

Report on Examination
of
BEACON MUTUAL INSURANCE COMPANY

Warwick, Rhode Island

as of

December 31, 2019



State of Rhode Island
Department of Business Regulation
Insurance Division



**State of Rhode Island
DEPARTMENT OF BUSINESS REGULATION
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920**

Insurance Division

ADOPTION ORDER

The attached Report of Examination as of December 31, 2019, of the condition and affairs of

BEACON MUTUAL INSURANCE COMPANY

was recently completed by duly qualified examiners, pursuant to the provisions of the Rhode Island General Laws.

Due consideration has been given to the comments of the examiners regarding the operation of the Company and its financial condition, as reflected in the report.

It is therefore ORDERED that said Report be, and it is hereby, adopted and filed and made an official record of this Department as of this date.

Department of Business Regulation

Dated: June 30, 2021

Elizabeth Kelleher Dwyer
Superintendent of Insurance

TABLE OF CONTENTS

SALUTATION	1
SCOPE OF EXAMINATION.....	2
SUMMARY OF SIGNIFICANT FINDINGS	3
COMPANY HISTORY	3
POLICYHOLDER AND STOCKHOLDER DIVIDENDS	4
MANAGEMENT AND CONTROL	5
MEMBERS	5
BOARD OF DIRECTORS	5
COMMITTEES	8
OFFICERS	9
TERRITORY AND PLAN OF OPERATION	10
MISSION	10
UNDERWRITING PROGRAMS.....	11
CLAIMS PROGRAMS	11
MARKETING DISTRIBUTION	11
THIRD PARTY ADMINISTRATION SERVICES	11
OTHER STATES COVERAGE	12
MASSACHUSETTS LICENSE.....	13
REINSURANCE.....	13
CEDED REINSURANCE	13
ASSUMED REINSURANCE	14
FINANCIAL STATEMENTS	15
COMPARATIVE STATEMENT OF ASSETS.....	16
COMPARATIVE STATEMENT OF LIABILITIES, SURPLUS AND OTHER FUNDS.....	17
STATEMENT OF INCOME.....	18
RECONCILIATION OF CAPITAL AND SURPLUS	19
ANALYSIS OF EXAMINATION ADJUSTMENTS.....	20
COMMENTS ON FINANCIAL STATEMENTS	21
SUBSEQUENT EVENTS	24
CONCLUSION.....	26

June 24, 2021

Ms. Elizabeth Kelleher Dwyer
Superintendent of Insurance
State of Rhode Island
Department of Business Regulation
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920

Dear Superintendent Dwyer:

In accordance with your instructions and pursuant to Chapters 13.1 and 35 of Title 27 of the General Laws of the State of Rhode Island, an examination has been made as of December 31, 2019, of the financial condition and affairs of

THE BEACON MUTUAL INSURANCE COMPANY

located at 1 Beacon Centre, Warwick, Rhode Island. The report of such examination is herewith submitted.

The Beacon Mutual Insurance Company (“Company” or “BMIC”) was previously examined as of December 31, 2015, and both the current and prior examinations were conducted by the Insurance Division of the State of Rhode Island (“Insurance Division”).

SCOPE OF EXAMINATION

The last examination of the Company covered the five-year period from January 1, 2010, through December 31, 2015. The current examination covered the four-year period from January 1, 2016, through December 31, 2019 and was performed in compliance with the above-mentioned sections of the General Laws of the State of Rhode Island, as amended. The current examination was conducted as a single-state full scope risk-focused examination in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”), risk-focused examination process.

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 evaluate 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 both 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 insurers and their 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.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse or significant non-compliance findings noted during the examination conducted as of December 31, 2019.

COMPANY HISTORY

The Beacon Mutual Insurance Company, a non-profit independent public corporation, was created on July 11, 1990, by the legislature as the State Compensation Insurance Fund, by the enactment of Rhode Island General Laws, Title 27, Chapter 7.2, hereinafter referred to as the “enabling act” or “charter”. The name of the Company was changed to The Beacon Mutual Insurance Company in July 1992. In 2003, the enabling act was moved to Rhode Island Public Law 2003, Chapter 410.

