



# 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 **COVENANT INSURANCE COMPANY** (the "Company") as of December 31, 2020, 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 Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On April 26, 2022, the verified Report of the Company was filed with the Connecticut Insurance Department ("Insurance Department").
4. In accordance with Section 38a-14(e)(3) of the CGS, the Company 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 May 16, 2022, the Company 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.



STATE OF CONNECTICUT  
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NOW, THEREFORE, it is ordered as follows:

1. That the Report of the Company hereby is adopted as filed with the Insurance Department.
2. That the Company shall comply with all of 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 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 19<sup>th</sup> day of May, 2022.

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Andrew N. Mais  
Insurance Commissioner

EXHIBIT A

EXAMINATION REPORT

OF THE

COVENANT INSURANCE COMPANY  
(NAIC #10062)

AS OF

DECEMBER 31, 2020

BY THE

CONNECTICUT INSURANCE DEPARTMENT



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April 26, 2022

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 made a financial examination of the condition and affairs of the

### **COVENANT INSURANCE COMPANY**

(hereafter referred to as the Company) a corporation with capital stock, incorporated under the laws of the State of Connecticut and having its statutory home office and administrative office located at 76 Battery Park Road, Farmington, Connecticut. The report of such examination is submitted herewith.

### SCOPE OF EXAMINATION

The previous examination of the Company was conducted by the Financial Regulation Division of the Connecticut Insurance Department (Department), as of December 31, 2015. The current examination, which covers the period from January 1, 2016 to December 31, 2020, was conducted virtually.

As part of the examination planning procedures, the Department reviewed the following materials submitted by the Company for the years 2016 through 2020:

- Board of Director (Board) minutes through the latest 2021 meetings;
- Statutory audit reports completed by the Company's independent certified public accountants, Ernst & Young (E&Y);
- Management's Discussion and Analysis;
- Statements of Actuarial Opinion;
- Annual Statements filed with the Department; and
- Reports of the Internal Audit Department.

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department as well as reports obtained from the National Association of Insurance Commissioners (NAIC) database.

## COVENANT INSURANCE COMPANY

Workpapers prepared by E&Y in connection with its annual statutory audit were reviewed and relied upon to the extent deemed appropriate.

A coordinated examination was performed with the lead state of the Arbella Group (Group), the Massachusetts Division of Insurance (MDI) as the Company is a member of the Arbella Pool (Pool). Under the supervision of the MDI, Baker Tilly US, LLP (Baker Tilly) was engaged to conduct the examination.

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 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 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.

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

### HISTORY

The Covenant Group, Inc. (CGI), a Delaware holding company, purchased the Company's common stock from the Covenant Mutual Liquidating Trust (the Trust) on May 23, 1994. The Trust was formed by the Connecticut Insurance Department on March 1, 1993, under a plan of rehabilitation of the Covenant Mutual Insurance Company (CMIC).

On May 23, 1995, Hellmann & Friedman, LP, a subsidiary of H&F Investors III, a General Partnership, was granted approval by the Department to purchase CGI.

On July 21, 1995, CGI was granted approval by the Department to transfer all the outstanding common stock of the Company to Constitution Holdings, Inc., a Connecticut holding company.

In September 1995, the Company commenced writing personal lines property and casualty business exclusively in Connecticut.

## COVENANT INSURANCE COMPANY

In June 2000, Arbella, Inc., a Massachusetts holding company, acquired all the issued and outstanding shares of common stock of CGI. The ultimate parent of Arbella, Inc. is Arbella Mutual Insurance Company (Arbella Mutual), a mutual property and casualty insurance company domiciled in Massachusetts.

In 2001, Connecticut Managers Inc., a dormant non-insurance management service subsidiary of CHI, was consolidated into CHI, which in turn was merged into CGI, the surviving company.

During the second quarter 2015, CGI was dissolved into its parent, Arbella, Inc., at which time Covenant and CGI's other subsidiaries, Bearingstar Insurance Agency (Bearingstar) and Commonwealth Reinsurance Company became wholly-owned subsidiaries of Arbella, Inc.

