

## ORDER ADOPTING REPORT OF EXAMINATION

I, Katharine L. Wade, Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the “Report”) of The Hartford Steam Boiler Inspection and Insurance Company (the Company) as of December 31, 2017, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions.

### **TO WIT:**

1. I, Katharine L. Wade, Insurance Commissioner of the State of Connecticut, and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes (“C.G.S.”).
2. The Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On October 25, 2018, the verified Report of the Company was filed with the Connecticut Insurance Department (the “Department”).
4. In accordance with C.G.S. §38a-14(e)(3), the Company was afforded a period of thirty (30) days within which to submit to the Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On November 12, 2018, the Company notified the Department of certain responses and comments on certain items contained in the Report.
6. Following review of the Report, it was deemed necessary and appropriate to modify the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

**NOW, THEREFORE,** it is ordered as follows:

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

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

Please address the certification to the Commissioner, but send said certification to the care/attention of Mark Murphy, 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 of summary to the entity's Board of Directors or similar governing body at a regular or special meeting. "

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

Dated at Hartford, Connecticut, this 19<sup>th</sup> day of November, 2018.



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Katharine L. Wade  
Insurance Commissioner

**EXHIBIT A**

**EXAMINATION REPORT**

**OF**

**THE HARTFORD STEAM BOILER INSPECTION  
AND INSURANCE COMPANY  
(NAIC # 11452)**

**AS OF**

**DECEMBER 31, 2017**

**BY THE**

**CONNECTICUT INSURANCE DEPARTMENT**



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October 5, 2018

The Honorable Katharine L. Wade  
Insurance Commissioner  
State of Connecticut Insurance Department  
153 Market Street, 6th Floor  
Hartford, Connecticut 06103

Dear Commissioner:

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 HARTFORD STEAM BOILER INSPECTION  
AND INSURANCE COMPANY

(hereinafter referred to as the Company or HSBIIC), a corporation with capital stock, incorporated under the laws of the State of Connecticut and having its statutory home office and main administrative office located at One State Street, Hartford, Connecticut. The report on such examination is respectfully submitted.

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, 2012. The current examination, which covers the period from January 1, 2013, through December 31, 2017, was conducted at the statutory home office of the Company.

As part of the examination planning procedures, the Department reviewed certain material submitted by the Company:

- Board of Directors (Board) and other committee minutes (through the latest 2018 minutes);
- reinsurance agreements, custodial agreements, and other documents related to significant transactions that require prior approval from 2013 through 2017;
- a review of the 2016 and 2017 statutory audit reports completed by the Company's independent certified public accountants, KPMG LLP (KPMG);
- Management's Discussion and Analysis from 2013 through 2017;
- Statements of Actuarial Opinion from 2013 through 2017;
- documentation supporting Section 404 of the Sarbanes-Oxley Act of 2002 and the Model Audit Rule;
- 2017 Annual Report of Munich Re Group, the Company's ultimate parent;
- Annual Statements filed with the Department from 2013 through 2017; and
- reports of the Company's Internal Audit Department from 2013 through 2017.

## THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

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, as well as independent audit reports which indicated no material concerns with respect to financial condition or regulatory compliance issues.

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

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 Company by obtaining information about the Company, including corporate governance, identifying inherent risks within the Company, 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 with respect to management compliance with the NAIC Accounting Practices & Procedures Manual and the NAIC Property and Casualty Annual Statement Instructions.

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

Concurrent examinations were made of the Company's subsidiaries, The Hartford Steam Boiler Inspection and Insurance Company of Connecticut (HSBCT) and HSB Specialty Insurance Company (Specialty).

The Department retained the services of Milliman, Inc. (Milliman) for a review of the Company's pricing and liquidity risks. Additionally, the Department retained INS Regulatory Insurance Services, Inc. (INS) to review the adequacy and effectiveness of the information technology (IT) systems controls to determine the level of reliance to be placed on the information generated by the data processing systems.

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

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

### HISTORY

The Company was granted a charter by the General Assembly of the State of Connecticut on June 30, 1866, and commenced business on February 14, 1867. The charter and bylaws were last amended and restated on February 23, 1998, by resolutions of the Board and stockholder.

## THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

The Company is wholly-owned by HSB Group, Inc. (HSB Group), an insurance holding company formed on June 24, 1997. Effective November 22, 2000, AIG acquired 100% of the outstanding stock of HSB Group pursuant to an agreement and plan of merger (the Merger) dated August 17, 2000. The Merger was approved by the Boards of both companies, the shareholders of HSB Group and the Department.

On April 25, 2007, AIG contributed HSB Group to a new holding company, AIG Property Casualty Group, Inc., a direct and wholly-owned subsidiary of AIG.

On December, 22, 2008, AIG and Munich-American Holding Corporation (MAHC) signed a Stock Purchase Agreement for the sale of HSB Group to MAHC. The sale was approved by the Department on March 27, 2009, and the closing occurred on March 31, 2009.

HSB Group is now a directly and wholly owned subsidiary of MAHC which is 100% directly owned by Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (Munich Re). Accordingly, due to the sale of HSB Group to MAHC, the Company requested and received approval from the Department on May 14, 2010, for a dividend payment of \$122,022,254, to HSB Group. The Company was required to obtain regulatory approval prior to making any dividend payouts for the two year period commencing March 31, 2009.

During 2016 and 2017, HSB Group underwent a process to realign the engineering services business performed by various member companies within the group in order to improve flexibility in corporate decision making and increase operating efficiencies. As part of the realignment of HSB Group's engineering services business performed by various companies, the following has occurred:

- HSBCT received approval from the Department and paid an extraordinary cash and non-cash dividend to Global Standards, LLC (Global) on January 1, 2017, which consisted of net engineering service assets (primarily customer contracts and related accounts receivable and unearned revenues as well as cash). The book value of the net assets transferred, which approximates fair value, was \$17,000,000, of which \$15,581,750, was recorded as a dividend and \$1,418, 250, was recorded as a return of capital. Immediately following this, Global paid a dividend of these assets to the Company.
- Effective January 1, 2017, HSBCT and the Company commuted the Quota Share Reinsurance Agreement dated effective April 1, 2002, as amended April 1, 2003 (the Agreement). Under the Agreement, the Company ceded as reinsurance, five percent of all primary coverage and reinsurance (premiums, losses, and allocated loss adjustment expenses), net of reinsurance protections, classified as Commercial Property Casualty coverage to HSBCT. The amount of the liabilities assumed by the Company under the commutation was \$12,394,269. The consideration paid by HSBCT to the Company to commute its liabilities under the Agreement was \$8,944,711.

