



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

REPORT OF EXAMINATION OF THE
SAFETY NORTHEAST INSURANCE COMPANY

Boston, Massachusetts

As of December 31, 2023

NAIC GROUP CODE 00188

NAIC COMPANY CODE 16893

EMPLOYER ID NUMBER 85-3900435

SAFETY NORTHEAST INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

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MAURA T. HEALEY
GOVERNOR

MICHAEL T. CALJOUW
COMMISSIONER OF INSURANCE

KIM DRISCOLL
LIEUTENANT GOVERNOR

May 28, 2025

The Honorable Michael T. Caljouw
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
One Federal Street, Suite 700
Boston, MA 02110

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, and other applicable statutes, an examination has been made of the financial condition and affairs of

SAFETY NORTHEAST INSURANCE COMPANY

at its home office located at 20 Custom House Street, Boston, MA 02110. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Safety Northeast Insurance Company (“Company” or “SNIC”) is undergoing its first examination by the Massachusetts Division of Insurance (“Division”). The current examination is conducted by the Division and covers the three-year period from January 1, 2021 through December 31, 2023, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Concurrent with this examination, the following insurance affiliates in the Safety Insurance Group (“SIG”) were also examined and separate Reports of Examination have been issued:

Safety Insurance Company (“SIC”)
Safety Indemnity Insurance Company (“SIIC”)
Safety Property & Casualty Insurance Company (“SPC”)

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 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 an 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 and Touche, LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for calendar years 2021 through 2023. A review and use of the Certified Public Accountants’ work papers was made to the extent deemed appropriate and effective.

The INS Companies (“INS”) were engaged 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,

Safety Northeast Insurance Company

information systems, investments and actuarially determined loss and loss adjustment expense reserves, as well as other significant actuarial estimates.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings identified during the examination.

COMPANY HISTORY

The Company was organized and incorporated on October 26th, 2020, under the laws of the Commonwealth of Massachusetts, as a stock company titled “Safety Northeast Insurance Company”. It became licensed to write homeowners insurance products in Massachusetts in January of 2021. The Company is subject to the provisions of Massachusetts General Law (“M.G.L.”), Chapter 175, Section 4 and other Massachusetts insurance laws.

SIC, its insurance affiliate, owns 100 % of the outstanding shares of the Company. SIG, the Delaware holding corporation, owns 100% of the issued and outstanding shares of SIC. Control of SIC was acquired by SIG as a result of a statutory merger that occurred on October 16, 2001, between Safety Merger Company, Inc. and Thomas Black Corporation (“TBC”). As a result of the 2001 merger, SIG was indirectly owned, through its wholly owned direct subsidiary, TBC. The 2001 merger was approved by the Division on October 12, 2001. On March 31, 2004, TBC merged with and into SIG with SIG being the corporation surviving the merger. SNIC became part of the holding company system on November 13, 2020.

SNIC is a member of the Massachusetts Insurers Insolvency Fund and is assessed a proportionate share of the obligations and expenses of the Insolvency Fund in connection with an insolvent insurer. Massachusetts law requires that insurers licensed to do business in Massachusetts participate in the Massachusetts Insurers Insolvency Fund.

Capital Stock

In 2020, SIC purchased 175,000 shares of common stock in SNIC with a par value of \$20.00 per share. This resulted in an outstanding Capital Stock of \$3,500,000.

Dividends

The Company paid no stockholder dividends during the examination period. There were no declared and unpaid dividends as of December 31, 2023.

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board and its Committees for the period under examination were read, and they indicated that all meetings were held in accordance with the Company’s bylaws and

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the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board.

Articles of Organization and Bylaws

The bylaws and articles of organization were reviewed. The Company's bylaws were adopted on August 28, 2020. The Company complied with M.G.L. Chapter 175, Sections 50 & 50B by filing the bylaws with the Division.

Board of Directors

According to the bylaws, the "business of the company shall be managed by the directors who may exercise all of the powers of the Company as are not by law, the articles of organization or these bylaws required to be otherwise." The Board shall consist of at least five and no more than seven members. Directors shall be elected by a plurality of the votes cast at annual meetings of the stockholders and each director so elected shall hold office until the next annual meeting of stockholders and thereafter until a successor is duly elected and qualified, or until his sooner resignation or removal. Any director may resign at any time upon notice to the Company. Directors need not be stockholders.

