



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

ORDER ADOPTING REPORT OF EXAMINATION

I, Andrew N. Mais, Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of **Hospitality Insurance Company** (the "Company") as of December 31, 2021 do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions.

TO WIT:

1. I, Andrew N. Mais, Insurance Commissioner of the State of Connecticut and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes ("C.G.S").
2. The Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On May 23, 2023, the verified Report of the Company was filed with the Connecticut Insurance Department (the "Department").
4. In accordance with C.G.S. §38a-14(e)(3), the Company was afforded a period of thirty (30) days within which to submit to the Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On June 1, 2023, the Company notified the Department of certain responses and comments on certain items contained in the Report.
6. Following review of the Report, it was deemed necessary and appropriate to modify the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

NOW, THEREFORE, it is ordered as follows:

1. That the Report of the Company is hereby adopted as filed with the Department.
2. That the Company shall comply with the recommendations set forth in the Report, and that failure by the Company to so comply shall result in sanctions or administrative action as provided by Title 38a of the C.G.S.
3. Section 38a-14(e)(4)(A) of the CGS requires that:

"The secretary of the Board of Directors or similar governing body of the entity shall provide a copy of the report or summary to each director and shall certify to the Commissioner, in writing, that a copy of the report or summary has been provided to each director."

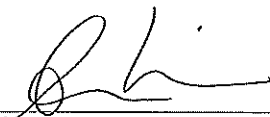
Please address the certification to the Commissioner but send said certification to the care/attention of William Arfanis, Assistant Deputy Commissioner of the Financial Regulation Division.

4. Section 38a-14(e)(4)(B) of the CGS requires that:

"Not later than one hundred twenty days after receiving the report or summary the chief executive officer or the chief financial officer of the entity examined shall present the report of summary to the entity's Board of Directors or similar governing body at a regular or special meeting."

This will be verified by the Insurance Department either through analysis or examination follow-up.

Dated at Hartford, Connecticut, this 1st day of June, 2023.



Andrew N. Mais
Insurance Commissioner

Exhibit A

EXAMINATION REPORT

OF THE

**HOSPITALITY INSURANCE COMPANY
(NAIC # 14027)**

AS OF

DECEMBER 31, 2021

BY THE

CONNECTICUT INSURANCE DEPARTMENT



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May 23, 2023

The Honorable Andrew N. Mais
Insurance Commissioner
State of Connecticut Insurance Department
153 Market Street, 6th Floor
Hartford, Connecticut 06103

Dear Commissioner Mais:

In compliance with your instructions and pursuant to the requirements of section 38a-14 of the General Statutes of the State of Connecticut (CGS), the undersigned has made an examination of the condition and affairs of the

HOSPITALITY INSURANCE COMPANY

(hereafter referred to as the Company or HIC), a corporation with capital stock, incorporated under the laws of the State of Connecticut and having its statutory home office located at 710 Main Street, Plantsville, Connecticut. The report of such examination is respectfully submitted.

SCOPE OF EXAMINATION

The previous examination of the Company was conducted as of December 31, 2016. The current examination, which covers the subsequent five year period through December 31, 2021, was conducted virtually and at the statutory home office of the Company

The Connecticut Insurance Department (Department) participated in a coordinated multistate examination with the Massachusetts Division of Insurance (MDOI), the lead state for the examination and who concurrently conducted an examination of Hospitality Mutual Insurance Company (HMIC) (collectively with the Company referred to as Hospitality Insurance Group, HIG or Group)

As part of the examination planning procedures, the Department reviewed the following materials from 2017 through 2021, which were submitted by the Company:

- Board of Director (Board) and other committee minutes (through the latest 2022 minutes);
- Statutory audit reports completed by the Company's independent certified public accountants, Crowe Horwath, LLP (Crowe Horwath);
- Management's Discussion and Analysis;
- Statements of Actuarial Opinion; and
- Annual Statements filed with the Department.

HOSPITALITY INSURANCE COMPANY

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department, reports from the National Association of Insurance Commissioners (NAIC) database, as well as independent audit reports, all of which indicated no material concerns with respect to financial condition or regulatory compliance issues.

Work papers prepared by Crowe Horwath as of December 31, 2021, in connection with its annual statutory audit were reviewed and relied upon to the extent deemed appropriate.

Under the supervision of the MDOI, Lewis & Ellis (L&E) was engaged to conduct the financial examination of the HMIC and HIC, with the assistance of the Department. Additionally, L&E was engaged to review reserving and pricing/underwriting risks and the effectiveness of the information technology (IT) general controls.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated currently and prospectively.

