



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 **CBIA Comp. Services, Inc.** (the "Association") 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, as the 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 ("CGS").
2. The Association is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On March 8, 2023, the verified Report of the Association was filed with the Connecticut Insurance Department ("Insurance Department").
4. In accordance with Section 38a-14(e)(3) of the CGS, the Association was afforded a period of thirty (30) days within which to submit to the Insurance Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On March 20, 2023, the Association filed a written submission indicating that they were in agreement with all of the recommendations contained in 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 Association hereby is adopted as filed with the Insurance Department.
2. That the Association shall comply with all of the recommendations set forth in the Report, and that failure by the Association to so comply shall result in sanctions or administrative action as provided by Title 38a of the CGS.
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[ing] to the care/attention of William Arfanis, Supervising Examiner, 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 or 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 30th day of March, 2023



Andrew N. Mais
Insurance Commissioner

Exhibit A

EXAMINATION REPORT

OF

**CBIA COMP. SERVICES, INC.
(NAIC # 11171)**

AS OF

DECEMBER 31, 2021

BY THE

CONNECTICUT INSURANCE DEPARTMENT



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March 8, 2023

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

Dear Commissioner Mais:

In compliance with your instructions and pursuant to the requirements of Section 38a-14 of the Connecticut General Statutes (CGS), the undersigned has conducted a financial examination of the condition and affairs of

CBIA COMP. SERVICES, INC.

(hereinafter referred to as the Association), an Employers' Mutual Association (EMA), organized under the laws of the State of Connecticut and having its statutory home office located at 350 Church Street, Hartford, Connecticut. The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

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

As a part of the examination planning procedures, the Financial Regulation Division of the State of Connecticut Insurance Department (the Department) reviewed the following documentation submitted by the Association for the period under examination:

- Annual Statements filed with the Department;
- Statutory audit reports prepared by Crowe LLP (Crowe), the Association's independent certified public accountants;
- Statements of Actuarial Opinion;
- Management's Discussion and Analysis; and
- Minutes of the Board of Directors (Board) and other Committee minutes (through the latest 2022 minutes available).

CBIA COMP. SERVICES, INC.

A comprehensive analysis of the Association's financial statements and other filings submitted to the Financial Analysis Unit of the Department as well as reports from the National Association of Insurance Commissioners (NAIC) database indicated no material concerns with respect to financial condition or regulatory compliance issues.

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

We conducted our examination in accordance with the NAIC's 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 Association, 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 Association 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 Association'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 Association.

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

HISTORY

In November 1980, the Association was formed as a non-profit employers' mutual insurance association in accordance with Sections 31-328 through 31-339 of the CGS. Its first policy was issued as of January 1, 1981. The Association, licensed in the state of Connecticut, is engaged in providing workers' compensation insurance for certain qualified members (Members) of its affiliate, Connecticut Business and Industry Association (CBIA). CBIA is a trade association with thousands of members (primarily businesses) in the state of Connecticut.

The Association is an EMA, not an insurance company. The organizing statutes give the Department the power to regulate EMAs. From its inception through December 31, 2001, the Association filed with the Department, audited financial statements prepared under Generally Accepted Accounting Principles. Beginning March 31, 2002, and subsequently, all financial

CBIA COMP. SERVICES, INC.

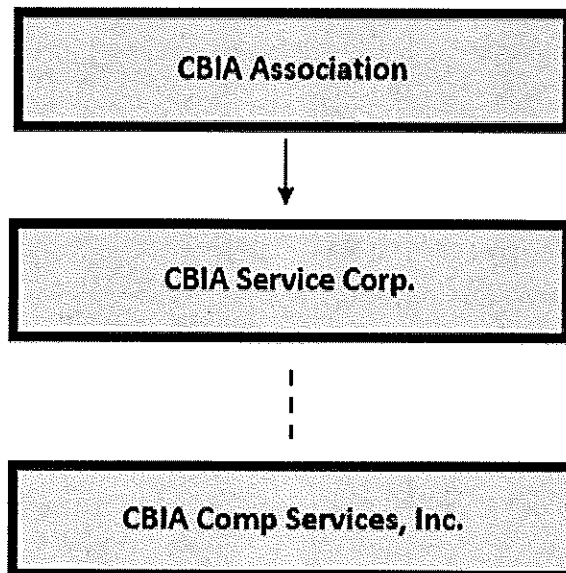
statements have been filed on a statutory basis. Under an EMA, similar businesses with similar risks can join together to self-insure their workers' compensation insurance risks. The members of the EMA are severally liable for the obligations of the Association and are subject to assessments if additional amounts are needed to pay the losses and operating expenses of the Association.

As an EMA, the Association is different from an insurance company in the following ways:

- policyholders elect the Board;
- the workers' compensation policies are assessable, and the member companies are jointly and severally liable for the obligations of the Association;
- the equity of the member companies supports the equity of the Association. If the Association becomes insolvent, it will not be covered by the State Guaranty Fund;
- the Association is not part of the 'voluntary' market and does not participate in the assigned risk pool;
- the Association must obtain a Certificate of Solvency on an annual basis from the Connecticut Workers' Compensation Commission (the Commission). The Commission applies the same criteria to the Association as it does to self-insured companies;
- the Association is restricted to offering insurance to similar businesses with similar risks. The Association primarily insures labor classes in the metal trades and in electronics fabrication and cannot offer any other types of insurance coverage; and
- the Association cannot insure any risks outside of Connecticut.

ORGANIZATIONAL CHART

An organizational chart at the end of the examination period is as follows:



The Association is a related party of CBIA Association and CBIA Service Corp.

CBIA COMP. SERVICES, INC

MANAGEMENT AND CONTROL

The bylaws provide that the business and affairs of the Association shall be managed by the Board, comprised of not less than ten, nor more than fifteen directors. The Members present and voting at the annual meeting of Members shall elect directors.

An annual meeting of Members shall be held on such date and at such time as shall be determined by the Board. The presence in person or by proxy of at least 20% of the Members shall constitute a quorum.

The Board shall convene immediately following the annual meeting of Members to elect officers and to transact any other business properly brought before them. The presence, in person or by telephone, of directors constituting a majority of the directorships at the time shall constitute a quorum.

The Board shall appoint from its Members, an executive committee that shall exercise the authority of the Board in the management of the Association between meetings of the Board.

The Board may appoint such standing committees and/or special committees of directors and/or Members as it deems advisable and shall prescribe the duties and functions thereof.

To be elected to the Board, the owner, president, general manager or the top financial person of the Association must be a member of CBIA. Directors have one year terms and are elected at the annual membership meeting. Currently, three directors are employees of CBIA and affiliates, and eight directors are independent of management.

During the Department's review of the Association's Board minutes and bylaws, as well as through discussion with the Association management, it was noted that the Association did not comply with Sections 38-14(e)(4)(A) and 38a-14(e)(4)(B) of the CGS which were cited on the official "Order" from the Commissioner with the prior exam report as of December 31, 2016.

The CGS requires that "The commissioner shall transmit the examination report adopted pursuant to subparagraph (A) of subdivision (3) of this subsection or a summary thereof to the company examined, together with any recommendations or written statements from the commissioner or the examiner. The secretary of the board of directors or similar governing body of the company 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. 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."

It is recommended that the Association establish a process to ensure that this, and all future exam reports are reported to the Board in accordance with the CGS.

CBIA COMP. SERVICES, INC

Directors serving the Association at December 31, 2021, are as follows:

<u>Name</u>	<u>Title and Principal Business Affiliation</u>
Christian L. DiPentima	President and Chief Executive Officer CBIA, Hartford, CT
Thomas D. Bunk	President United Avionics, Inc., Naugatuck, CT
Michelle M. Rosa (Tenczar)	Chief Financial Officer Okay Industries, New Britain, CT
Mary H. Bergamo	Treasurer and Chief Financial Officer CBIA, Hartford, CT
David P. Hussey	Controller United Tool and Die Co., West Hartford, CT
Douglas N. Johnson	President Marion Manufacturing Company, Cheshire, CT
Rick S. Mankus	Vice President D & D Carbide Grinding, Inc., Berlin, CT
Richard J. Ranzinger	President Lyman Products Corporation, Middletown, CT
Rachel S. Albanese	Controller Carpin Manufacturing Company, Inc., Waterbury, CT
Kenneth P. Comeau	President CBIA Service Corporation, Hartford, CT

Officers

At December 31, 2021, the officers of the Association were as follows:

<u>Name</u>	<u>Title</u>
Christian L. DiPentima	President and Chief Executive Officer
Mary H. Bergamo	Treasurer and Chief Financial Officer
Lane T. Watson	Secretary

CBIA COMP. SERVICES, INC

RELATED PARTY TRANSACTIONS

Administrative Agreement

The Association has an administrative agreement with CBIA Service Corp. (Service Corp.), a wholly owned subsidiary of the Association. The Association has no employees, facilities or equipment of its own. Service Corp. provides operating facilities and managerial services to the Association in exchange for a sliding scale management fee which is based upon a percentage of premiums.

The Association does not have a formal signed agreement Service Corp. for the administration fee charged, in accordance with Statements of Statutory Accounting Principles (SSAP) No. 25 of the NAIC Accounting Practices and Procedures Manual (Manual).

The Manual requires that “transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified due date. Amounts owed to the reporting entity over ninety days from the written agreement due date shall be non-admitted, except to the extent this is specifically addressed by other SSAPs. If the due date is not addressed by the written agreement, any uncollected receivable is non-admitted.”

It is recommended that the Association prepare and execute a formal written service agreement with Service Corp. that include all pertinent information and is signed by officers of the Association and Service Corp., in accordance with SSAP No. 25 of the Manual and submit it to the Department for approval.

INVESTMENT AGREEMENT

Investment and Custodial Agreement

The Association has an administrative agreement with Bank of America (BofA), a national banking association. BofA provides certain investment management and custodial services as set forth therein for the Association in exchange for a sliding scale principal and income fee, as well as a base fee charged against principal earned.

The custodial agreement did not include sections “f” and “g” of the Connecticut Insurance Department’s Bulletin FS-2 (Bulletin). The agreement also states that a prior version of the document takes precedent if there are conflicts. Only one Custodial Agreement should be in effect at a time.

It is recommended that the Association amend the Agreement, and submit to the Department for approval, in compliance with the Bulletin.

INSURANCE COVERAGE

The Association maintains for the benefit of its affiliates an employee dishonesty and computer crime policy issued by Travelers Casualty and Surety Company of America in an amount which exceeds the suggested minimum limits of insurance per the Handbook.

CBIA COMP. SERVICES, INC

TERRITORY AND PLAN OF OPERATIONS

Plan of Operations

The Association utilizes independent insurance agents to sell workers' compensation insurance to the members of CBIA.

Marketing and Agency System

Future Comp, a subsidiary of TD Insurance, Inc., works with independent agents in Connecticut to provide workers' compensation insurance coverage to qualifying members of the Association.

REINSURANCE

General Summary

As a condition of receiving a Certificate of Solvency that authorizes the Association to self-insure its members as a group, the Association is required to purchase stop-loss coverage. The Commission requires that statutory limits be obtained on an occurrence basis with aggregate basis coverage.

Assumed Reinsurance

The Association does not assume any reinsurance business.

Ceded Reinsurance

The Association has a reinsurance agreement in place with Midwest Employers Casualty Company. The coverage provides statutory limits on an occurrence basis, with a \$750,000 retention and an aggregate coverage limit of \$5 million, calculated with an aggregate loss limitation of \$500,000 each accident.

INFORMATION TECHNOLOGY CONTROLS

The Department performed a risk-based assessment and review of Information Technology (IT) General Controls (ITGC's) in accordance with NAIC requirements as outlined in the Handbook. The guidance and direction used to perform the review of the ITGC's was derived from Exhibit C Part One – Information Technology Planning Questionnaire (ITPQ) and Exhibit C - Part Two – Information Technology Work Program (collectively Exhibit C). The Association's responses to the ITPQ were reviewed and evaluated. As a result, a substantive approach was taken on the examination, and only limited Exhibit C - Part Two testing was performed. The objectives of the examination procedures were limited to the review of the ITPQ and selected key controls. The primary testing areas included logical and physical security, third party vendor management, operations, and business continuity including a review of basic safeguards over the Association's data and computer equipment. In addition, compliance with the CT data security law (38a-38) was assessed.

Due to the limited scope of this review and the Association's heavy reliance on manual processes, it was determined that controls would not be relied upon by the Department.

CBIA COMP. SERVICES, INC

FINANCIAL STATEMENTS

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

ASSETS

	Assets	Non-admitted Assets	Net Admitted Assets
Bonds	\$18,478,238		\$18,478,238
Common stocks	5,380,658		5,380,658
Cash, cash equivalents and short-term Investments	805,560		805,560
Investment income due and accrued	96,999		96,999
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	18,523		18,523
Deferred premiums, agents' balances and installments booked but deferred and not yet due	15,555		15,555
Amounts recoverable from reinsurers	108,095		108,095
Aggregate write-ins for other than invested assets:			
Prepaid insurance	35,834	\$35,834	0
Due from third party administrator	32,972		32,972
Excess reinsurance premium receivable	14,648		14,648
Totals	<u>\$24,987,082</u>	<u>\$35,834</u>	<u>\$24,951,248</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$6,839,967
Loss adjustment expenses	3,324,033
Commissions payable, contingent commissions and other similar charges	53,987
Other expenses	269,358
Taxes, licenses and fees	254,789
Current federal and foreign income taxes	(90,176)
Net deferred tax liability	102,503
Unearned premiums	5,568
Advanced premium	164,369
Payable to parent, subsidiaries and affiliates	19,073
Total liabilities	10,943,471
Unassigned funds (surplus)	14,007,777
Surplus as regards policyholders	14,007,777
Totals	<u>\$24,951,248</u>

CBIA COMP. SERVICES, INC

STATEMENT OF INCOME

UNDERWRITING INCOME	
Premiums earned	\$2,538,903
DEDUCTIONS	
Losses incurred	1,334,038
Loss adjustment expenses incurred	661,694
Other underwriting expenses incurred	1,022,717
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	3,018,449
Net underwriting gain (loss)	(479,546)
INVESTMENT INCOME	
Net investment income earned	409,005
Net realized capital gains (losses)	789,324
Net investment gain (loss)	1,198,329
OTHER INCOME	
Finance and service charges not included in premiums	7,664
Aggregate write-ins for miscellaneous income	0
Total other income	7,664
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	726,447
Dividends to policyholders	1,000,000
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(273,553)
Federal and foreign income taxes incurred	(263,904)
Net income	<u>\$(9,649)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, prior year	\$13,920,745
Net income	(9,649)
Change in net unrealized capital gains or (losses)	118,047
Change in net deferred income tax	(22,568)
Change in nonadmitted assets	1,202
Change in surplus as regards policyholders for the year	87,032
Surplus as regards policyholders, December 31, current year	<u>\$14,007,777</u>

CBIA COMP. SERVICES, INC

<u>LOSSES</u>	<u>\$6,839,967</u>
<u>LOSS ADJUSTMENT EXPENSES (LAE)</u>	<u>\$3,324,033</u>

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 Association.

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

<u>UNASSIGNED FUNDS (SURPLUS)</u>	<u>\$14,007,777</u>
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During the period under examination the balance in the account increased \$4,497,846 primarily due to net income.

RECOMMENDATIONS

Pg. MANAGEMENT and CONTROL

- 4 It is recommended that the Association establish a process to ensure that this, and all future exam reports are reported to the Board in accordance with the CGS.

RELATED PARTY TRANSACTIONS

- 6 It is recommended that the Association prepare and execute a formal written service agreement with Service Corp. that include all pertinent information and is signed by officers of the Association and Service Corp., in accordance with SSAP No. 25 of the Manual and submit it to the Department.

INVESTMENT AGREEMENTS

- 6 It is recommended that the Association amend the Agreement, and submit to the Department for approval, in compliance with the Bulletin.

CONCLUSION

The results of this examination disclosed that, as of December 31, 2021, the Association had admitted assets of \$24,951,248, liabilities of \$10,943,471, and surplus of \$14,007,777. During the period under examination, admitted assets decreased \$89,758, liabilities decreased \$4,587,605, and surplus as regards policyholders increased \$4,497,846.

SIGNATURE

In addition to the undersigned, the following members of the Department participated in the examination: Riley Greider, Ellen McCarthy, AFE; Deshauna Hammond, Wanchin Chou, FCAS, MAAA; Amy Waldhauer, FCAS, MAAA; Jeffrey Prosperi, CFE, CPA; Kenneth Roulter, AFE, AES, CISA; and William Arfanis, CFE.

I, Jeffrey A. Prosperi, CFE, solemnly swear that the foregoing report on 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,



Jeffrey A. Prosperi, CFE
Examiner-In-Charge
State of Connecticut
Insurance Department

State of Connecticut


ss. Hartford

County of Hartford

Subscribed and sworn to before me,
Notary Public on this



, 2023.



Notary Public

My Commission Expires June 30, 2026