The Company is organized and operates as a domestic mutual insurance company for the sole purpose of insuring Rhode Island employers against liability for personal injuries for which their employees may be entitled to benefits under provisions of the Rhode Island Workers’ Compensation, Federal Longshore and Harbor Workers, or employers’ liability laws. The Company writes insurance on a voluntary basis and serves as the insurer of last resort for Rhode

Island employers. The Company provides workers' compensation coverage to out of state employees of Rhode Island employers through an assumed reinsurance agreement. See "Other States Coverage" within the "Territory and Plan of Operation" section for further details.

Under the enabling act, capitalization needed to support the Company's mandate to write involuntary workers' compensation insurance in Rhode Island was provided in part by the Rhode Island Department of Labor and Training through a capital assessment levied on all insurance carriers that wrote workers' compensation and employers' liability insurance in the State of Rhode Island. The assessment, through December 31, 1994, equaled 3% of gross premiums received from workers' compensation insurance and employers' liability insurance written or renewed on risks within the State of Rhode Island. As a result of the adequacy of the Company's surplus to support residual market writings, these assessments were suspended by the Director of the Rhode Island Department of Business Regulation ("Director") as of January 1, 1995.

The Director has the authority to determine, on an ongoing basis, the future rate of such assessment at levels appropriate to ensure the Company's solvency to adequately provide the Company with the surplus necessary to service the residual risk market and satisfy the reserve and surplus requirements of the Company, in furtherance of its public purpose to provide such coverage.

Policyholder and Stockholder Dividends

During the period covered by this examination, the following dividends were paid by the Company under examination:

Year	Amount	Payor	Payee
2016	\$1,000,000	BMIC	Policyholders
2019	\$6,000,000	BMIC	Policyholders

MANAGEMENT AND CONTROL

Members

Every policyholder insured by the Company shall be a member (individually, the “Member”, collectively, the “Members”) during the term of such policyholder’s policy.

The bylaws, as amended, provide that the annual meeting of the Members at which members of the Board of Directors (“Board”) are elected, shall be held biennially in June. In those years in which directors are not elected by the Members, a meeting of the Members shall be held annually in June, to be determined annually by the Board, for the purpose of providing the Members with a report of the Board of Directors and such other business that may properly come before the meeting.

Special meetings of the Members may be called by the Chairperson of the Board and shall be called by the Chairperson of the Board upon written request executed by not less than one hundred (100) Members. The presence in person or by proxy of fifty (50) Members shall constitute a quorum for such meeting.

Board of Directors

The enabling act provides that the Board of Directors is vested with full power, authority, and jurisdiction over the Company. The Board of Directors consists of nine (9) Members and is comprised of five (5) individuals appointed by the Governor of the State of Rhode Island, three (3) individuals elected by the Members, and the Chief Executive Officer of the Company, who

shall serve ex officio. Each director, except for the ex officio Member, shall be a Member or an officer, director or employee of a Member. At least three (3) Members of the Board shall be Members or an officer or employee of a Member which is a for profit entity. No more than one director may be an elected or appointed official of state or municipal government. Except for the ex officio director, each director shall serve a term of four (4) years.

The Governor shall appoint one (1) or two (2) directors for four-year terms at the conclusion of the term of each appointed director to maintain staggered director terms. Members shall elect directors biennially for four-year terms at the conclusion of the term of each elected director.

In the event that any vacancy occurs in the Board, a director shall be selected to fill such vacancy in the same manner in which his or her predecessor was selected; provided, however, that where the former director was elected by the Members, the remaining director or directors appointed by the Members may select the successor director. A director selected to fill such vacancy shall serve for the unexpired term of such director's predecessor in office.

The annual meeting of the Board shall be held without further notice upon conclusion of the annual meeting of the Members, or on such other date designated by the Board, for the purposes of electing officers and for the transaction of such other business as may come before the meeting. If the day fixed for the annual meeting of the Board is a legal holiday in the State of Rhode Island, such meeting shall be held on the next succeeding business day. The Board may provide by resolution the time and place for the holding of additional regular meetings without notice other than by such resolution.

Special meetings of the Board may be called by or at the request of the Chairperson or any three (3) directors. The person or persons authorized to call special meetings of the Board may fix the manner and the place for holding any special meetings of the Board called by them.

A majority of the number of directors constituting the full Board shall constitute a quorum for the transaction of business at any meeting of the Board.

