") and the subsequent 2007 and 2015 extensions of TRIA. TRIA provides for a system of shared public and

## Hospitality Mutual Insurance Company

private compensation for insured losses resulting from certified acts of terrorism. TRIA protection is only triggered if there is a certified act of terrorism and losses reach an industry insured loss trigger of \$200 million for 2021. The coverage provided by the Companies are eligible under TRIA for the co-insurance protection provided by the U.S. Treasury subject to a deductible equal to 20% of the Company's prior year direct earned premium. The Company retains both the deductible and its remaining share of the certified terrorism losses. TRIA was extended again by the U.S. Treasury through 2027 with a loss trigger of \$200 million and coinsurance protection of 80% for calendar year 2020 going forward.

In 2021, the Company obtained reinsurance coverage with one reinsurer for its boiler and machinery coverage in which the boiler and machinery coverage is fully reinsured under this agreement, and the entire direct premium related to this coverage is ceded less a 35% ceding commission.

In 2021, the Company obtained reinsurance coverage with one reinsurer for its cyber liability coverage, in which the cyber liability coverage is fully reinsured under this agreement, and the entire direct premium related to this coverage is ceded less a 30% ceding commission.

In 2021, the Company obtained reinsurance coverage with one reinsurer for its Employment Practices Liability coverage, in which the Employment Practices Liability coverage is fully reinsured under this agreement, and the entire direct premium related to this coverage is ceded less a 30% ceding commission.

Hospitality Mutual Insurance Company

**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, 2021. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2021

Statement of Income as of December 31, 2021

Reconciliation of Capital and Surplus for the Five-Year Period Ended December 31, 2021

# Hospitality Mutual Insurance Company

## Statement of Assets, Liabilities, Surplus and Other Funds As of December 31, 2021

	As Reported by the Company
Assets	
Bonds	\$ 24,382,877
Common stocks	20,173,500
Cash and short-term investments	7,381,458
Subtotals, cash and invested assets	51,937,835
Investment income due and accrued	168,024
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	1,868,057
Reinsurance:	
Amounts recoverable from reinsurers	1,025,733
Other amounts receivable under reinsurance contracts	221,676
Aggregate write-ins for other-than-invested assets	957
Total Assets	\$ 55,222,282

# Hospitality Mutual Insurance Company

## Statement of Liabilities, Surplus and Other Funds As of December 31, 2021

Liabilities	As Reported by the Company
Losses	\$ 19,816,712
Reinsurance payable on paid loss and LAE	1,207,564
Loss adjustment expenses	6,069,463
Commissions payable	84,078
Other expenses	1,082,096
Current federal and foreign income taxes	893
Unearned premiums	5,442,237
Advance premiums	7,510
Ceded reinsurance premiums payable	59,823
Provision for reinsurance	48,329
Payable for securities	175,096
Aggregate write-ins for liabilities	<u>1,062,024</u>
Total Liabilities	<u>35,055,825</u>
Unassigned fund (surplus)	<u>20,166,457</u>
Surplus as regards to policyholders	<u>20,166,457</u>
Total Liabilities, Capital and Surplus	<u>\$ 55,222,282</u>

# Hospitality Mutual Insurance Company

## Statement of Income For the Year Ended December 31, 2021

	As Reported by the Company
Premiums earned	\$ 8,328,746
Deductions:	
Losses incurred	3,523,930
Loss adjustment expenses incurred	1,553,219
Other underwriting expenses incurred	5,892,217
Total underwriting deductions	10,969,366
Net underwriting gain (loss)	(2,640,620)
Net investment income earned	612,458
Net realized capital gains; less capital gains tax of \$660,592	864,448
Net investment gain	1,476,906
Net gain (loss) from agents' balances or premium balances charged off	27,598
Finance and service charges not included in premiums	185,470
Total other income	213,068
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(950,646)
Dividends to policyholders	0
Net income, after dividends to policyholders, after capital gains taxes and before all other federal and foreign income taxes	(950,646)
Federal and foreign income taxes incurred	0
Net Income	\$ (950,646)

# Hospitality Mutual Insurance Company

## Reconciliation of Capital and Surplus For the Five Year Period Ended December 31, 2021

	2021	2020	2019	2018	2017
Capital and surplus, December 31, prior year	\$ 19,938,220	\$ 20,336,828	\$ 22,487,827	\$ 27,173,174	\$ 26,111,263
Net income	(950,646)	362,664	(1,704,254)	(2,021,266)	565,519
Change in net unrealized capital gains or (losses)	1,182,274	(262,738)	494,402	(2,418,410)	1,125,756
Change in net deferred income tax	314,978	(70,809)	(1,455,717)	403,046	(1,026,235)
Change in nonadmitted assets	(270,040)	(396,480)	543,430	(619,857)	433,300
Aggregate write-ins for gains and losses in surplus	(48,329)	(31,245)	(28,860)	(28,860)	(36,429)
Net change in capital and surplus for the year	228,237	(398,608)	(2,150,999)	(4,685,347)	1,061,911
Capital and surplus, December 31, current year	<u>\$ 20,166,457</u>	<u>\$ 19,938,220</u>	<u>\$ 20,336,828</u>	<u>\$ 22,487,827</u>	<u>\$ 27,173,174</u>



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

There have been no changes made to the financial statements as a result of the examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

As a result of the examination, no issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

The Division requested that Lewis & Ellis, Inc. review the reasonableness of the Loss and Loss Adjustment Expense Reserves (the “Reserves”) of the Company as of December 31, 2021. The review was conducted in a manner consistent with the Code of Professional Conduct and Qualification Standards of the American Academy of Actuaries and the Standards of Practice adopted by the Actuarial Standards Board.

Lewis & Ellis’ actuarial review utilized year-end paid and incurred loss data developed through December 31, 2021. The table below summarizes a comparison of Lewis & Ellis’ reasonable net estimates for the Reserves to the Company’s carried net Reserves as of December 31, 2021.

**COMPARISON OF INDICATED NET RESERVES  
TO CARRIED RESERVES as of 12/31/21**

	Estimate
Lewis & Ellis Total Net Loss & Loss Adjustment Expense Reserves	\$25,443
Total Company Carried Net Loss & LAE Reserves	\$25,886
Difference	\$443

**SUBSEQUENT EVENTS**

No subsequent events or transactions that occurred after the December 31, 2021, examination date were noted that would have had a material effect on the Company’s financial statements.

**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 representatives from Lewis & Ellis, who participated in this examination is hereby acknowledged.

A handwritten signature in cursive script that reads "Maria Gannon". The signature is written in dark ink and is positioned above a horizontal line.

Maria Gannon, CFE  
Supervising Examiner  
Commonwealth of Massachusetts  
Division of Insurance