In April 2015, Bearingstar was merged into the Harrington Insurance Agency, Inc. and was renamed Bearingstar Insurance Agency, Inc. Bearingstar is 100% owned by Arbella, Inc.

The Company participates in an intercompany pooling arrangement with Arbella Mutual Insurance Company (AMIC), Arbella Protection Insurance Company, and Arbella Indemnity Insurance Company in which it shares in the Pool's combined underwriting results and related balance sheet accounts. After processing its external reinsurance, each affiliated pooled company cedes its remaining net underwriting activity to AMIC, which subsequently retrocedes the pooled results to the participants based on their percentage share of the Pool. Refer to the following chart for the percentages of the Pool participants as of the examination date.

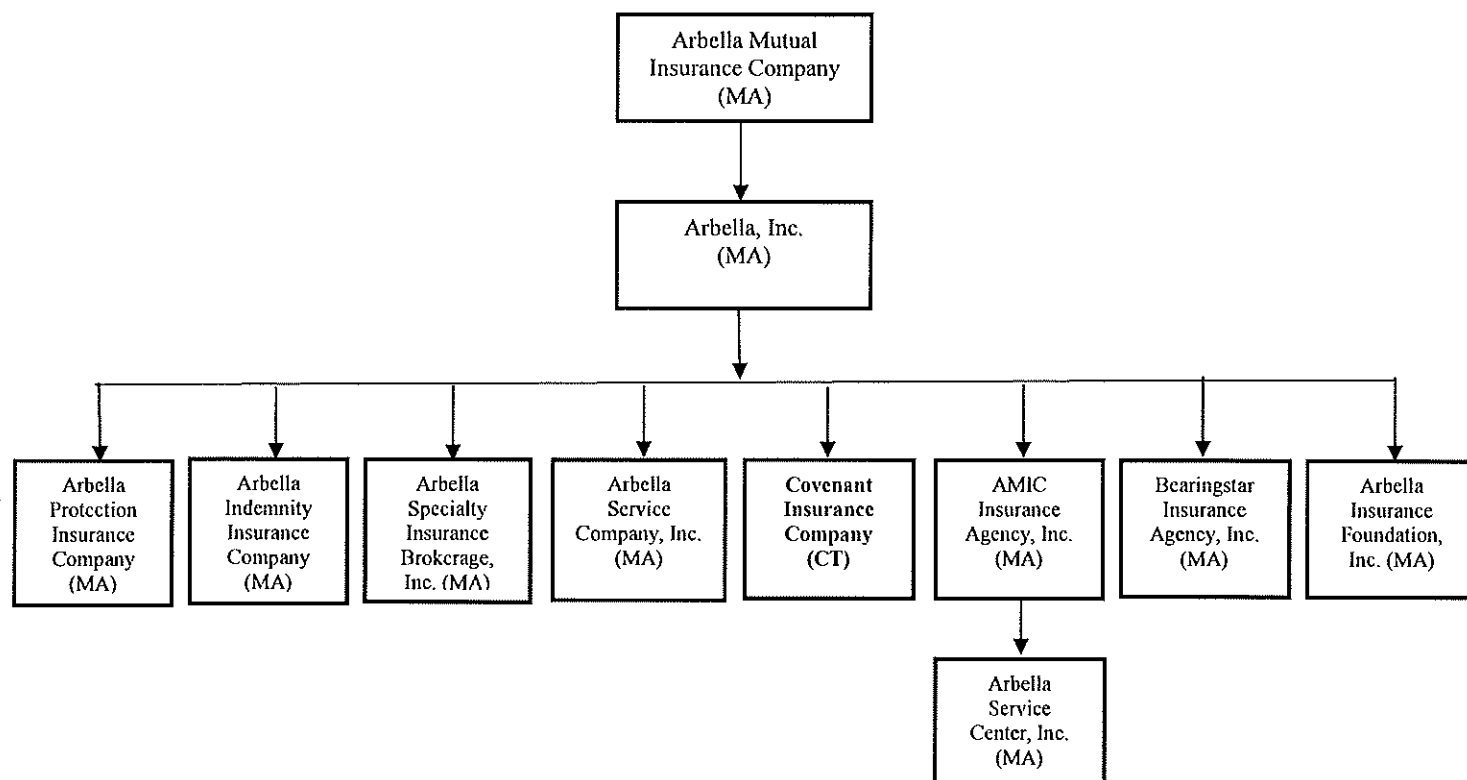
Arbella Mutual Insurance Company	76% (Lead Company)
Arbella Protection Insurance Company	16%
Covenant Insurance Company	5%
Arbella Indemnity Insurance Company	3%

All other companies in the Pool are domesticated in the Commonwealth of Massachusetts.