The act or decision made by the majority of the directors present at a meeting duly held at which a quorum is present shall be the act of the Board, unless a greater number of directors is required by law. Meetings of directors may be held by means of a telephone conference, and connection to such conference shall constitute presence at such meeting.

Any action that may be taken by the Board at a meeting may be taken without a meeting if a consent or consents in writing setting forth the action to be taken shall be signed before or after such action by all of the Directors. Such written consent or consents shall be filed with the minutes of the proceedings of the Board.

The Members of the Board of Directors serving at December 31, 2019, are as follows:

Name	Business Affiliation	Term Expires
Raymond Christopher Coia	New England Laborers' Training Trust Fund President	2022
Henry Robert Bacon	Gregg's Restaurants, Inc. Owner	2023
Linda D'Amario Rossi	Advocacy Solutions Consultant	2024
Timothy Ludger Byrne	UA Local 51, Plumbers, Pipefitters & HVAC Manager	2022
Kate Coyne-McCoy	KCM Consulting, LLC Consultant	2024
Bradford Alan Dean	Dean Warehousing Inc. Chief Executive Officer	2021
Melba Depena Affigne	Skills for Rhode Island's Future Vice President Client Services	2022
Steven Issa	Customers Bank Executive Vice President	2023
Brian Joseph Spero	Beacon Mutual Insurance Company President & Chief Executive Officer	n/a

Committees

The bylaws provide that, except as set forth in Section 5.03 (*Nominating Committee*) of the bylaws, the Board may, by resolution adopted by a majority of the directors, appoint from the Members thereof such committees as it deems appropriate, with such designations and duties as it may determine. All committees apart from the Nominating Committee shall consist of three (3) or more directors. The Nominating Committee shall consist of five (5) directors. The standing committees consisted of the following Members at December 31, 2019:

Finance Committee	Audit Committee	Nominating Committee
Kate Coyne-McCoy, Chair	Steven Issa, Chair	Bradford Alan Dean, Chair
Timothy Ludger Byrne	Kate Coyne-McCoy	Henry Robert Bacon
Henry Robert Bacon	Raymond Christopher Coia	Steven Issa
Raymond Christopher Coia	Linda D'Amario Rossi	Raymond Christopher Coia
Bradford Alan Dean	Melba Depena Affigne	Linda D'Amario Rossi
Melba Depena Affigne		
Brian Joseph Spero		

Compensation & Benefit Committee	Corporate Governance Committee
Henry Robert Bacon, Chair	Linda D'Amario Rossi, Chair
Raymond Christopher Coia	Timothy Ludger Byrne
Timothy Ludger Byrne	Kate Coyne-McCoy
Linda D'Amario Rossi	Raymond Christopher Coia
Steven Issa	Bradford Alan Dean
	Melba Depena Affigne
	Brian Joseph Spero

Officers

The bylaws provide that the Board of Directors shall elect a Chief Executive Officer who shall be in charge of the day-to-day operations of the Company. The bylaws also stipulate that the other officers of the Company shall be the Chairperson, the Vice-Chairperson, a Chief Financial Officer, a Secretary, and such other officers and agents as may be deemed necessary by the Board. The officers shall be elected annually by the Board and shall hold office until his or her successor has been duly elected or until such officer's death, resignation or removal. A vacancy in any office may be filled in the manner prescribed in the bylaws for election or appointment to the office and any such vacancy shall be filled for the unexpired portion of the term.

The officers serving and their respective titles at December 31, 2019, are as follows:

Name	Title
Raymond Christopher Coia	Chairperson
Henry Robert Bacon	Vice Chairperson
Linda D'Amario Rossi	Secretary
Brian Joseph Spero	President and Chief Executive Officer
Rajani Mahadevan	Executive Vice President and Chief Operating Officer
Cindy L. Lawlor*	Chief Financial Officer
Amy C. Vitale	Vice President, General Counsel & Assistant Secretary
Pamela L. Alarie	Vice President of Human Resources
Robert G. DeOrsey**	Vice President of Underwriting, Premium Audit and Loss Prevention
Theresa J. Keegan	Assistant Vice President of Underwriting, Premium Audit and Loss Prevention
David M. Blair	Vice President of Claims
Michael D. Lynch	Vice President of Legal
James W. Moody, Jr.	Vice President of Information Systems

* Cindy L. Lawlor retired in April of 2021, and was replaced by Gregg Tumeinski.