At December 31, 2023, the Company's Board was comprised of the following directors:

<u>Name of Director</u>	<u>Title</u>
George Michael Murphy	President and Chief Executive Officer
Christopher Thomas Whitford	Vice President, Chief Financial Officer and Treasurer
James David Berry*	Vice President of Underwriting and Secretary
Steven Albert Varga	Vice President of Management Information Systems
Glenn Robert Hiltpold	Vice President of Actuarial Services
Paul Jorge Narciso	Vice President of Claims
John Patrick Drago	Vice President of Marketing
Ann Marie McKeown**	Vice President of Insurance Operations

*James David Berry retired effective July 1, 2024. Mary McConnell was appointed Vice President of Underwriting effective May 1, 2024.

** Ann Marie McKeown retired effective March 1, 2024. Brian S. Lam was appointed Vice President of Insurance Operations effective March 1, 2024.

Oversight of the SIG Board of Directors

SNIC is under the oversight of the SIG Board of Directors ("SIG Board"). The SIG Board meets quarterly and upon special request as needed, to discuss Company's performance, objectives and results. The SIG Board consists of six members and three classes, each class serves three years, with terms of office of the respective classes expiring in successive years. The SIG Board appointed various committees to assist in the oversight of its subsidiaries. They include an Audit Committee, a Compensation Committee, a Nominating & Governance Committee and an Investment Committee. Additionally, the SNIC Board, is also considered SIG Board's Executive Committee, which meets on a weekly basis to review and discuss the operations of the Company.

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Officers

According to the Company's bylaws, the Board shall elect the officers of the Company. The officers of the Company shall be the President, the Treasurer, the Secretary, and such other officers and agents, with duties and powers, as the Board may in its discretion determine. The President, the Treasurer, and the Secretary shall be elected annually by the directors at their first meeting following the annual meeting of stockholders; other officers may be chosen by the directors at such meeting or at any other meeting. 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. An officer may but need not be a director or stockholder and no officer shall be a director solely by virtue of being an officer.

The bylaws state that the President shall be the Chief Executive Officer of the Company. Except as otherwise voted by the Board, the President shall preside at all meetings of the stockholders and of the Board at which he is present. The President 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 in the bylaws, the Company's officers shall have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as from time to time may be conferred by the Board. Except as otherwise required or prohibited by law, any two or more offices may be held by the same person.

The officers of the Company as of December 31, 2023, were as follows:

<u>Name of Officer</u>	<u>Title</u>
George Michael Murphy	President and Chief Executive Office
Christopher Thomas Whitford	Vice President, Chief Financial Officer and Treasurer
James David Berry*	Vice President of Underwriting and Secretary
John Patrick Drago	Vice President of Marketing
Glenn Robert Hiltbold	Vice President of Actuarial Services
Ann Marie McKeown**	Vice President of Insurance Operations
Paul Jorge Narciso	Vice President of Claims
Stephen Albert Varga	Vice President of Management Information Systems

*James David Berry retired effective July 1, 2024. Mary McConnell was appointed Vice President of Underwriting effective May 1, 2024.

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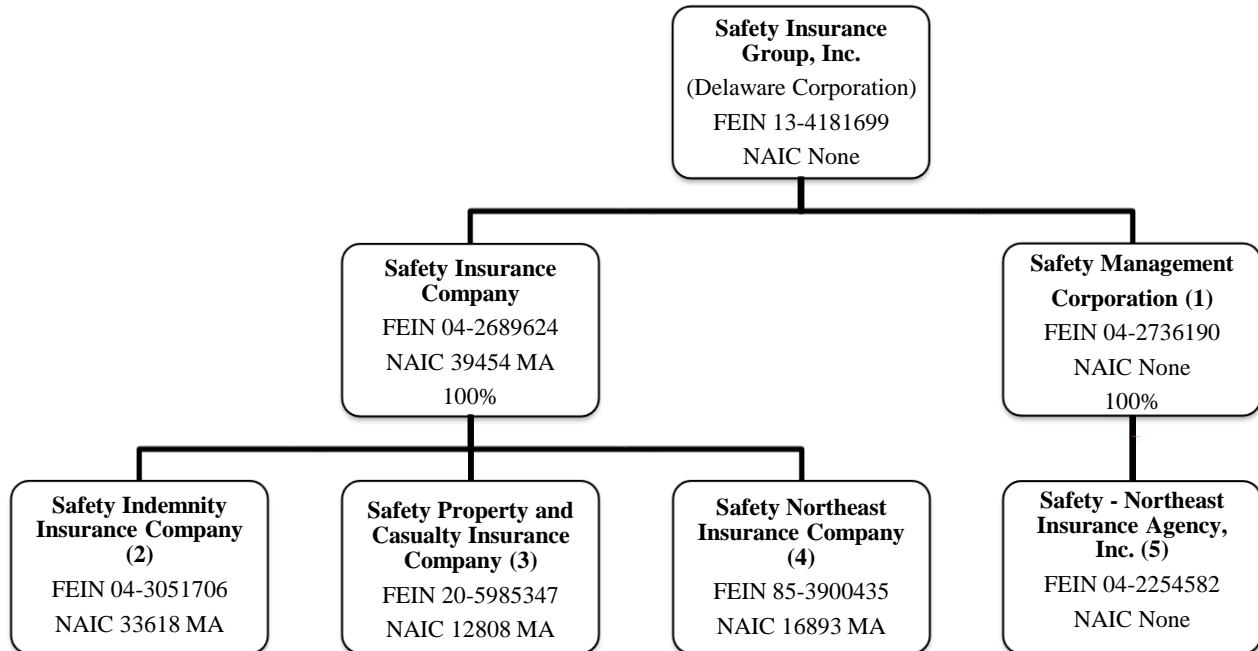
Affiliated Companies