# COVENANT INSURANCE COMPANY

## ORGANIZATIONAL CHART

The following is a partial organizational chart of the Company and its parents, subsidiaries and affiliated companies as of December 31, 2020:



## MANAGEMENT AND CONTROL

The bylaws of the Company require an annual meeting of shareholders of the Company for the election of directors and for the transaction of such other business as may properly come before the meeting. Special meetings of shareholders may be called at any time by the Board or the President.

The holders of a majority of the voting power of shares entitled to vote in person or by proxy at any meeting of the shareholders shall constitute a quorum.

The bylaws provide that the business and affairs of the Company be managed by the Board. The number of directors serving the Company is determined by vote of the shareholders or Directors. Directors are elected at the annual meeting of shareholders and may hold office until the next annual meeting of the shareholders and until a successor has been duly elected and qualified.

Regular meetings of the Board are held at periodic intervals at any place and date designated by the Board. Special meetings of the Board may be called by the Chairman, the President or the



## COVENANT INSURANCE COMPANY

Secretary. A majority of the number of directors at the time shall constitute a quorum for the transaction of business.

The members of the Board serving the Company at December 31, 2020, were:

<u>Name</u>	<u>Title and Principal Business Affiliation</u>
John F. Donohue	Chairman, President and Chief Executive Officer, Arbella, Inc.
Gail Eagan	Senior Vice President and General Counsel
Francis X. Bellotti	Legal Consultant, Bellotti Law Group

### Committees

The Board may designate two or more Directors to constitute an Executive Committee or other committees. Committees shall have and may exercise all such authority of the Board as shall be provided in the resolution creating such committee. The Company has shared Board committees with Arbella Mutual and Arbella, Inc. As of the date of this examination, the Company operated with designated Audit, Compensation, Executive and Corporate Governance, Investment, Planning, and Technology and Data Analytics Committees.

The officers serving the Company at December 31, 2020, were:

<u>Name</u>	<u>Title</u>
John F. Donohue	President, Chairman and Chief Executive Officer
Christopher E. Hall	Executive Vice President, Chief Financial Officer and Treasurer
Beverly J. Tangvik	Secretary
Gail Eagan	Senior Vice President and General Counsel
Lynellen M. Ramirez	Senior Vice President and Chief Actuary
James S. Hyatt	Senior Vice President, Personal Lines
Francis X. Bellotti	Vice Chairman
William Hughes	Vice President

## RELATED PARTY AGREEMENTS

### Services Agreement

The Company is a participant in the Services Agreement with Arbella Service Company, Inc. (Arbella Service) whereby Arbella Service provides underwriting, billing, claims, data processing, actuarial, investment, accounting, and legal services to all members of the Group. All members of the Group participate in the Services Agreement whereby each company's expenses are allocated based on the expense arrangement. Arbella Service shall also provide all of its equipment, supplies, telephone, communication, office support facilities, and any other facilities owned or leased by Arbella Service from time to time in the course of its business operations as are reasonably required by the members of the Group in connection with the members' business operations.

## COVENANT INSURANCE COMPANY

### Tax Allocation Agreement

The Company files a consolidated tax return with the Group. The method of allocation of taxes among its members is based on a written agreement and is based on separate return calculations with current credit for net losses incurred by one of the companies to the extent those losses are used in the consolidated return.

### INSURANCE COVERAGE

The Company is covered for employee dishonesty by a commercial crime policy issued by Travelers Casualty and Surety Company of America. The policy covers Arbella Mutual and its subsidiaries including Covenant. The limit of liability on the policy is \$3,000,000 for a single loss in excess of the \$25,000 deductible which exceeds the suggested minimum limits of insurance pursuant to the Handbook.

### TERRITORY AND PLAN OF OPERATION

The Company is licensed in Connecticut, Massachusetts, New Hampshire, and Rhode Island, but the material lines of business currently written are personal auto and homeowners policies in Connecticut. The Company conducts its operations through Bearingstar.

### REINSURANCE

The Company has a pooling arrangement with its insurance affiliates for its insurance operations by line of business. After processing its external reinsurance, the companies within the Pool cede the remaining net underwriting activity to the lead company, Arbella Mutual, which subsequently retrocedes the pooled result to the participants based on their designated percentage of the Pool. The Company assumes 5% of the Pool. The Company's external reinsurance consists of property and casualty treaties on a quota share, excess of loss, umbrella, and catastrophic basis with a number of insurance companies.

### INFORMATION TECHNOLOGY CONTROLS

Baker Tilly performed a risk-based assessment and review of the Group's IT General Controls (ITGCs) in accordance with NAIC requirements as outlined in the Handbook. The guidance and direction used to perform the review of the Group's ITGCs was derived from Exhibit C Part I – Information Technology Planning Questionnaire (ITPQ) and Exhibit C Part 2 – Information Technology Work Program (collectively, Exhibit C). The Group's responses to the ITPQ were evaluated, and certain controls within the IT control environment were tested to assess whether the selected controls were designed effectively and were functioning properly.

Baker Tilly's objectives were to obtain reasonable assurance about whether:

- the Group had a process in place to effectively identify, mitigate and manage its IT risks;
- the Group's control structure and policies and procedures were suitably designed to achieve the control objectives specified in Exhibit C; and
- the Group was complying with those policies and procedures.

## COVENANT INSURANCE COMPANY

The objectives above were achieved through a combination of reviewing the Group's policies and procedures, testing in key areas related to Exhibit C, interviewing the Group's IT senior management, reviewing IT risk assessment processes, and leveraging relevant risk assessment procedures performed by E&Y.

Based upon the risk-based assessment and review, the Group's ITGCs were determined to be effective.

### ACCOUNTS AND RECORDS

The Company utilizes Workday General Ledger System to maintain the Company's financial statements, various systems for claims and policy management, and the iWorks System for investments. The Sapiens StatementPro application is used to prepare the statutory financial statements.

General ledger account balances were reconciled and traced to the amounts reported in the Annual Statement for 2020. Further detail analyses were performed on the individual accounts throughout the examination.

COVENANT INSURANCE COMPANY

FINANCIAL STATEMENTS

The following statements represent the Company's financial position, as filed by the Company as of December 31, 2020. No adjustments were made to surplus as a result of the examination.

ASSETS

	1	2	3
	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$73,143,292		\$73,143,292
Cash ((\$137,656)), cash equivalents (\$2,296,962) and short-term investments (\$0)	2,159,306		2,159,306
Investment income due and accrued	536,622		536,622
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	1,609,400	\$34,080	1,575,320
Deferred premiums, agents' balances and installments booked but deferred and not yet due	14,484,597		14,484,597
Reinsurance:			
Amounts recoverable from reinsurers	5,874,758		5,874,758
Net deferred tax asset	1,062,400		1,062,400
Aggregate write-ins for other-than-invested assets	16,535		16,535
Totals	<u>\$98,886,910</u>	<u>\$34,080</u>	<u>\$98,852,830</u>

COVENANT INSURANCE COMPANY

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$17,917,825
Reinsurance payable on paid losses and loss adjustment expenses	5,659,549
Loss adjustment expenses	3,939,086
Commissions payable, contingent commissions and other similar charges	1,379,208
Other expenses	1,931,442
Taxes, licenses and fees (excluding federal and foreign income taxes)	4,496
Current federal and foreign income taxes	1,024,585
Unearned premiums	21,526,345
Advance premium	375,365
Ceded reinsurance premiums payable	5,091,208
Drafts outstanding	985,336
Payable to parent, subsidiaries and affiliates	836,532
Aggregate write-ins for liabilities	236,711
Total liabilities	\$60,907,688
Common capital stock	2,000,000
Gross paid in and contributed surplus	14,995,185
Unassigned funds (surplus)	20,949,957
Surplus as regards policyholders	\$37,945,142
Total liabilities, capital and surplus	<u>\$98,852,830</u>

COVENANT INSURANCE COMPANY

STATEMENT OF INCOME

UNDERWRITING INCOME		
Premiums earned		\$38,832,296
Losses incurred		17,369,766
Loss adjustment expenses incurred		3,136,139
Other underwriting expenses incurred		15,064,638
Total underwriting deductions		35,570,543
Net underwriting gain (loss)		3,261,753
INVESTMENT INCOME		
Net investment income earned		1,924,550
Net realized capital gains (losses) less capital gains tax of \$22,107		83,164
Net investment gain (loss)		2,007,714
OTHER INCOME		
Net gain (loss) from agents' or premium balances charged off		(233,292)
Finance and service charges not included in premium		537,509
Aggregate write-ins for miscellaneous expense		(257,642)
Total other income		46,575
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		5,316,042
Dividends to policyholders		0
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		5,316,042
Federal and foreign income taxes incurred		1,010,146
Net income		\$4,305,896
CAPITAL AND SURPLUS ACCOUNT		
Surplus as regards policyholders, December 31 prior year		33,584,136
GAINS AND (LOSSES) IN SURPLUS		
Net income		4,305,896
Change in net deferred income tax		9,003
Change in nonadmitted assets		46,107
Change in surplus as regards policyholders for the year		4,361,006
Surplus as regards policyholders, December 31 current year		<u>\$37,945,142</u>

## COVENANT INSURANCE COMPANY

LOSSES AND LOSS ADJUSTMENT EXPENSES (LAE) \$21,856,911

The following items were included in the captioned accounts:

Losses	\$17,917,825
LAE	<u>3,939,086</u>
	<u>\$21,856,911</u>

Baker Tilly's review was conducted in accordance with the risk focused approach as detailed in the Handbook. The scope of the review included assisting with the assessment of reserve risk, pricing risk and reinsurance risk for the Company.

Based on the scope of work conducted, the Department did not identify any material concerns that affected the Company's ability to manage its reserving, pricing and reinsurance risks.

### POLICYHOLDERS' SURPLUS

The following is a reconciliation of policyholders' surplus during the period under examination:

Surplus as regards policyholders, December 31, 2015	\$24,150,275
Net income	15,046,318
Change in net deferred income tax	(1,651,404)
Change in nonadmitted assets	<u>399,953</u>
Surplus as regards policyholders, December 31, 2020	<u>\$37,945,142</u>

The Company's policyholder surplus increased during the examination period largely due to profitable results of operations.

### SUBSEQUENT EVENT

In March 2020 the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there was significant uncertainty on the effect that the pandemic would have on the insurance industry, economy and society at large. Any impact to the Company will take time to assess and will be specific to the class and mix of business they underwrite. The Department will continue to monitor how the pandemic might impact the Company.

### CONCLUSION

The results of this examination disclosed that as of December 31, 2020, the Company had admitted assets of \$98,852,830, liabilities of \$60,907,688, and surplus as regards policyholders of \$37,945,142. During the period under examination, admitted assets increased \$13,327,838, liabilities decreased \$467,028, and surplus as regards policyholders increased \$13,794,867.

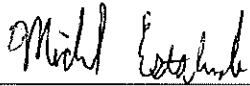
COVENANT INSURANCE COMPANY

SIGNATURE

In addition to the undersigned, the following members of the Department participated in the examination: William Arfanis, CFE; Lisa Pagliaro, AFE; Chiffon King, AFE; Amy Waldhauer, FCAS, MAAA; Wanchin Chou, FCAS, MAAA, CPCU, CSPA, CCRMP; and the professional services firms of Baker Tilly.

I, Michael Estabrook, CFE, do 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, 2020, to the best of my information, knowledge and belief.

Respectfully submitted,




Michael Estabrook, CFE  
Examiner-In-Charge  
State of Connecticut  
Insurance Department

State of Connecticut

ss.

County of Hartford

Subscribed and sworn to before me,   
Notary Public on this 26 day of April, 2022.