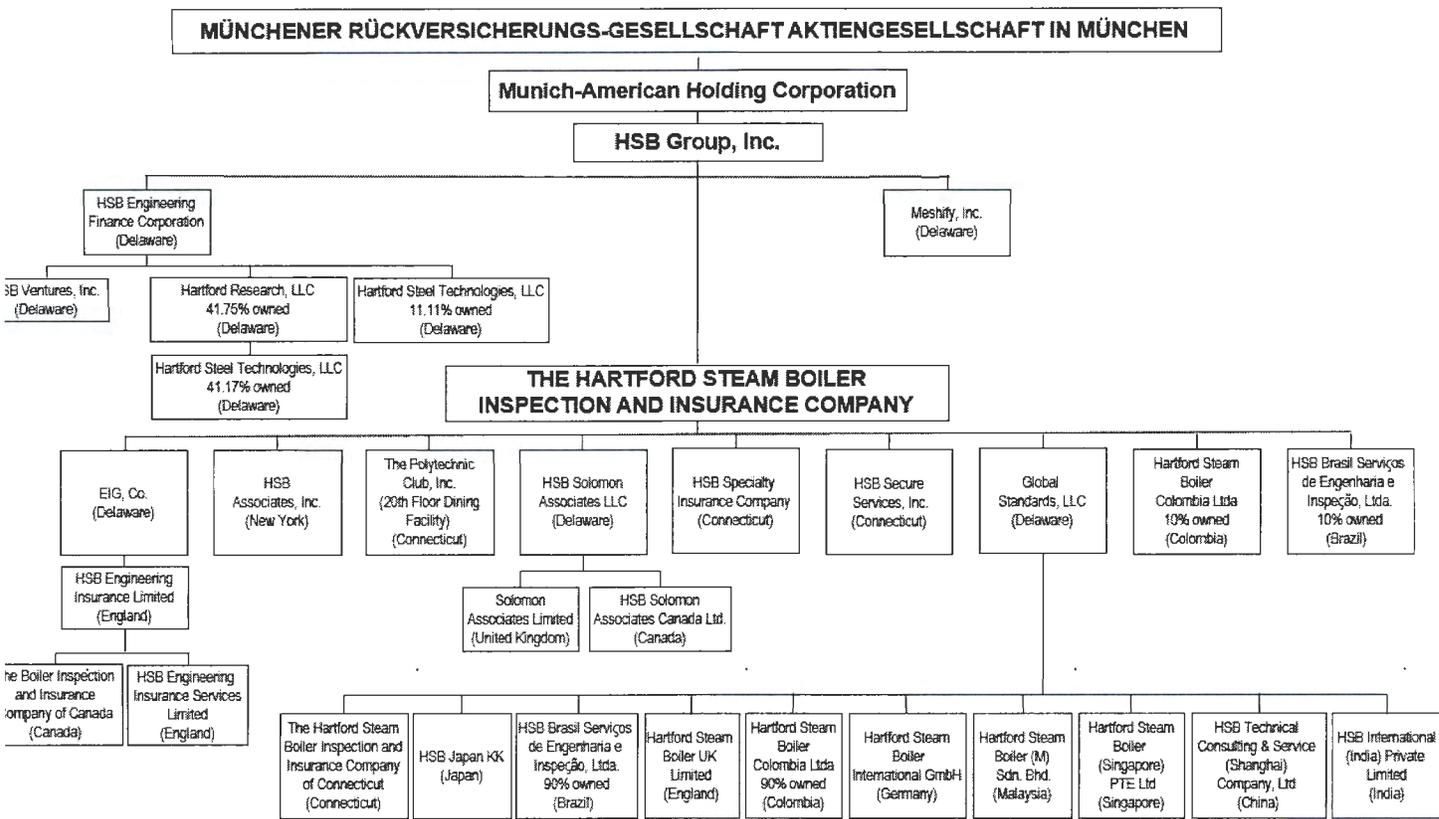
## THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

- Effective January 1, 2017, HSBCT assigned all of its rights and obligations as the lender under the loan agreements with Hartford Steam Boiler (m) Sdn. Bhd., Hartford Steam Boiler UK Limited and Hartford Steam Boiler International GmbH to the Company. In addition, HSBCT assigned to the Company all of its rights and obligations as service provider and service recipient under the Services Agreement between HSBCT and certain of its Parent's direct and indirect subsidiaries (Member Companies) relative to the provision of engineering and expenditure payment services which HSBCT provided to a Member Company or, conversely a Member Company provided to HSBCT. Finally, HSBCT assigned its rights and obligations relative to certain leases to the Company.
- HSBCT received approval from the Department and paid an extraordinary \$15,000,000, return of capital distribution in the form of cash to Global on November 7, 2017. Immediately following this, Global paid a return of capital of \$15,000,000, to the Company.

THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

ORGANIZATIONAL CHART

The following is an organizational chart of the Company, its parent, main subsidiaries, and affiliates, as of December 31, 2017.



Does not include EFC direct and indirect Subsidiaries less than 20% owned.

MANAGEMENT AND CONTROL

The charter, as amended and restated February 23, 1998, states, “the Corporation shall have the power to write boiler and machinery, fire, marine, casualty, liability, indemnity, accident and health, and fidelity insurance and any and all other forms of insurance against hazards or risks of every kind and description which on or after the effective date of this act may lawfully be the subject of insurance except life and endowment insurance and contracts for the payment of annuities; and the Corporation is specifically empowered to accept and cede reinsurance of any such risks or hazards. The Corporation shall have the power to make inspections and render inspection and engineering services in connection with the design, construction, maintenance or operations of boilers, machinery or any equipment regardless of whether policies of insurance are issued in connection therewith. The Corporation may exercise such powers outside of Connecticut to the extent permitted by the laws of the particular jurisdiction. Policies or other contracts may be issued, stipulated to be with or without participation in profits; and they may be with or without seal.”

# THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

## Annual Stockholders Meetings

The bylaws, as amended February 23, 1998, state that all meetings of the stockholders shall be held in the city of Hartford or such place within Connecticut as the Board may appoint. The annual meeting shall be held on the third Tuesday of April in each year or some other day within two months thereafter as fixed by the Board. Notice of every meeting of the stockholders and of the time and place thereof shall be given as required by law.

Special meetings of the stockholders may be held at such time as fixed by the Board.

## Board of Directors

The Company's charter states that the business, property and affairs of the Corporation shall be managed by or under the direction of the Board. The number of directors shall consist of the number of directors fixed by, or in a manner provided in, the bylaws of the Corporation.

The bylaws provide that actions of the Board shall be by majority vote of the directors present. At any meetings of the Board, a majority of the directors then in office, but not less than one-third of the directorships shall constitute a quorum for the transaction of business. Unless otherwise prescribed, action of the Board shall be by majority vote of the directors present.

Members of the Board serving the Company at December 31, 2017, were as follows:

<u>Director</u>	<u>Title and Principal Business Affiliation</u>
Gregory Barats	President and Chief Executive Officer - HSBIIC
James Butler	Retired
Alice Hill	Research Fellow, Hoover Institution - Stanford University
Anthony Kuczinski	President and Chief Executive Officer - Munich Re America, Inc.
Richard Olsen	Chief Financial Officer, Senior Vice President - Munich Re America, Inc.
Nancy Onken	Executive Vice President Strategic Product and Law, General Counsel and Corporate Secretary - HSBIIC
Peter Richter	Senior Vice President and Chief Financial Officer - HSBIIC
William Robbie	Retired
Robin Willcox	General Counsel, Corporate Secretary, Senior Vice President - Munich Re America, Inc.

## Officers

According to the bylaws there shall be a president and there may be a chairman of the Board, each to be elected by the Board from their own number. The president shall be the chief executive officer and be responsible under the direction of the Board for the supervision, management and control of the affairs and properties of the Company.

## THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

The Board shall also elect a corporate secretary, a treasurer, one or more senior vice presidents and one or more vice presidents and may elect one or more executive vice presidents.

The president shall appoint such other officers as may be required for the prompt and orderly transaction of the business of the Company.

The officers shall be subject to the direction of and shall have such authority and perform such duties as may be assigned from time to time by the Board or the president.

The following individuals were serving the Company as officers, as of December 31, 2017:

<u>Officer</u>	<u>Title</u>
Gregory Barats	President and Chief Executive Officer
Peter Richter	Senior Vice President and Chief Financial Officer
Nancy Onken	Executive Vice President and Corporate Secretary
Susan Ahrens	Senior Vice President
Theodore Kmiecik	Senior Vice President
Roberta O'Brien	Senior Vice President, General Counsel and Compliance Officer
Anthony Trivella	Executive Vice President
Amy Brodeur	Senior Vice President and Chief Accounting Officer
Michael Long	Vice President and Treasurer
Jeffrey O'Shaughnessy	Senior Vice President and Chief Underwriting Officer
Jack Volinski	Senior Vice President
William Heckles	Senior Vice President and Chief Reinsurance Officer
David Mercier	Senior Vice President
Kenneth Pisciotto	Senior Vice President
Stephanie Watkins	Senior Vice President

### Committees

The Company has an executive, investment, joint risk management and audit committee (AC) of the Board. The AC shall be comprised of no fewer than two members. At least one member of the AC shall have accounting or related financial management related experience as determined by the Board. Each member of the AC shall be a member of the Board. The percentage of the independent AC members shall be at least seventy-five percent. The AC shall meet as necessary in the opinion of the chairman but at least quarterly.