As stated in the Insurance Holding Company System Form B and Form C as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L., Chapter 175, Section 206C and Regulation 211 CMR 7.00. Ultimate control of the holding Company system is held by the owners of SIG, a Delaware corporation, the sole business of which is ownership of the Group.

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Organization Chart

At December 31, 2023, the following reflects the organizational structure of SNIC and its subsidiaries, affiliated and controlled entities:



Notes:

- (1) Represents inactive non-insurance company subsidiaries
- (2) SIIC became part of the same insurance company holding system as SIC, upon the formation of SIIC, which occurred in May 1989. SIC owns 100% of the outstanding shares of SIIC.
- (3) SPC became part of the same insurance company system as SIC, upon formation of SPC, which occurred in December 2006. SIC owns 100% of the outstanding shares of SPC.
- (4) On November 13, 2020, SIC acquired 100% of the issued and outstanding shares of SNIC, a newly formed insurance company domiciled in Massachusetts.
- (5) On December 1, 2022, SNIA acquired the assets and operations of Northeast Metrowest Insurance Agency, Inc., an independent insurance agency.

Transactions and Agreements with Subsidiaries and Affiliates

Administrative Services Agreement

Effective January 1, 2021, SIC and SNIC entered into an Administrative Services Agreement pursuant to which SNIC receives certain administrative and managerial services from SIC as compensation for which SNIC pays the actual costs and expenses incurred by SIC for providing such services.

Consolidated Tax Allocation Agreement

Effective January 1, 2021, SIG, SIC, SIIC, SPC, SNIC and SMC entered into the Third Amended and Restated Tax Sharing Agreement. The agreement provides that SIG will file a consolidated federal income tax return and consolidated foreign, state and local tax returns, as applicable as

Safety Northeast Insurance Company

permitted for the parties to the agreement. Each subsidiary shall pay to SIG an amount determined as if such subsidiary had filed its own separate tax return. Each subsidiary shall pay such amount to SIG on the last date that SIG is required to make final payment of income taxes without incurring any penalties or additions.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in Massachusetts. The Company became licensed to write business in Massachusetts in 2021. In 2023, the Company reported direct premium of \$1,917,094 in Massachusetts.

Treatment of Policyholders – Market Conduct

The Commonwealth of Massachusetts has called for a Market Conduct examination which is still underway.

REINSURANCE

Ceded Reinsurance

Effective January 1, 2023, the Company purchased via a reinsurance intermediary, Gallagher Re Inc., a three layers of excess catastrophe reinsurance providing coverage for property losses in excess of \$75,000,000 up to a maximum of \$665,000,000 of ultimate net loss per loss occurrence. The lines of business covered are commercial multiple peril (Section I), allied lines, fire, homeowners multiple peril (Section I), inland marine, and automobile physical damage (excluding collision).

The reinsurers’ co-participation was as follows:

	Co-Participation	
<u>Layers</u>	<u>Percentage</u>	<u>Amount</u>
First layer	75%	\$ 75,000,000
Second layer	75%	\$250,000,000
Third layer	75%	\$265,000,000

Effective January 1, 2023, the Company purchased via a reinsurance intermediary, Gallagher Re Inc., property excess of loss reinsurance coverage for large property losses in excess of \$2,500,000 up to a maximum of \$20,000,000 per risk per loss.