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 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.

Comments in this report are generally limited to exceptions noted or to items considered to be of a material nature.

Failure of items in this report to add to totals or for totals to agree with captioned amounts is due to rounding.

HISTORY

The Company originated in 1980 as the Eastern Casualty Insurance Company (ECIC). ECIC was acquired on February 23, 2011, by HMIC, from the Massachusetts Commissioner of Insurance in his capacity as liquidator of ECIC. Upon completion of the acquisition, the Company changed its name to HIC and became a wholly owned subsidiary of HMIC. HIC obtained the licenses of ECIC, which included the Commonwealths of Massachusetts and Pennsylvania, and the states of

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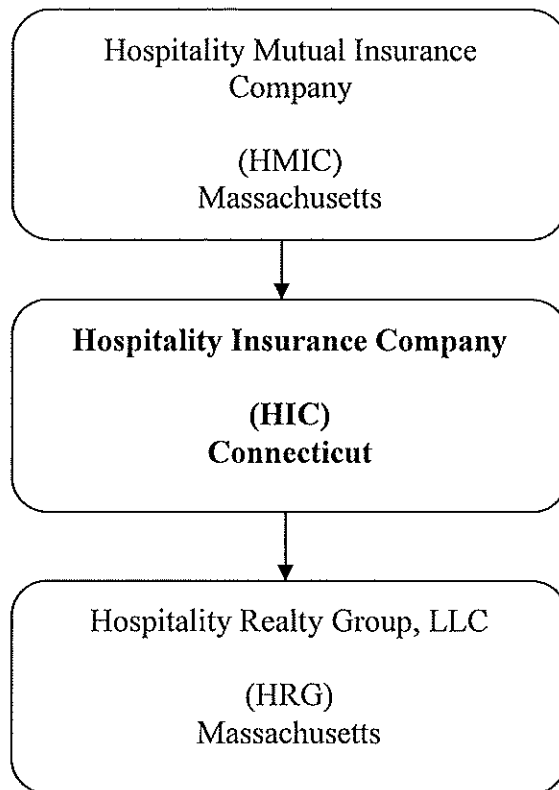
Connecticut, New Hampshire, Rhode Island, and Vermont. HIC began writing business on January 1, 2011.

Effective on January 1, 2011, HMIC and HIC entered into an Intercompany Reinsurance Pooling Agreement (Pooling Agreement) which provided that all of HIC premium and losses be ceded to HMIC without any retrocession back to HIC.

On December 21, 2016, HIC re-domesticated from Massachusetts to Connecticut.

ORGANIZATIONAL CHART

The following is an organization chart of the Company and its affiliates as of December 31, 2021:



MANAGEMENT AND CONTROL

The Company's bylaws state that the annual meeting of the stockholders shall be held on the last Thursday in April of each year or shall be determined by the Board within six months after the end of each fiscal year. If no annual meeting is held on the date fixed, a special meeting of the stockholders may be held in lieu thereof.

At any meeting of the stockholders, the holders of a majority in interest of all stock issued, outstanding and entitled to vote at a meeting shall constitute a quorum.

HOSPITALITY INSURANCE COMPANY

The Board may exercise all the powers of the corporation. The business and affairs of the corporation shall be managed under the direction of the Board.

The Board shall not be less than seven (7) directors, or the minimum number required by law under the Articles of Organization (Articles), whichever is greater. Of the members of the Board, two (2) shall have experience in the business of insurance and two (2) shall have experience in the restaurant business. One shall have experience as an insurance agent or broker. At each annual meeting, the stockholders shall fix the number of directors to be elected.

Regular meetings of the Board may be held without call or notice at such times as may be fixed by the Board and shall hold a minimum of four (4) regularly scheduled quarterly meetings per year. Special meetings may be called by the Chairman of the Board (Chairman), the president, treasurer, secretary, or one or more directors.

A majority of the number of directors shall constitute a quorum.

Members of the Board serving the Company at December 31, 2021, were as follows:

<u>Name</u>	<u>Title and Affiliation</u>
William T. McGrail	Chief Executive Officer (CEO) and President Massachusetts Medical Malpractice Reinsurance Plan
James J. Donoghue	Treasurer, Restaurateur, Tweed's Pub Restaurant
Peter T. Robertson	Secretary, Attorney, self employed
Terrence C. Quinn	Insurance Agent, Allan M. Walker & Company, Inc.
Joseph D. Duffy	JDD Insurance Regulatory Services, LLC
James R. Bacon	Retired, Putnam Investments
Richard W. Brewer	Retired, Coverys (formerly ProMutual Group)
Doreen M. Cusolito	Commercial Lines Product Development Manager Arbella Insurance Group

The Company's bylaws indicate that the Board may elect from its membership an Executive Committee and may establish such other committees as it may determine and delegate to such committees some or all of its powers except those, which by law, Articles or the bylaws is prohibited. In November 2016, the Board recommended the creation of three (3) new committees, the Strategic Planning Committee, Investment Committee and Compensation Committee.