** Robert G DeOrsey resigned in March of 2020, and was replaced by William F. Gross.

TERRITORY AND PLAN OF OPERATION

Mission

The Company was created by the Rhode Island legislature in 1990 for the purpose of stabilizing the workers' compensation system in the State of Rhode Island. The Company was originally formed to be a competitive insurer and write only voluntary workers' compensation insurance. BMIC wrote its first policy in August 1992 and in 1993, BMIC's charter was amended, and the Company assumed responsibility for the involuntary market, as other carriers discontinued writing

workers' compensation coverage in the State of Rhode Island (See "Company History" section for further details).

Underwriting Programs

BMIC operates as a competitive insurer and as the carrier of last resort in the State of Rhode Island and writes all Rhode Island employer applicants. Premiums are charged utilizing National Council on Compensation Insurance ("NCCI") loss costs modified by BMIC's loss cost multipliers.

Claims Programs

The Company has developed and implemented a comprehensive claims management approach. This approach includes medical, disability, and legal management of claims geared to its single state constituency from the first day of disability. This early intervention attempts to assure better quality medical care to the injured worker, a quicker return to work, and overall earlier resolution of the claim.

Marketing Distribution

Product distribution is conducted through the Independent Agency System. As the carrier of last resort, the Company writes business for all Rhode Island licensed agents. As of December 31, 2019, the Company had fifty-seven (57) contract agents.

Third Party Administration Services

The Company provides certain loss prevention and claims administration services, through its wholly owned subsidiary, BMIC Service Corp. ("BMIC Service"), for employers that elect to

assume the full financial risk of workers' compensation injuries incurred by their employees. BMIC Service holds an entity-level claims adjusting license in Rhode Island and enters into TPA contracts directly with third parties.

Beginning with the State of Rhode Island TPA contract in 2019, BMIC is transitioning to providing TPA services directly. One existing TPA contract remains with BMIC Service and upon renewal in 2021, will be entered directly with BMIC.

Under the current reporting format, where applicable, BMIC Service reports the TPA fee income, and the expenses charged by BMIC for the costs to provide such services. To determine the costs, BMIC summarizes and allocates all expenses in connection with the processing or servicing of TPA accounts including salary and direct and overhead expenses.

Other States Coverage

During 1998, BMIC entered into a fronting arrangement with a Rhode Island licensed insurer ('licensed insurer'), whereby BMIC's insureds could obtain workers' compensation coverage in states other than Rhode Island. This arrangement was brokered through BMIC Service. The licensed insurer ceded the business to an affiliate, which, in turn, retroceded the premiums and losses to BMIC. In February 2005, BMIC entered into a replacement fronting arrangement with another Rhode Island licensed insurer, as the original licensed insurer determined it would no longer provide fronting arrangements. (See "Assumed Reinsurance" section for details).

Massachusetts License

Effective March 29, 1999, the Company was granted a limited license to conduct business in the Commonwealth of Massachusetts. The limited license permitted BMIC to be recognized by the Workers' Compensation Court in Massachusetts and to be able to adjudicate claims for BMIC policyholders whose employees pursued claims in Massachusetts. The Company does not currently issue direct policies in Massachusetts.

REINSURANCE

Ceded Reinsurance

At December 31, 2019, the Company's ceded reinsurance program consisted of per occurrence Excess of Loss coverage provided in two layers for up to \$10,000,000 in excess of a \$2,000,000 retention. A second agreement with various property and casualty reinsurers provides \$90,000,000 of coverage in three layers up to \$100,000,000. All excess of loss coverage above \$20,000,000 contains a maximum on any one life of \$20,000,000 per employee. A summary of the ceded reinsurance program is provided in the following table:

Layer	Limit and Retention
BMIC Retention	\$2,000,000
First Excess Layer	\$3,000,000 in excess of \$2,000,000
Second Excess Layer	\$5,000,000 in excess of \$5,000,000
Third Excess Layer	\$10,000,000 in excess of \$10,000,000 per occurrence
Fourth Excess Layer	\$20,000,000 in excess of \$20,000,000 for catastrophe claims
Fifth Excess Layer	\$60,000,000 in excess of \$40,000,000 for catastrophe claims