In addition to the excess of loss coverage, the Company has several quota share agreements with the Hartford Steam Boiler Inspection and Insurance Company (HSBI).

- Effective January 15, 2022, the Company began ceding 100% of its liability to HSBI for Homeowners Equipment Breakdown coverage, with limits up to \$100,000 per accident.

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- Effective January 15, 2022, the Company purchased Home Cyber Protection, ceding 100% of its liability for this coverage up to \$50,000 per policy.

Assumed Reinsurance

Other than mandatory pools and associations, the Company does not assume reinsurance from non-affiliated companies, but it does act as a servicing carrier for CAR risks, and it does participate in an intercompany pooling arrangement.

Commonwealth Automobile Reinsurers

Under the Massachusetts Property and Casualty Insurance Market, the Company is a participant of CAR, a mandated residual market for commercial automobiles where ceded business gets shared by all insurers writing commercial automobile insurance in Massachusetts. In addition, the Company also participates in the Massachusetts Fair Access to Insurance Requirements (“FAIR”) Plan, which is a state-mandated program where all of homeowners’ business that cannot be placed in the voluntary market is shared by insurers writing homeowners insurance in Massachusetts. SIC, SIIC, SPC, and SNIC cede business to and assume business from these state-established bodies.

Intercompany Pooling Agreement

SIC and its wholly owned subsidiaries have a pooling agreement. SIC, SIIC and SPC entered into a Pooling Agreement effective January 1, 2011, covering all lines of business underwritten by the companies. SIC, SIIC, SPC and SNIC entered into the Amended and Restated Pooling Agreement effective January 1, 2021, which replaced and superseded the Pool effective January 1, 2011, with respect to business written on or after the Effective Date. SIIC, SPC and SNIC each cede to SIC and SIC retrocedes the pooled results to the participants based on their percentage share of the pool. SIC is obligated to accept as assumed reinsurance, 100% of Net Liabilities with respect to policies issued by SIIC, SPC and SNIC. All lines and types of business written are subject to the pooling agreement. SIC retains 85% of the pooled business, SIIC assumes 9% of the pool, SPC assumes 3% of the pool and SNIC assumes 3% of the pool. This gets applied to cover the net liabilities of the group, meaning the liability remaining after reinsurance cessions, if any, to CAR or any other insurer not a party to the pooling agreement, which include reserves for unearned premiums, losses, and loss adjustment expenses, net of salvage and subrogation, and third-party reinsurance cessions. SIC and its wholly owned subsidiaries reinsure certain risks with other insurance organizations for the purpose of limiting their exposure to catastrophic occurrences that could produce large losses, primarily in their homeowner line of business.

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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, 2023. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2023.

Statement of Income for the Year Ended December 31, 2023.

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2023.

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**Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2023**

	Per Annual Statement
Assets	
Bonds	\$38,537,260
Cash, cash equivalents and short-term investments	1,581,042
Subtotals, cash and invested assets	<u>40,118,302</u>
Investment income due and accrued	201,985
Premiums and considerations:	
Uncollected premiums and agents' balances	14,599
Deferred premiums, agents' balances and installments booked but deferred and not yet due	235,746
Net deferred tax asset	757,377
Aggregate write-ins for other than invested assets	<u>0</u>
Total assets	<u><u>\$41,328,009</u></u>

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Statement of Assets, Liabilities, Capital and Surplus (Continued)
As of December 31, 2023

	Per Annual Statement
Liabilities	
Losses	\$13,076,048
Loss adjustment expenses	1,637,713
Commissions payable, contingent commissions and other similar charges	273,525
Taxes, licenses and fees	34,705
Unearned premiums	14,874,084
Advance premiums	23,402
Aggregate write-ins for liabilities	81,608
Total liabilities	<u>30,001,086</u>
Common Capital Stock	3,500,000
Gross paid in and contributed surplus	5,550,000
Unassigned funds (surplus)	2,276,923
Surplus as regards policyholders	11,326,923
Total liabilities, surplus and other funds	<u>\$41,328,009</u>