The investment committee is comprised of no fewer than three members and at least two members must be directors. The executive committee held no meetings during the five year time period of the examination. The joint risk management committee is appointed

## THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

by the Board of Munich Re America, Inc. for the primary purpose of reporting and recommending to the Board the overall risk management framework for Munich Re US Property and Casualty (P&C) Operations. The committee shall include, but is not limited to; the Head of US P&C Operations, Chief Executive Officer (from other affiliates) or designee of entities, Strategic Business Unit Representatives from the entity represented by the Head of US P&C Operations, Regional Financial Representative, Regional Risk Representative, Regional Legal Representative, Regional Underwriting Representative and a Munich Re Representative. The committee shall meet as necessary in the opinion of the chairman but at least quarterly.

### INSURANCE COVERAGE

The Company and its parent, subsidiaries and affiliates are insured by a \$15 million aggregate liability financial institution blanket bond/computer crime policy with Zurich Fidelity Deposit Company of Maryland. Primary and excess combined single limit coverages are in place. The aggregate limit of liability is greater than the prescribed minimum set forth by the Handbook's schedule of suggested minimum amounts of fidelity insurance.

The Company and its parent, subsidiaries and affiliates also have a directors and officers' liability policy to protect against wrongful acts on a claims made basis and in the aggregate. In addition, the Company is a named insured on a series of additional master policies with its parent, subsidiaries and affiliates.

### TERRITORY AND PLAN OF OPERATION

The Company is licensed in all fifty states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

The Company's most significant business is boiler and machinery (BM) insurance, which provides insurance for losses from accidents to boilers, pressure vessels and a wide variety of mechanical and electrical machinery and equipment. It also provides a high level of inspection services aimed at loss prevention and a variety of specialty insurance and reinsurance products and services such as reinsurance integration services, risk management services, engineering services and claim services. Some of the other insurance coverages the Company provides are Other Liability which includes Identity Recovery Insurance, Employment Practices Liability Insurance, Data Compromise Insurance and Cyber Insurance; Inland Marine which includes Renewable Energy Insurance and Commercial Multi-peril which includes Renewable Energy Insurance.

Through its insurance subsidiary, Specialty, the Company writes certain excess and surplus lines coverage and through the insurance subsidiary of EIG, Co. the Company also has a presence in Europe, Australia and Canada.

The Company's strategic plan includes the development of new client companies to focus on equipment breakdown coverage through the use of a variety of specialty coverages and services. This business will be marketed by approximately 4,500 independent agents

## THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

and brokers or through reinsurance arrangements with over 300 multi-line insurance companies.

### REINSURANCE

#### Assumed Reinsurance

In addition to writing direct business through agencies and brokerage firms, the Company assumes reinsurance nationally and internationally with multi-line insurance companies, several insurance pools and several affiliated companies. The assumed written premium volume reported in the year 2017 was approximately \$900 million.

Although a wide range of specialty reinsurance coverages are offered, the Company predominately assumes equipment breakdown coverage.

#### Ceded Reinsurance

The Company participates in various quota share, excess of loss and facultative reinsurance agreements to limit its exposure, particularly to catastrophic losses and high risk lines, as well as to provide additional capacity to write business. The Company evaluates its exposures and reinsurance needs annually to structure a program that corresponds with the level of exposure that it is willing to retain. Under the Company's 2017 current treaty per risk excess of loss and underlying excess of loss reinsurance programs, its maximum retention on any one commercial risk is limited to \$1 million. Potentially higher per risk retentions will depend on aggregate losses experienced by the Company during the reinsurance program period.

Effective January 1, 2015, the Company restructured its reinsurance program by entering into a new reinsurance arrangement with Munich Reinsurance America, Inc. (MRAM), an affiliated company. Under this reinsurance arrangement, which was of indefinite duration and terminable on any anniversary date by either party with 90 days prior written notice, the Company had reinsurance protection for all lines of business, ceding 50% of its gross premium less inuring reinsurance contracts less commissions and other deductions, losses and loss adjustment expenses and other expenses to MRAM. Effective December 31, 2017, this reinsurance arrangement was terminated on a cut off basis, with ending unearned premium and related unearned commissions being transferred. Losses which occurred between January 1, 2015 and December 31, 2017, will continue to run off as the experience develops.

Effective January 1, 2017, the Company and HSBCT commuted the Quota Share Reinsurance Agreement dated effective April 1, 2002 as amended April 1, 2003. The transaction is detailed in the History section above.

The Company places facultative reinsurance on certain high exposure risks.

The Company utilizes well capitalized domestic and international reinsurance companies and syndicates for its reinsurance program and monitors their financial strength on an ongoing basis. For those reinsurers that are classified as unauthorized, the Company obtains appropriate collateral to support reinsurance recoverables.

## THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

Certain treaties contain provisions for sub limits depending upon the risk reinsured.

### INFORMATION TECHNOLOGY CONTROLS

A risk-focused assessment and review of the Company's Information Technology General Controls (ITGC) was performed in accordance with the Handbook. The guidance and direction used to perform the review of the Company's ITGCs was derived from Exhibit C Part 1 – Information Technology Planning Questionnaire (ITPQ) and Exhibit C Part 2 – Information Technology Work Program (collectively, Exhibit C). The Company'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.

The objectives were to obtain reasonable assurance about whether:

- the Company has a process in place to effectively identify, mitigate and manage its IT risks.
- the Company's control structure policies and procedures were suitably designed and complied with in order to achieve the control objectives specified in Exhibit C; and
- the Company's policies and procedures were in place during the examination period.

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

No control deficiencies were noted which would impair the overall effectiveness of the IT control environment. It was, however, noted that the 2016 KPMG work identified several IT deficiencies, comprising a significant deficiency, which were remediated during 2017. While work was performed by INS to verify that the significant deficiency was remediated during 2017 and the IT general controls were operating effectively, reliance was not placed on the IT general controls environment for the purposes of other areas of this examination.

### ACCOUNTS AND RECORDS

The Company uses a PeopleSoft general ledger accounting system within a local area network. Security controls within PeopleSoft limit access to general ledger data based on user function. The accounting system produces an automated trial balance, general journal report and a general ledger activity detail report on a monthly basis. The Company uses WINGS software from Eagle Technology Management, Inc. to produce its statutory annual statement.

Detailed analyses were performed on individual general ledger accounts throughout the examination.

THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

The 2017 year-end trial balance was reconciled to the 2017 filed annual statement, without exception.

FINANCIAL STATEMENTS

The following statements represent the Company's financial position, as filed by the Company as of December 31, 2017. No adjustments were made to surplus as a result of the examination.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$682,900,061		\$682,900,061
Stocks:			
Preferred stocks	6,277,975		6,277,975
Common stocks	168,921,064	\$1,239,080	167,681,984
Real estate:			
Properties held for the production of income	47,184,212	2,500,000	44,684,212
Cash, cash equivalents and short-term investments	56,866,219	19,131	56,847,088
Other invested assets	70,705,551	14,963,640	55,741,911
Investment income due and accrued	6,176,505	8,040	6,168,465
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	31,052,116	575,814	30,476,302
Deferred premiums and agents' balances and installments booked but deferred and not yet due	4,815,444		4,815,444
Reinsurance:			
Amounts recoverable from reinsurers	51,445,861		51,445,861
Current federal and foreign income tax recoverable and interest thereon	26,021,974		26,021,974
Net deferred tax asset	72,494,136	16,701,801	55,792,335
Electronic data processing equipment and software	1,105,077		1,105,077
Furniture and equipment, including health care delivery assets	29,287,607	29,287,607	
Receivables from parent, subsidiaries and affiliates	7,782,401		7,782,401
Aggregate write-ins for other than invested assets	23,920,342	8,122,144	15,798,198
Total	<u>\$1,286,956,545</u>	<u>\$73,417,257</u>	<u>\$1,213,539,288</u>

THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$141,485,387
Reinsurance payable on paid losses and loss adjustment expenses	1,295,220
Loss adjustment expenses	12,975,179
Commissions payable, contingent commissions and other similar charges	68,958,321
Other expenses (excluding taxes, licenses and fees)	107,848,134
Taxes, licenses and fees (excluding federal and foreign income taxes)	4,761,192
Current federal and foreign income taxes	2,456,127
Borrowed money	7,207,517
Unearned premiums	403,218,281
Advance premium	14,333,624
Ceded reinsurance premiums payable (net of ceding commissions)	(82,788,569)
Amounts withheld or retained by company for account of others	2,741,002
Provision for reinsurance	3,478,616
Payable to parent, subsidiaries and affiliates	1,847,659
Aggregate write-ins for liabilities	20,132,630
Total liabilities	<u>709,950,320</u>
Common capital stock	10,000,000
Gross paid in and contributed surplus	318,016,174
Unassigned funds (surplus)	229,537,926
Less - Treasury stock	53,965,132
Surplus as regards policyholders	<u>503,588,968</u>
Totals	<u>\$1,213,539,288</u>

THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

STATEMENT OF INCOME

<b>UNDERWRITING INCOME</b>	
Premiums earned	\$468,943,036
<b>DEDUCTIONS</b>	
Losses incurred	136,660,662
Loss adjustment expenses incurred	18,677,039
Other underwriting expenses incurred	308,982,202
Total underwriting deductions	464,319,903
Net underwriting gain or (loss)	4,623,133
<b>INVESTMENT INCOME</b>	
Net investment income earned	36,427,510
Net realized capital gains or (losses)	(975,595)
Net investment gain (loss)	35,451,915
<b>OTHER INCOME</b>	
Net gain (loss) from agents' or premium balances charged off	(2,825)
Aggregate write-ins for miscellaneous income	1,881,600
Total other income	1,878,775
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	41,953,823
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	41,953,823
Federal and foreign income taxes incurred	6,017,420
Net income	35,936,403
<b>CAPITAL AND SURPLUS ACCOUNT</b>	
Surplus as regards policyholders, December 31 prior year	598,874,409
Net income	35,936,403
Change in net unrealized capital gains or (losses)	5,509,016
Change in net unrealized foreign exchange capital gain (loss)	240,405
Change in net deferred income tax	(49,274,800)
Change in nonadmitted assets	5,300,483
Change in provision for reinsurance	(1,706,501)
Dividends to stockholders	(90,000,000)
Aggregate write-ins for gains and losses in surplus	(1,290,447)
Change in surplus as regards policyholders for the year	(95,285,441)
Surplus as regards policyholders, December 31 current year	<u>\$503,588,968</u>

THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

LOSSES AND LOSS ADJUSTMENT EXPENSES (LAE)

\$154,460,566

The following items were included in the captioned account:

Losses	\$141,485,387
LAE	<u>12,975,179</u>
	<u>\$154,460,566</u>

The Department and Milliman conducted a risk focused actuarial analysis of the Company's loss and LAE reserves, pricing methodology and liquidity risks as of December 31, 2017. In performing the reserve review and analysis, the Department and Milliman:

- reviewed and analyzed the statutory Annual Statement for the year ended December 31, 2017;
- reviewed and analyzed the Company's Statement of Actuarial Opinion, Actuarial Opinion Summaries and the Actuarial Report for 2017;
- reviewed tests performed by the Company's actuaries and its independent auditors to evaluate the processes, methodologies, and assumptions used by the Company to estimate loss and LAE reserves for material lines of business;
- participated in the interviews with Company officers responsible for establishing the carried actuarial liabilities and direction for actuarial risk areas; and
- reviewed the processes and controls in place designed to mitigate the key areas of reserve risk and processes for reporting actuarial indications to Company management.

Assessment of Reserve Risk

A review of the Company's reserve risk was conducted to form a conclusion regarding the risk that actual losses, LAE and other contractual payments reflected in the corresponding reserves would be greater than the carried liabilities. The reserving processes and controls were found to be reasonable, and the Company's actuarial approach, assumptions and methodologies were reasonable for estimating losses and LAE.

Assessment of Pricing and Underwriting Risk

Key risks related to the pricing process were reviewed and tested along with a review of the appropriateness of the pricing methodologies, the reasonableness of the pricing assumptions, and the pricing analysis used by the Company's underwriters. The actuarial pricing analysis and the underwriting processes and controls were found to be reasonable.

Assessment of Liquidity Risk

A review of the Company's liquidity risk was conducted by the Department to form a conclusion regarding the ability of the Company to meet contractual obligations as they become due. Milliman assisted the Department by reviewing the reasonability of the Company's payout assumptions, and noted no material concerns regarding the Company's ability to manage its liquidity risk.

THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

Conclusion

Based upon the risk-based assessment and the Department's review procedures, no material concerns were noted which affected the Company's ability to manage its reserving, pricing and underwriting and liquidity risk.

COMMON CAPITAL STOCK \$10,000,000

As of December 31, 2017, the capital of the Company consisted of 50,000,000 shares of authorized common stock, of which 20,155,215 shares were outstanding with a stated value of \$10,000,000. All shares are owned by HSB Group.

GROSS PAID IN AND CONTRIBUTED SURPLUS \$318,016,174

The balance of the account remained unchanged during the period under review.

UNASSIGNED FUNDS (SURPLUS) \$229,537,926

The following exhibit reflects the balance of this account at December 31, for the years under examination:

2017	\$229,537,926
2016	\$324,823,367
2015	\$361,725,031
2014	\$367,009,903
2013	\$366,882,600

During the period under examination, unassigned funds (surplus) decreased as a result of the payment of dividends which exceeded net income and a decrease of the deferred tax asset due to the effect of the Tax Cuts and Jobs Act.

TREASURY STOCK \$53,965,132

The Company holds 1,151,211 shares as treasury stock.

CONCLUSION

The results of this examination disclosed that, as of December 31, 2017, the Company reported admitted assets of \$1,213,539,288, liabilities of \$709,950,320, and surplus of \$503,588,968. During the period under examination, admitted assets decreased \$140,351,924, liabilities increased \$5,278,126, and capital and surplus decreased \$145,630,050.

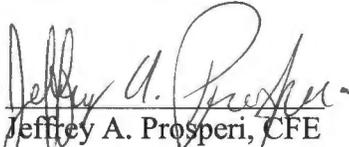
THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

SIGNATURE

In addition to the undersigned, Mark Murphy, CFE, WanChin Chou, FCAS, MAAA, Qing He, FCAS, MAAA, Keith Kleindienst, CFE, Daniel Levine, AFE and CPA, Ellen McCarthy, AFE, Lisa Pagliaro, AFE and Ken Roulier, AES, AFE, CISA, of the Department and the professional services firms of INS and Milliman participated in this examination.

I, Jeffrey A. Prosperi, CFE, CPA, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2017, to the best of my information, knowledge and belief.

Respectfully submitted,



Jeffrey A. Prosperi, CFE  
Insurance Certified Financial Examiner  
State of Connecticut  
Insurance Department

State of Connecticut

ss Hartford

County of Hartford

Subscribed and sworn to before me, Nancy M. Mercier, Notary Public/Commissioner of the Superior Court, on this 25<sup>th</sup> day of October 2018.

Nancy M. Mercier  
Notary Public/Commissioner of the Superior Court

My commission expires 6/30/2020