HOSPITALITY INSURANCE COMPANY

The bylaws state that the officers of the Company shall be the president, the treasurer, the secretary and such other officers as the Board may determine, including but not limited to a Chairman, a vice-chairman, a CEO, who may be the president, and a chief financial officer (CFO).

The Company's officers and their respective titles at December 31, 2021 were as follows:

<u>Officer</u>	<u>Title</u>
Richard E. Welch	President and CEO
Eric F. Piurkowski	Senior Vice President and CFO
Sandra B. Haley	Senior Vice President of Underwriting
Stephanie M. Connon	Senior Vice President of Claims and General Counsel

RELATED PARTIES

Inter-Company Services Agreement (Services Agreement)

The Services Agreement with HMIC, effective April 1, 2011, provides that HMIC will make available to the Company all necessary services to assist the Company in the establishment, conduct and management of its business operations, including all necessary services in connection with the underwriting and management of the Company's insurance business. All costs, facilities and resources are allocated between the Company and HMIC at their actual cost in accordance with the percentages set forth in the Pooling Agreement. HIC does not have any employees, as all underwriting, claims and administrative services are provided by HMIC.

Tax Sharing Agreement (Agreement)

Effective January 1, 2011, the Company entered into an Agreement with HMIC to file a consolidated federal income tax return for the tax year ended December 31, 2011, and subsequent years. Allocation is made primarily on a separate return basis with current credit for any net operating loss or other items utilized in the consolidated tax return. Intercompany tax balances are settled annually.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintains fidelity bond coverage on a fiduciary bond policy issued to HMIC. The aggregate limit of liability exceeds the Handbook's suggested minimum. All other insurance coverages for HIC are maintained through policies of HMIC.

TERRITORY AND PLAN OF OPERATION

HIC currently provides coverage for liquor liability, general liability, excess liability, property, cyber, employment practices liability, and boiler machinery coverage to businesses providing hospitality services in the states of Rhode Island, New Hampshire, Vermont, Pennsylvania, Connecticut, and North Carolina. Although HIC is licensed in Massachusetts, it did not write any business there.

HOSPITALITY INSURANCE COMPANY

In December 2021, HIC began offering a Business Owner's policy in five states (RI, NH, CT, PA, NC). This product is targeted to restaurants, package stores, convenience stores, retail businesses, and lessor's risks. HIC did not write liquor liability coverage on a Business Owners Policy (BOP), but this exposure is covered on a stand-alone liquor liability policy for BOP customers that require such coverage.

REINSURANCE

Inter-Company Reinsurance Pooling Agreement

Under the Pooling Agreement, HMIC assumes and HIC cedes 100% of all net insurance liabilities, as defined and all net premiums written by HIC. HIC bears neither net insurance risk nor any insurance operating expenses.

INFORMATION TECHNOLOGY CONTROLS

The MDOI engaged L&E to assist in conducting a review of HIG's IT controls in accordance with the guidelines and procedures set forth in Exhibit C of the Handbook (Exhibit C). The objectives were achieved through a combination of reviewing HIG's policies and procedures, testing in key areas related to Exhibit C, interviewing HIG's senior management, and reviewing IT risk assessment processes.

The Group has outsourced its IT function through a contract with NetLogic Computer Consulting, LLC. As a result, the Group has no personnel dedicated to IT, however the CEO served as the primary contact for the Group during the exam period, and the Vice President of Operations currently serves as the primary contact. NetLogic is responsible for the Group's onsite and 3rd party backup data center, its domain and access controls, its network security controls and its day-to-day help desk support, which given the size of the organization, is minimal.

Based on the review of relevant SSAE SOC reports as well as the IT examiner's independent testing, the Company's IT general controls were determined to be effective.