Assumed Reinsurance

To cover out of state workers' compensation risks for Rhode Island employers, BMIC established a fronting arrangement whereby a Rhode Island licensed insurer underwrites the risks and BMIC reinsures them on a 100% quota share basis through an Agreement of Reinsurance. This fronting arrangement was originally effective February 15, 2005, through December 31, 2007, was renewed through December 31, 2010 and is currently renewed by amendment through December 31, 2021. The original agreement also provided for the use of an intermediary, and a separate Administrative Services Agreement was executed between BMIC and a third party to provide agency services related to the assumed business. A new agreement became effective April 1, 2011 and remains in effect through the date of termination of the Agreement of Reinsurance.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by BMIC with the State of Rhode Island Department of Business Regulation and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments on financial statements reflect examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements:

Comparative Statement of Assets
December 31, 2019 and December 31, 2015

Comparative Statement of Liabilities, Surplus and Other Funds
December 31, 2019 and December 31, 2015

Statement of Income
Year ended December 31, 2019

Reconciliation of Capital and Surplus
December 31, 2014 to December 31, 2019

Analysis of Examination Adjustments
December 31, 2019

BEACON MUTUAL INSURANCE COMPANY
Comparative Statement of Assets
December 31, 2019 and December 31, 2015

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2015</u>	<u>Increase</u> <u>(Decrease)</u>
Bonds	\$299,841,580	\$308,023,932	(8,182,352)
Preferred Stocks	\$7,449,412	\$861,800	\$6,587,612
Common stocks	50,516,215	14,199,049	36,317,166
Real estate: properties occupied by the company	9,998,067	11,558,043	(1,559,976)
Cash, cash equivalents and short-term investments	20,036,609	10,691,883	9,344,726
Other invested assets	18,466	82,849	(64,383)
Receivables for Securities	151,964	0	151,964
Investment income due and accrued	2,690,891	3,045,069	(354,178)
Uncollected premiums and agents' balances in the course of collection	1,481,911	2,160,200	(678,289)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	36,784,238	37,668,365	(884,127)
Amounts recoverable from reinsurers	645,860	339,099	306,761
Amounts receivable relating to unisured plans	70,387	0	70,387
Electronic Data Processing Equipment and Software	281,086	242,876	38,210
Receivables from parent, subsidiaries, and affiliates	0	18,562	(18,562)
Transferable state tax credits	7,617,661	0	7,617,661
SERP Account	206,133	1,036,845	(830,712)
Miscellaneous receivable	9,553	37,076	(27,523)
Total Assets	<u>\$437,800,033</u>	<u>\$389,965,648</u>	<u>\$47,834,385</u>

BEACON MUTUAL INSURANCE COMPANY
Comparative Statement of Liabilities, Surplus and Other Funds
December 31, 2019 and December 31, 2015

	December 31, 2019	December 31, 2015	Increase (Decrease)
Losses	\$158,792,818	\$116,685,842	\$42,106,976
Reinsurance payable on paid losses and loss adjustment expenses	5,218	9,984	(4,766)
Loss adjustment expenses	24,032,624	21,714,300	2,318,324
Commissions payable, contingent commissions and other similar charges	5,973,285	5,378,282	595,003
Other expenses	8,377,211	6,886,712	1,490,499
Taxes, licenses and fees	7,193,408	9,149,082	(1,955,674)
Unearned premiums	58,465,479	64,223,166	(5,757,687)
Advance premium	3,020,246	3,176,310	(156,064)
Dividends declared and unpaid: Policyholders	6,000,000	3,401,812	2,598,188
Ceded reinsurance premiums payable	95,722	119,739	(24,017)
Amounts withheld or retained by company for account of others	1,051,017	219,508	831,509
Remittances and items not allocated	113,214	120,400	(7,186)
Payable to parent, subsidiaries and affiliates	20,581	-	20,581
Retroactive reinsurance reserve assumed	-	48,099	(48,099)
Deferred gain - CH Investments	284,510	600,658	(316,148)
Miscellaneous liabilities	127,456	15,428	112,028
Total Liabilities	273,552,789	231,749,322	41,803,467
Capital assessment by Rhode Island Department of Labor to provide for residual market	20,758,685	20,758,685	-
Unassigned funds (surplus)	143,488,559	137,457,641	6,030,918
Surplus as regards policyholders	164,247,244	\$158,216,326	\$6,030,918
Total Liabilities, Surplus and Other Funds	\$437,800,033	\$389,965,648	\$47,834,385