Safety Northeast Insurance Company

Statement of Income
For the Year Ended December 31, 2023

	<u>Per Annual Statement</u>
Underwriting Income	
Premiums earned	\$25,032,427
Deductions	
Losses incurred	16,998,263
Loss adjustment expenses incurred	2,270,800
Other underwriting expenses incurred	<u>8,187,143</u>
Total underwriting deductions	<u>27,456,206</u>
Net underwriting (loss)	<u>(2,423,779)</u>
Investment Income	
Net investment income earned	1,022,808
Net investment capital gains (losses) less capital gains tax of \$ (282)	<u>0</u>
Net investment gain	<u>1,022,808</u>
Other Income	
Finance and service charges not included in premiums	<u>7,680</u>
Total other income	<u>7,680</u>
Net loss before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(1,393,291)
Dividends to policyholders	<u>0</u>
Net loss, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(1,393,291)
Federal and foreign income taxes incurred	<u>(174,849)</u>
Net loss	<u><u>(\$1,218,442)</u></u>

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**Reconciliation of Capital and Surplus
For Each Year in the Three-Year Period Ended December 31, 2023**

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Surplus as regards policyholders, December 31 prior year	\$12,424,077	\$11,298,477	\$ 9,050,000
Net income (loss)	(1,218,442)	1,119,443	1,618,546
Change in net deferred income tax	121,289	(8,254)	644,342
Change in nonadmitted assets	0	14,411	(14,411)
Change in surplus as regards policyholders for the year	<u>(1,097,153)</u>	<u>1,125,600</u>	<u>2,248,477</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$11,326,923</u></u>	<u><u>\$12,424,077</u></u>	<u><u>\$11,298,477</u></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 adverse findings, or changes to the financial statements were identified.

Note 1 - Summary of Loss and Loss Adjustment Expense Reserves (“loss and LAE Reserves”)

Losses	\$13,076,048
Loss Adjustment Expenses	\$ 1,637,713

The Division engaged INS Consultants, Inc. (“INS”) to review the reasonableness of the loss and LAE reserves of the Company as of December 31, 2023. The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the Standard of Practice adopted by the Actuarial Standards Board.

INS performed an analysis of the loss and LAE reserves evaluated as of December 31, 2023, on a net and ceded basis using data included in the Appointed Actuary’s Actuarial Report. With regard to comparisons to the estimates derived by the Company’s Appointed Actuary, INS noted that as of December 31, 2023 the Company carried net loss and LAE reserves within the Appointed Actuary’s range of reasonable reserve estimates. The Company carried net loss and LAE reserves of approximately \$14.7 million as of December 31, 2023 are above the midpoint of the Appointed Actuary’s range of reasonable reserve estimates by approximately 5.0%. The midpoint of the Appointed Actuary’s was calculated by INS, as the Appointed Actuary provided a range of reasonable reserve estimates but did not provide an Actuarial Central Estimate (“ACE”).

INS found that the methodologies and assumptions employed by the Appointed Actuary in the Actuarial Report are reasonable. INS found the Company’s carried loss and LAE reserves as of December 31, 2023 were reasonable.

The table below shows that the net carried reserves of \$14.714 million is within the INS range of reasonable estimates from \$11.875 million to \$15.415 million. The INS Actuarial Central Estimate of the net loss and LAE reserves of \$13.607 million was lower than the SNIC carried reserve of \$14.714 million by \$1.107 million, or 7.5% of reserves. The SNIC gross carried loss and LAE reserves of \$18.091 million falls within the INS range of estimates of gross loss and LAE reserves of \$14.594 million to \$19.042 million. The INS ACE of \$16.761 million was lower than the SNIC gross carried reserves of \$18.091 by \$1.330 million, or 7.4%

The table below summarizes a comparison of INS’s range of reasonable estimates for loss and LAE reserves to the Company’s carried loss and LAE reserve as of December 31, 2023.

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Summary of Indicated Reserves (\$000s)							
	INS Estimate			SNIC Carried	Difference		
	Low	Central	High		Low	Central	High
Net	11,875	13,607	15,415	14,714	(2,839)	(1,107)	701
Gross	14,594	16,761	19,042	18,091	(3,497)	(1,330)	951

SUBSEQUENT EVENTS

No material subsequent events occurred after December 31, 2023.

SUMMARY OF RECOMMENDATIONS

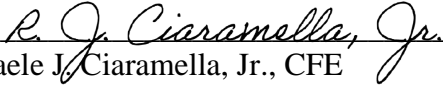
As a result of the examination, no recommendations were identified.

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 INS and the following Division examiners who participated in this examination hereby is acknowledged:

Carla Mallqui, CFE, Financial Examiner II



Raffaele J. Ciaramella, Jr., CFE
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance