



STATE OF CONNECTICUT
INSURANCE DEPARTMENT

ORDER ADOPTING REPORT OF EXAMINATION

I, Anne Melissa Dowling, Deputy Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY (the "Agency") as of June 30, 2013, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions, **TO WIT:**

1. I, Anne Melissa Dowling, Deputy 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 Agency is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On May 6, 2014, the verified Report of the Agency was filed with the Connecticut Insurance Department.
4. In accordance with C.G.S. §38a-14(e)(3), the Agency was afforded a period of thirty (30) days within which to submit to the Connecticut Insurance Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On June 5, 2014, the Agency notified the Department of certain responses and comments relating to matters 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 Agency hereby is adopted as filed with the Connecticut Insurance Department.
2. That the Agency shall comply with all of the recommendations set forth in the Report, and that failure by the Agency to so comply shall result in sanctions or administrative action as provided by Title 38a of the C.G.S.

Dated at Hartford, Connecticut, this 9th day of June, 2014.

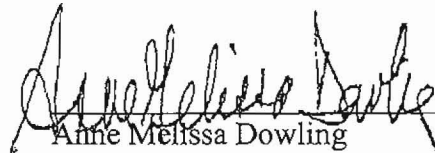

Anne Melissa Dowling
Deputy Insurance Commissioner

EXHIBIT A

REPORT OF EXAMINATION

OF

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

AS OF

JUNE 30, 2013

BY THE

CONNECTICUT INSURANCE DEPARTMENT

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	1
History	2
Organizational Chart	3
Management and Control	3
Insurance Coverage	7
Territory and Plan of Operation	7
Related Parties	7
Reinsurance	8
Information Technology Controls	9
Accounts and Records	9
Financial Statements:	
Assets	10
Liabilities, Surplus and Other Funds	11
Statement of Income	12
Cash, Cash Equivalents and Short-Term Investments	13
Losses and Loss Adjustment Expenses	13
Surplus as Regards Policyholders	14
Recommendations	15
Conclusion	15
Signature	16

April 17, 2014

The Honorable Thomas B. Leonardi
Commissioner of Insurance
State of Connecticut Insurance Department
153 Market Street
Hartford, Connecticut 06103

Dear Commissioner Leonardi:

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 a financial examination of the condition and affairs of the

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

(hereinafter referred to as the Agency, or CIRMA), an unincorporated, tax-exempt, nonprofit association organized under the laws of the State of Connecticut and having its home office and its main administrative office located at 900 Chapel Street, New Haven, Connecticut. The report on such examination is submitted herewith.

SCOPE OF EXAMINATION

The previous examination of the Agency was conducted as of June 30, 2008. The current examination which covers the subsequent five-year period was conducted at the home office of the Agency.

As part of the examination planning procedures, the Financial Regulation Division of the Connecticut Insurance Department (the Department) reviewed the following materials submitted by the Agency:

- Board of Director (Board) minutes from 2008 through the latest 2014 meeting;
- Advisory Committee minutes from 2008 through the latest 2014 meeting;
- statutory audit reports from 2009 through 2013, completed by the Agency's independent certified public accountants, Grant Thornton, LLP (GT);
- Management's Discussion and Analysis from 2009 through 2013;
- Statements of Actuarial Opinion from 2009 through 2013; and
- Annual Statements filed with the Department.

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department and the independent audit reports which indicated no material concerns with respect to financial condition or regulatory compliance issues.

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

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the NAIC Financial Condition Examiners Handbook (the Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Agency by obtaining information about the Agency, including corporate governance, identifying inherent risks within the Agency and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management compliance with the NAIC Accounting Practices & Procedures Manual (Manual) and the NAIC Property and Casualty Annual Statement Instructions (Instructions).

All accounts and activities of the Agency were considered in accordance with the risk focused examination process.

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

CIRMA is an unincorporated tax-exempt, non-profit association formed in 1980 by the Connecticut Conference of Municipalities (CCM) for the purpose of establishing and administering an interlocal risk management program pursuant to the provisions of Section 7-479e, Chapter 113a of the CGS. Under the terms of this section the Agency is not considered to be an insurer. However, in accordance with Section 7-479e(d) of the CGS, the Agency is subject to the following relevant insurance sections of the CGS: 38a-11; 38a-14; 38a-17 to 38a-19 inclusive; 38a-49; 38a-51 to 38a-53 inclusive; 38a-56; 38a-76; 38a-321; 38a-334 to 38a-336 inclusive; 38a-338; 38a-340 to 38a-343 inclusive; 38a-350; 38a-363 to 38a-387 inclusive; 38a-663 to 38a-666 inclusive; 38a-669; 38a-671; 38a-675 to 38a-682 inclusive; 38a-790; 38a-792; 38a-806; 38a-815 to 38a-819 inclusive; and 38a-828. In addition, CGS Section 3-56a is also applicable.

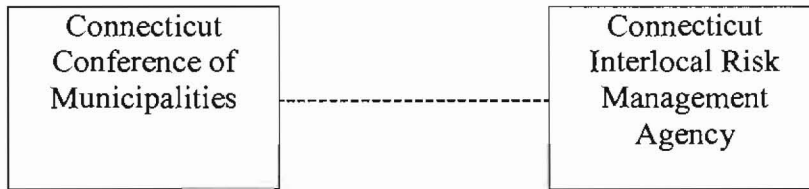
Pursuant to CGS, any Connecticut municipality may become a member of CIRMA provided it agrees to continuously comply with the bylaws and the rules and regulations of CIRMA. The rules and regulations include standards and specifications for loss control. Members may be subject to supplemental assessment in the event of deficiencies; however, potential assessments are limited pursuant to the by-laws. Each member of the CIRMA Board is either an elected official or manager of an entity that is a member of CIRMA. CIRMA's Board is elected by membership each year at the annual meeting.

CIRMA commenced operations on July 1, 1980, providing a comprehensive workers' compensation insurance program to Connecticut municipalities and other local public agencies through a workers' compensation risk-sharing pool. Effective July 1, 1986, CIRMA began offering liability, automobile and property coverage to its members through a liability-automobile-property (LAP) risk-sharing pool.

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

ORGANIZATIONAL CHART

The following is an organizational chart as of June 30, 2013, of the Agency and its affiliate company:



MANAGEMENT AND CONTROL

The bylaws are promulgated to create an interlocal risk management agency which may establish and operate such interlocal risk management pools as are permitted by CGS. The general objectives of the Agency are to formulate, develop and administer an interlocal risk management program for the membership, to assure the availability of adequate coverage for liability, automobile, property, and workers' compensation, to lower costs of such coverage, to provide a program of loss prevention and control services, and to provide claims administration services.

The Agency shall be nonprofit and all funds in excess of expenses and costs of loss control activities and reasonable reserves required by law or established by the Board shall be used to reduce the cost of risk protection for the members.

Any municipality in Connecticut may become a member of the Agency provided it agrees to comply with the bylaws and rules and regulations of the Agency. Any local public agency, other than a municipality, may become a member of the Agency at the discretion of the Board, provided it agrees to comply with the bylaws and rules and regulations of the Agency.

Each member shall be represented by a permanent representative who shall be the chief executive officer of each municipality or the chief administrative officer of each other local public agency, or his or her designee. Any permanent representative may designate in writing a representative to cast his or her vote.

On any question, including the election of directors, each member shall have one vote, except that on any question, including the election of directors, any municipality may request a weighted vote; the chairman shall grant such request. The greater population of either the latest decennial census or the state health department estimate shall determine weighting.

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

Annual Meetings

The annual meeting shall be for the election of directors. At the annual meeting or any other meeting, any matter set forth in the notice of the meeting may be addressed. One-third of the members or fifteen members, whichever is less, who are present in person at any meeting, shall constitute a quorum.

Special meetings of the members may be called by the chairman or chief executive officer or by the Board and shall be called upon the written request of members having not less than 50% of the total members' weighted voting rights.

A notice in writing of each meeting, stating the purpose, place, day and hour of the meeting, shall be sent by the president or secretary to each member by mail, postage prepaid, not less than fifteen days before the date of the meeting.

Board of Directors

According to the bylaws, the business of the Agency shall be managed by or under the direction of the Board. The Board shall consist of such number (not less than five) of directors as may be established by the Board from time to time. Each person who is nominated for the Board of CIRMA shall be a member of the CCM Board. The Board members shall be elected at the annual meeting of the members.

The Board shall elect a chairman and vice chairman from its members and designate a secretary to keep minutes and records of the Board. The secretary need not be a director of CIRMA.

Directors serving the Agency at June 30, 2013, were:

<u>Director</u>	<u>Title and Town Affiliation</u>
John Elsesser	Chairman and Town Manager, Coventry
Ryan Bingham	Vice Chairman, Torrington
Mark D. Boughton	Mayor, Danbury
Susan Bransfield	First Selectwoman, Portland
Stephen T. Cassano	Selectman, Manchester
Robert J. Chatfield	Mayor, Prospect
Robert M. Congdon	First Selectman, Preston
John DeStefano	Mayor, New Haven
Matthew B. Galligan	Town Manager, South Windsor
Barbara R. Gilbert	Town Manager, Rocky Hill
Mary Glassman	First Selectman, Simsbury
Barbara Henry	First Selectman, Roxbury
Scott Jackson	Mayor, Hamden
Cynthia Mangini	Councilmember, Enfield
Denise Menard	First Selectman, East Windsor
Richard Moccia	Mayor, Norwalk
Joyce Okunuk	First Selectman, Lebanon
Elizabeth C. Paterson	Mayor, Mansfield

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

Director

Leo Paul
Lisa Pellegrini
Herbert C. Rosenthal
Mark Walter
Steven Werbner

Title and Business Affiliation

First Selectman, Litchfield
First Selectman, Somers
Former First Selectman, Newtown
First Selectman, East Haddam
Town Manager, Tolland

Agency Officers

The officers serving the Agency at June 30, 2013, were:

Name

Bruce A. Wollschlager
Frank F. Coulom, Jr., Esq.
Stuart A. English
Steven Bixler
Bruce C. Clinger
David J. Demchak

Title

President and Chief Executive Officer
Secretary
Chief Financial Officer
Assistant Secretary and Vice President
Vice President
Senior Vice President

Committees

The committees to the Agency's Board and the committee members as of June 30, 2013, were as follows:

Budget and Audit

John Elsesser, *Chairman*
Ryan Bingham
Stephen T. Cassano
Matthew B. Galligan
Mary Glassman
Elizabeth C. Paterson
Herbert C. Rosenthal

Claims Advisory

Gary Conrad, *Chairman*
Jonathan Berchem,
Vice Chairman
Harold Alvord
Cindy Bennett
Edward DeMarco
Nicholas J. DiCorleto, Jr.
Art Giulietti
Linda Guliuzza
Thomas Kulhawik
Mark Langton
Cynthia Mangini
Denise Menard
Timothy O'Neil
Mark Palmer
Lisa Pellegrini
Daniel Roche
Gregory Simmons

Investment

Brandon Robertson, *Chairman*
Beth Bauer
Bruce Benway
Frank J. Chiamonte
Gary Conrad
Judy Doneiko
Barbara Henry
Leo Paul
James Reynolds
Daniel Roche
Robert Swick
Diane Waldron
Advisor:
Daniel Smereck
Managing Director – Strategic
Asset Alliance
Fund Managers:
Dom Bonanno, MD &
Portfolio Manager
Raymond Crosby, Director &
Portfolio Manager

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

Risk Management Advisory

Laura Francis, *Chairman*
Denise McNair, *Vice Chairman*
Harold Alvord
William Bellotti
Janette E. Devendorf
Ralph Fletcher
David R. Gofstein
Glenn Marston
Mary McCarthy
Stephen Pendl
Raymond Purtell
Kirk Severance
Michael Spera
J. Darren Stewart
Michael Turner
Mark Walter
Dawn Warner
Patricia Washington
Michael Wilkinson

Committee Consultants:

Gilbert Fried, M.A., J.D., D.A.F.E
Professor/Department Chairman
University of New Haven
Harold T. LeMay
Field Program Consultant
POST Council Police Academy
Kenneth Tucker
Director
CONN-OSHA
Elliot B. Spector, Esq., Partner,
Noble, Spector, Young & O'Conner

Operation & Underwriting

Matthew Galligan, *Chairman*
Elizabeth Bauer
Rob Buden
Maria Capriola
Thomas Cooke
Paul DeStefano
Dan Garrick
Lucian Jachimowicz
Karl Kilduff
Thomas Landry
Tim McCaffrey
Denise Menard
Tonya Park
Lisa Pellegrini
Bonnie Reemsnyder
Ted Shafer
William Smith
Michael Wilkinson
James Wren

Committee Consultant:

William Strachan

School District Advisory

Julie Pendleton, *Chairman*
Steve Wapen, *Vice Chairman*
Pat Brooks
Art Colley
Susan C. Domanico
Sally Doyen
Linda Giuliano
Nancy Haynes
Timothy Howes
William Mazzara
Charles McCarthy
Steven Mills
Sharon Milroy
Michael Purcaro
Dr. Kenneth Russell Roy
Michael Spera
Marilyn Warren

Law Enforcement Advisory

J. Darren Stewart, *Chairman*
Nicholas Boulter
Thomas Kulhawik
Brett Mahoney
Michael Maniago
Keith Mello
Marc Montminy
Murray Pendelton
Matthew Reed
Tim Silva
Michael Spera
Thomas Terribile
Beau Thurnauer

Committee Consultants:

Harold T. LeMay
Field Program Consultant
POST Council Police Academy
Elliot B. Spector, Esq., Partner
Noble, Spector, Young & O'Conner

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

INSURANCE COVERAGE

The employees of the Agency are insured by a financial institution bond issued by the St. Paul Fire and Marine Insurance Company. The aggregate limit of liability on the policy was \$1.25 million at June 30, 2013. The bond meets the suggested minimum limits of insurance pursuant to the Handbook. In addition to the fidelity bond insurance, the Agency is protected by the following insurance coverages:

<u>Company</u>	<u>Insurance Coverage</u>
St. Paul Mercury Insurance Company	Fiduciary liability
Peerless Insurance Company	Commercial computer
Arbella Protection Insurance Company	Commercial marketplace property, liability & terrorism, business automobile, and commercial umbrella
Carolina Casualty Insurance Company	Workers' compensation and employers' liability
Certain Underwriters at Lloyds of London	Trustees Errors & Omissions / Directors & Officers

TERRITORY AND PLAN OF OPERATION

The Agency is authorized to transact business in the state of Connecticut. CIRMA provides an interlocal risk management program to member municipalities and other local public agencies and provides a plan and activities to reduce the risk of loss from automobile and property and public liability or workers' compensation liability. The Agency administers two risk management pools, including the processing and defense of claims brought against members of the Agency.

Underwriting, funding, rate and price-setting policies have been established with assistance from consulting actuaries. Members may be subject to supplemental assessment in the event of deficiencies; however, potential assessments are limited pursuant to the by-laws.

As of June 30, 2013, there were a total of 207 members of the workers' compensation pool (118 municipalities and 89 other local public agencies) and a total of 150 members of the LAP pool (112 municipalities and 38 other local public agencies). In addition, CIRMA provided services to five self-insured municipalities in 2013.

RELATED PARTIES

CIRMA was organized under the sponsorship of CCM. Under a management services agreement, CCM provides to CIRMA all management, administrative personnel and services not otherwise separately contracted for by CIRMA. Services provided include management, administration, finance, regulatory relations, member relations, workers' compensation

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

underwriting, liability and property underwriting, loss control, promotion and marketing, record keeping, reporting, administrative support, office space, equipment and supplies. The aggregate service fees charged to CIRMA were \$14 million for the fiscal year ended June 30, 2013.

REINSURANCE

SUMMARY OF SIGNIFICANT REINSURANCE PROGRAMS

Program\Type	Cover*	Retention	Comments
Workers' Compensation	Statutory	\$1,000,000	Excess of loss (per occurrence)
General Liability:			
Law Enforcement & Auto Liability	\$10,000,000	\$1,000,000#	Excess of loss (with ultimate net loss based on per occurrence, by member and line of business)
Sexual Abuse	\$5,000,000	\$1,000,000#	Excess of loss (with ultimate net loss based on per claim per member)
Employers	\$5,000,000	\$1,000,000#	Excess of loss (with ultimate net loss based on per occurrence per member)
Overall Cap	No cap	n/a	Cap based on any one occurrence or claim made
Property:			
Primary Commercial	\$100,000,000	\$250,000 subject to a \$2,000,000 annual aggregate (\$250,000/\$2,000,000) #	Excess of loss (with ultimate net loss based on per occurrence)
Sub-limits:			
Flood	\$10,000,000	\$250,000/\$2,000,000#	Per occurrence
Earthquake	\$10,000,000	\$250,000/\$2,000,000#	Per occurrence
Mold	\$25,000,000	\$250,000/\$2,000,000#	Per occurrence
If aggregate exhausted		\$10,000	Per occurrence
Second Excess			
	\$400,000,000 xs \$100,000,000	\$250,000/\$2,000,000	Facultative excess of loss
If aggregate exhausted		\$10,000	
Equipment Breakdown (boiler & machinery)	\$100,000,000		Net loss based on any one accident
#Loss Adjustment Expense not included in the retention limits. *Reinsurance cover represents the maximum limit available under a particular agreement.			

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

During the examination, it was noted that some reinsurance agreements did not include a signature of any executive manager of the Agency. It is recommended the Agency verify that all its reinsurance contracts are complete and contain an executed signature from an Agency officer in order to comply with Statements of Statutory Accounting Principles (SSAP) No. 62R of the Manual.

INFORMATION TECHNOLOGY CONTROLS

An evaluation of information technology (IT) controls was conducted in accordance with Exhibit C, Evaluation of controls in information technology (Exhibit C), and the six step process contained in the Handbook.

The objectives of the evaluation were to determine whether IT resources align with the Agency's strategies and objectives and to ensure that significant risk associated with its IT environment is appropriately mitigated by strategies and controls as outlined in Exhibit C. In particular, risks related to the safeguarding of data and business continuity planning were the focus of the review.

The Agency's IT environment is staffed by six individuals, including the IT Director, who are located at the Agency headquarters in New Haven, CT. The entire IT infrastructure is located at the Agency's headquarters. The Agency utilizes a purchased-customized application, Intuitive Intelligent Valley Oak System (IVOS), for policy and claims administration. All changes to IVOS are made by the vendor resulting in one or two releases a year. Microsoft Dynamics Great Plains Software (GP) is used for the Agency's financial reporting. GP is undergoing a significant update to enhance the Agency financial reporting system. The system is expected to go live in July 2014.

No significant findings were noted during the review that would represent a substantial increase in risk surrounding the IT control structure.

ACCOUNTS AND RECORDS

The Agency records all financial accounting transactions using GP. GP is the official book of records for all the Agency's financial accounting operations.

The majority of accounting transactions within GP originate from computerized sales, cash receipts and payment transactions. Other cash transactions, including claim payments, are entered through summarized general journal entries. Data needed for the recording of claim payments and for billing of premiums is generated by various administrative systems. The Agency's administrative system is IVOS. IVOS processes all premium, loss and reinsurance data.

Each general journal entry is reviewed and approved by authorized personnel before being posted to GP. Finance department staff is responsible for the final quarterly review of the Agency's accounting data before financial information is released. Finance department personnel prepare reconciliations either monthly or quarterly. General expenses are allocated according to classification, function and line.

Various accounting reports are produced on a quarterly basis for generally accepted accounting

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

principles, statutory accounting principles and management reporting purposes.

The system used to create the annual statement is Booke Seminars' The Complete Package for Windows.

The year-end trial balance for June 30, 2013, was reconciled to the annual statement.

FINANCIAL STATEMENTS

The following statements represent the Agency's financial position, as filed by the Agency, as of June 30, 2013.

ASSETS			
	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$239,655,330		\$239,655,330
Common stocks	26,102,690		26,102,690
Cash, cash equivalents and short-term investments	8,746,515		8,746,515
Other invested assets	2,435,517		2,435,517
Receivable for securities	486		486
Subtotal, cash and invested assets	276,940,537		276,940,537
Investment income due and accrued	2,500,475		2,500,475
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	547,972	\$205,605	342,367
Deferred premiums, agents' balances and installments booked but deferred and not yet due	580,193	77,500	502,693
Accrued retrospective premiums	175,000	17,500	157,500
Reinsurance:			
Amounts recoverable from reinsurers	4,251,111		4,251,111
Amounts receivable relating to uninsured plans	16		16
Aggregate write-ins for other than invested assets	3,019,141	490,095	2,529,046
Total	<u>\$288,014,445</u>	<u>\$790,700</u>	<u>\$287,223,745</u>

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$156,745,787
Loss adjustment expenses	41,493,364
Other expenses	945,413
Advance premiums	2,074
Ceded reinsurance premiums payable	212,242
Amounts withheld or retained by company for account of others	3,618,007
Payable to parent, subsidiaries and affiliates	1,124,160
Payable for securities	2,768,738
Liability for amounts held under uninsured plans	339,548
Aggregate write-ins for liabilities	2,999,962
Total liabilities	210,249,295
Aggregate write-ins for special surplus funds	12,236,576
Aggregate write-ins for other than special surplus funds	2,350,000
Unassigned funds (surplus)	62,387,874
Surplus as regards policyholders	76,974,450
Total	<u>\$287,223,745</u>

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

STATEMENT OF INCOME

UNDERWRITING INCOME	
Premiums earned	\$65,657,711
DEDUCTIONS	
Losses incurred	43,704,359
Loss expenses incurred	13,638,132
Other underwriting expenses incurred	10,247,693
Total underwriting deductions	67,590,184
Net underwriting gain or (loss)	(1,932,473)
INVESTMENT INCOME	
Net investment income earned	10,632,390
Net realized capital gains	850,399
Net investment gain	11,482,789
OTHER INCOME	
Aggregate write-ins for miscellaneous income	(111,062)
Total other income	(111,062)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	9,439,254
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	9,439,254
Net income	9,439,254
CAPITAL AND SURPLUS ACCOUNT	
Surplus as regards policyholders, June 30 prior year	67,963,746
GAINS AND (LOSSES) IN SURPLUS	
Net income	9,439,254
Change in net unrealized capital gains or (losses)	2,298,505
Change in nonadmitted assets	272,907
Aggregate write-ins for gains and losses in surplus	(2,999,962)
Change in surplus as regards policyholders for the year	9,010,704
Surplus as regards policyholders, June 30, 2013	<u>\$76,974,450</u>

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS \$ 8,746,515

Consistent with findings of the prior examination dated June 30, 2008, the Agency did not timely escheat funds and therefore has failed to report outstanding checks as unclaimed property to the Treasurer of the State of Connecticut as required by CGS Section 3-58(b). During the Department’s review of the Agency’s cash operating accounts, it was noted that checks exceeding three years in age were prevalent.

CGS section 3-58(b) states in part that “unclaimed funds means all moneys held and owing by any insurance company unclaimed and unpaid for more then three years after the moneys became due and payable...”. It is recommended that the Agency prepare procedures to ensure the timely escheatment of unclaimed property as required by CGS 3-58(b).

LOSSES AND LOSS ADJUSTMENT EXPENSES (LAE) \$198,239,153

The following items are included in the captioned account:

Losses	\$ 156,745,786
LAE	\$ 41,493,367
	<u>\$ 198,239,153</u>

The Department conducted a comprehensive actuarial review of the loss and LAE reserves in accordance with accepted actuarial standards and principles. The review was based on the following information:

- the 2012 – 2013 Annual Statements and other information requested and obtained during the course of the review through emails, discussions and meetings with key personnel of the Agency;
- the 2012 – 2013 Statements of Actuarial Opinion (SAO), Actuarial Opinion Summaries (AOS), IRIS Test Reports and the Risk Based Capital Reports (RBC) prepared by the Appointed Actuary;
- the 2012 – 2013 annual Loss and LAE analyses prepared by Deloitte Consulting (Deloitte);
- the September 2012, December 2012, and March 2013 quarterly reserve analyses; and
- the 2013 – 2014 rate level indication analyses and the rate change history provided by Deloitte.

A review by the Department of the Agency’s underlying data integrity concluded that there were no indications of any significant inaccuracies or inconsistencies in the underlying data.

In accordance with the NAIC’s risk-focused examination process, the Department Actuary’s review included but was not limited to the following risk assessments:

- reserve risk – the risk that the actual losses or other contractual payments reflected in the reported reserves or other liabilities will be greater than estimated;

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

- pricing and underwriting risk – the risk that pricing and/or underwriting practices are inappropriate for the risks assumed; and
- liquidity risk – with respect to catastrophic events, the risk that the Agency will be unable to meet contractual obligations as a result of unanticipated occurrence of extreme events or inability/unwillingness of a reinsurer to honor assumed obligations.

The Department Actuary reviewed CIRMA’s processes and controls regarding the carried loss and LAE reserves and rate level indications. CIRMA utilizes two actuarial firms, Deloitte and Milliman, Inc. (Milliman), to provide assistance to management. Management relies primarily on the actuarial analysis of loss and LAE reserves performed by Deloitte. In addition, Deloitte develops rate level indications to assist management in pricing decisions and rate filings with the Department. CIRMA engages Milliman to issue its annual SAO and other related documents required by the Department. The Department Actuary reviewed the SAO and AOS and found that both are in compliance with the regulatory requirements.

The Department Actuary reviewed the reserve and rate level indications analyses prepared by Deloitte. The estimates of ultimate loss relied on standard actuarial methodologies of loss development and exposure based upon expected loss methods. Historical paid and incurred losses were used in the projections and the selected development factors and ultimate losses were determined to be reasonable. The rate level indications include the appropriate elements to be considered and used traditional rate level indication methodologies which appear reasonable. The Department Actuary reviewed a sample of calculations within the analysis and found no discrepancies.

Conclusion

Based on the risk-based assessment and review, no material findings were noted which affected CIRMA’s ability to manage its reserving, pricing and underwriting and liquidity risks.

SURPLUS AS REGARDS POLICYHOLDERS

\$76,974,540

The following table reflects changes in the components of surplus as regards policyholders for years ended June 30 of each year under review:

	Restricted By Statute	Appropriated For Self Insurance	Restricted for Contingencies & Excess Retention	Unassigned Funds (Surplus)	Total Capital & Surplus
June 30, 2013	\$12,236,576	\$2,350,000	0	\$62,387,874	\$76,974,540
June 30, 2012	\$11,139,168	\$2,350,000	0	\$54,474,578	\$67,963,746
June 30, 2011	\$11,343,447	\$2,350,000	0	\$56,086,882	\$69,780,329
June 30, 2010	\$11,908,776	\$2,350,000	0	\$49,728,415	\$63,987,191
June 30, 2009	\$12,099,359	\$2,350,000	0	\$35,312,096	\$49,770,455

Restricted by statute:

A portion of members’ equity from the WC and LAP pool is required to be restricted as a reserve for contingencies in accordance with CGS 7-479e(c). This amount is not available for distribution to members unless operations are terminated.

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

Appropriated for self-insurance:

A restriction for self insurance was created by a vote of the Board. During 1989-90, CIRMA ceased purchasing aggregate workers' compensation coverage for its insurance from NLC Mutual Insurance Company and held a \$2 million restricted equity reserve for workers' compensation contingencies.

The reserve was increased during 1996-97 when CIRMA allocated \$250,000 of the LAP Pool members' equity toward a self-insured property aggregate fund to protect CIRMA in the event of a catastrophe that could cause multiple losses as a result of one occurrence in one policy year.

During 1987-88, CIRMA's Board appropriated \$100,000 of unrestricted members' equity from the agency account to provide a self-insurance reserve for the deductible portion of CIRMA's errors and omissions insurance policy.

RECOMMENDATIONS

Page

8 REINSURANCE

It is recommended that the Agency verify that all its reinsurance contracts are complete and contain an executed signature from an Agency officer in order to comply with SSAP No. 62R of the Manual.

13 CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

It is recommended that the Agency prepare procedures to ensure the timely escheatment of unclaimed property as required by CGS 3-58(b).

CONCLUSION

The results of this examination disclosed that as of June 30, 2013, the Agency had admitted assets of \$287,223,745, liabilities of \$210,249,295, and surplus as regards policyholders of \$76,974,450. During the period under examination, admitted assets increased \$66,695,843, liabilities increased \$44,988,509, and surplus as regards policyholders increased \$21,707,333.

CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

SIGNATURE

In addition to the undersigned, the following members of the Department participated in the examination: Grace Jiang, CFE; Edna Bosley; Mark Murphy, CFE; Susan Gozzo-Andrews, FCAS, MAAA, RPLU +; Kenneth Roulier, AFE, CISA, AES; and Michael Daniels, CFE.

I, Wayne Shepherd, 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 June 30, 2013, to the best of my information, knowledge and belief.

Respectfully submitted,

Wayne Shepherd
Wayne Shepherd, CFE
Examiner-In-Charge
State of Connecticut
Insurance Department

State of Connecticut

ss. Hartford

County of Hartford

Subscribed and sworn to before me, Nancy M. Mercier
Notary Public on this 6th day of May, 2014.

Nancy M. Mercier
Notary Public
My commission expires June 30, 2015