BEACON MUTUAL INSURANCE COMPANY
Statement of Income
Year Ended December 31, 2019

UNDERWRITING INCOME

Premiums earned	\$121,135,431
Losses incurred	69,082,104
Loss adjustment expenses incurred	19,624,639
Other underwriting expenses incurred	<u>37,196,015</u>
Total underwriting deductions	<u>125,902,758</u>
Net underwriting gain or (loss)	<u>(4,767,327)</u>

INVESTMENT INCOME

Net investment income earned	12,877,733
Net realized capital gains or (losses)	<u>5,416,967</u>
Net investment gain or (loss)	<u>18,294,700</u>

OTHER INCOME

Net gain (loss) from agents' balances or premium balances charged off	(875,821)
Finance and service charges not included in premiums	108,165
Miscellaneous income (loss)	267,090
Gain (loss) on disposal of assets	1,745
Interest and penalties	(500)
Retroactive reinsurance gain (loss)	<u>(30,780)</u>
Total other income	<u>(530,101)</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	12,997,272
Less: Dividends to policyholders	<u>6,000,000</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>6,997,272</u>
Net income	<u><u>\$6,997,272</u></u>

BEACON MUTUAL INSURANCE COMPANY
Reconciliation of Capital and Surplus
December 31, 2015 to December 31, 2019

Surplus as regards policyholders, December 31, 2015			\$158,216,326
	<u>Gains</u>	<u>Losses</u>	
Net income	7,936,854		
Change in net unrealized capital gains or (losses)	343,091		
Change in nonadmitted assets		2,249,027	
Total gains and losses	<u>8,279,945</u>	<u>2,249,027</u>	
Change in surplus as regards policyholders			<u>6,030,918</u>
Surplus as regards policyholders, December 31, 2019			<u><u>\$164,247,244</u></u>

BEACON MUTUAL INSURANCE COMPANY
Analysis of Examination Adjustments
December 31, 2019

The examination of BMIC, performed as of December 31, 2019, did not disclose any material misstatements to the financial statements contained in its 2019 Annual Statement filing. Accordingly, the amounts reported by BMIC have been accepted for purposes of this report.

COMMENTS ON FINANCIAL STATEMENTS

Bonds

\$299,841,580

The above amount is the net admitted value of bonds owned by the Beacon Mutual Insurance Company and reflects the amount reported in the 2019 Annual Statement.

All of the bonds owned at year-end 2019 are held in accordance with custodial agreements with third parties. Approximately 6% of the bond portfolio, which amounts to \$18,022,355, are held in the form of special deposits with various states.

Approximately ninety-nine percent (98.8%) of all bonds in the portfolio at December 31, 2019, were rated as Class 1 and Class 2 based upon evaluation methods established by the National Association of Insurance Commissioners, Securities Valuation Office. Class 1 and Class 2 securities are considered the “highest quality” and “high quality,” respectively.

The aggregate book/adjusted carrying value of bonds owned by the Company as of December 31, 2019, represents 68.5% of their total admitted assets. The book/adjusted carrying value, fair value, actual cost and par value of BMIC’s bond portfolio at December 31, 2019, is as follows:

Book/Adjusted Carrying Value	Fair Value	Actual Cost	Par Value
\$299,841,581	\$315,810,763	\$302,962,206	\$294,442,389

Losses and Loss Adjustment Expenses**\$182,825,442**

Losses	\$ 158,792,818
Loss Adjustment Expenses	<u>24,032,624</u>
Total	<u>\$ 182,825,442</u>

The reserves for losses and loss adjustment expenses reflected above are the amount as reported by BMIC in its 2019 Annual Statement. BMIC's reported reserves were reviewed for reasonableness by INS Regulatory Insurance Services, Inc. ("INS"), consulting actuaries for the Rhode Island Insurance Division. INS relied upon the underlying data reported by the Company, which was tested by the examiners without exception. INS' analyses included a review of the actuarial assumptions and methods utilized in determining the reserves, and such tests of actuarial calculations as deemed necessary.

Based upon the review performed by INS, BMIC's reported reserves were found to be calculated in accordance with commonly accepted reserving methods and are based on appropriate actuarial factors given the risk exposures under the policy provisions. INS also concluded that the reported reserves make reasonable provision for all unpaid loss and loss adjustment expense obligations of BMIC, under the terms of their policies and agreements.

Policyholders' Surplus

\$164,247,244

Aggregate write-ins for other than special surplus funds	\$ 20,758,685
Unassigned funds (surplus)	<u>143,488,559</u>
Surplus as Regards Policyholders	<u><u>\$164,247,244</u></u>

Aggregate write-ins for other than special surplus funds consist entirely of a capital assessment levied on all insurance carriers that wrote workers' compensation and employers' liability insurance in the State of Rhode Island. This capitalization was provided pursuant to Public Law 2003, Chapter 410, §19, and was necessary in order for the Company to fulfill its statutory mandate to write involuntary workers' compensation insurance in the State of Rhode Island. This assessment amounted to 3% of gross premiums received from workers' compensation insurance and employer's liability insurance written or renewed on risks within the State of Rhode Island during the period January 1, 1991 to December 31, 1994. Effective January 1, 1995, this assessment was suspended.

Subsequent to the assessment period described above, the Director of the Rhode Island Department of Business Regulation has the authority to determine, on an ongoing basis, the future rate of such assessments at levels appropriate to ensure the Company's solvency, and that is adequate to provide the Company with the surplus necessary to service the residual risk market and satisfy the reserve and surplus requirements of the Company.

SUBSEQUENT EVENTS

A review of financial information, the Company's records, and the minutes to the Board of Directors' meetings and the various committees for the period subsequent to the examination period was performed to ascertain whether any subsequent events have occurred which would have a material impact on the Company's operations or financial statements. In addition, an inquiry was made of the Company's management regarding subsequent events. Based upon our review, the following significant event occurred subsequent to December 31, 2019.

Declaration of Policyholder Dividend

On December 16, 2020, the Board of Directors of Beacon Mutual Insurance Company approved and declared a safety dividend from the Company's policyholder equity in the amount of \$8,000,000 to be distributed to policyholders based on the alternative safety dividend model approved by the Board in 2019. Distribution of the dividend to eligible policyholders occurred in March 2021.

The Beacon Foundation

As of November 30, 2020, BMIC formed and provided initial funding for The Beacon Foundation, a 501(c)(3) private foundation, formed for the purpose of making grants to 501(c)(3) charitable organizations. BMIC is The Beacon Foundation's sole controlling Member and will appoint its Board of Directors. The Beacon Foundation will serve as the primary vehicle of the Company's charitable giving program and will generally fund grants through the investment income from the Company's initial allocation.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulatory decisions, and the impact on the financial markets, all of which are uncertain and cannot be predicted. As of June 24, 2021, the Company's operations are functioning well in a largely "remote" environment. The conservative nature of the Company's investment portfolio and limited exposure in equity investments has largely insulated them from volatility in the financial markets and preserved its surplus and liquidity positions. Although the extent to which COVID-19 may impact the Company's financial condition or results of operations is uncertain, given the uncertainty regarding the future of the pandemic, as of the date of this report, the Company has maintained largely stable operations and financial results.

CONCLUSION

We have applied verification procedures to the data and information contained in this report using sampling techniques and other examination procedures as deemed appropriate. While sampling and other examination procedures do not give complete assurance that all errors and irregularities will be detected, had any been detected during the course of this examination, such errors and/or irregularities would have been disclosed in this report. Other than what may have been noted in the body of this report, we were not informed of, and did not become aware of any errors or irregularities that could have a material effect on the financial condition of the Company as presented in this report.

Participating in the examination with the undersigned were various staff insurance examiners from the Rhode Island Insurance Division. In addition, acknowledgment is made of INS Regulatory Insurance Services, Inc., and its related companies, INS Consultants, Inc., and INS Services, Inc., for the services rendered to assist with the examination by providing consulting financial examiners, actuaries and information technology specialists.

Respectfully submitted,



Kelly M. Willison, CPA, CFE, CFE (Fraud)
Insurance Examiner-In-Charge
INS Regulatory Insurance Services, Inc., on behalf of
Rhode Island Insurance Division



John Tudino Jr., CFE, CIE, CFSA
Chief Insurance Examiner
Rhode Island Insurance Division