ACCOUNTS AND RECORDS

The Company utilizes vendor solutions for its primary operational system (Erie Custom Computer Applications (ECCA) prior to 3/1/2021 and Finys as of 3/1/2021 and after) and its accounting/financial reporting system, Microsoft (Dynamics). Innovative Computer Systems, Inc maintains the Finys system. Reports are extracted from the ECCA and Finys systems and that detail is used to book journal entries to Dynamics. Finys is a cloud-hosted solution while ECCA and Dynamics are hosted within the Group's data center. The Company currently uses "SOVOS" software called Wings (cloud based) for preparing its annual and quarterly statements. However, in 2021 HIC used TCP (The Complete Package) software from Booke who was acquired by SOVOS.

General ledger account balances were reconciled and traced to the amounts reported in the 2021 Annual Statement.

HOSPITALITY INSURANCE COMPANY

FINANCIAL STATEMENTS

The following statements represent the Company's financial position, as filed by the Company as of December 31, 2021. No adjustments were made to surplus as a result of the examination.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Real Estate:			
Properties occupied by the company	\$2,829,397		\$2,829,397
Cash, cash equivalents and short-term investments	4,595,013		4,595,013
Subtotals, cash and invested assets	7,424,410		7,424,410
Investment income due and accrued	19		19
Premiums and consideration:			
Uncollected premiums and agents' balances in the course of collection	965,873	\$77,204	888,669
Reinsurance:			
Amounts recoverable from reinsurers	1,207,564		1,207,564
Aggregate write-ins for other than invested assets	96,720	480	96,240
Total	<u>\$9,694,586</u>	<u>\$77,684</u>	<u>\$9,616,902</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Commissions payable, contingent commissions and other similar charges	\$67,939
Current federal and foreign income taxes	3,316
Net deferred tax liability	8,948
Ceded reinsurance premiums payable (net of ceding commissions)	888,669
Aggregate write-ins for liabilities	842,517
Total liabilities	1,811,389
Common capital stock	1,250,000
Gross paid in and contributed surplus	6,262,915
Unassigned funds (surplus)	292,589
Surplus as regards policyholders	7,805,513
Total	<u>\$9,616,902</u>

SUMMARY OF OPERATIONS

Net investment income earned	\$(38,386)
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(38,386)
Net income	<u>\$(38,386)</u>

HOSPITALITY INSURANCE COMPANY

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, prior year	\$7,807,069
Net income	(38,386)
Change in net deferred income tax	413
Change in nonadmitted assets	36,417
Change in surplus as regards policyholders for the year	(1,556)
Surplus as regards policyholders, December 31, current year	<u>\$7,805,513</u>

LOSSES AND LOSS ADJUSTMENT EXPENSES (LAE) \$0

As of December 31, 2021, the Company ceded loss and LAE reserves of \$20,743,000 to HMIC.

L&E and the Department conducted a review in accordance with the risk focused approach as detailed in the Handbook. The scope of the review included an assessment of reserving and pricing/underwriting risk for the Company.

No significant findings were noted during the review of reserving and pricing/underwriting risks.

CAPITAL AND SURPLUS \$7,805,513

The reconciliation of surplus for the period under examination, January 1, 2017, through December 31, 2021, was as follows:

Surplus, as of December 31, 2016	\$10,698,217
Net income	95,723
Change in net deferred income tax	(17,449)
Change in nonadmitted assets	29,022
Surplus adjustment – paid in	(3,000,000)
Net change in capital and surplus	(2,892,704)
Surplus, December 31, 2021	<u>\$7,805,513</u>

Changes to the Company’s policyholder surplus over the examination period were largely HIC returning \$3,000,000 of paid in surplus back to HMIC on October 13, 2017.

CONCLUSION

As of December 31, 2021, the Company reported admitted assets of \$9,616,902, liabilities of \$1,811,389, and capital and surplus of \$7,805,513. During the period under examination, admitted assets decreased by \$3,370,081, liabilities decreased by \$477,377, and capital and surplus decreased by \$2,892,704.

HOSPITALITY INSURANCE COMPANY

SIGNATURE

In addition to the undersigned, the following members of the State of Connecticut Insurance Department participated in the examination: William Arfanis, CFE; Kent Krajick, CFE; Aishah Abdullah, Amy Waldhauer, FCAS, MAAA; and Wanchin Chou, FCAS, MAAA.

I, Kevin Beaudoin, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2021, to the best of my information, knowledge and belief.

Respectfully submitted,

Kevin Beaudoin

Kevin Beaudoin, CFE
Insurance Certified Financial Examiner
State of Connecticut
Insurance Department

State of Connecticut ss

County of Hartford

Subscribed and sworn before me, [Signature], Notary Public/Commissioner of the Superior Court, on this 23 day of May, 2023.

[Signature]
Notary Public/Commissioner of the Superior Court

My Commission Expires June 30, 2026

