Government of the District of Columbia
Department of Insurance and Securities Regulation

Anthony A. Williams
Mayor

Lawrence H. Mirel
Commissioner

In the Matter of	)	
	)	
	)	BEFORE THE DEPARTMENT OF INSURANCE
	)	AND SECURITIES REGULATION
First Washington Insurance Company	)	
	)	Examination Order No. 00-06-01:
	)	

ORDER

CONSENT AGREEMENT

WHEREAS, the District of Columbia, Department of Insurance and Securities Regulation ("hereinafter "Department"), conducted a Financial Examination of First Washington Insurance Company (hereinafter "Respondent"), in accordance with the District of Columbia Code, Section 35-3602 (1997 Repl.) at its offices at 3341 Benning Road, NE, Washington, D.C. 20019, for the period covering January 1, 1996 through December 31, 1998.

WHEREAS, the Financial Examination disclosed apparent exceptions by the Respondent, including the following findings by the Department:

1. Capital Stock: The Company's stock ledger, contained in the minute book of the Board of Director's meetings, was not up to date. A specimen of the stock certificate, as amended, was in the book. The details pertaining to the issuance of stock certificates had not been done since the original issuance in 1986.

2. Conflict of Interest: For the period under examination, directors and officers of the Company did not respond to conflict of interest questionnaires. The NAIC guidelines recommend that a Company establish a procedure for disclosure to the Board of Directors of any material interest or affiliation on the part of any of its Directors or Officers, which is in or is likely to conflict with their official duties. No conflict of interest questionnaires are available for the period under examination.

3. Corporate Minutes: The minutes of the meetings of the Shareholder and the Board of Directors for the three years under examination were reviewed. It appeared that the Company attempted to ascertain that significant transactions and

activities were approved, but this did not occur. a.) Minutes were not sequentially numbered in the minute book, which made it difficult to determine what transpired and/or when; b.) The minutes did not always reflect issues discussed or acted upon; c.) The minutes of the meetings do not reflect the approval of officers and/or responsible employees salaries;

4. The Board of Director's did not approve the previous report of examination.

5. Fidelity Bond: At December 31, 1998 a fidelity bond in the amount of $15,000 protected the Company. This coverage does not exceed the minimum amount of fidelity bond coverage recommended by the NAIC.

6. Affiliated Transactions: Diversified Insurance Management, Inc. is an insurance agency providing services to the Company. The Company, pursuant to a recommendation from the previous examination, changed the commissions paid to the agency back to 15.3%, however to date no formal amendment has been executed.

7. Continuity of Operations: The Department noted that the Company does not have a recovery plan that would enable the Company to restore operations in the event of disaster.

8. Abandoned Property: The Company has no procedures for locating payees of uncashed or unclaimed checks. It is the Company's practice to leave a check outstanding for at least 180 days. Each June 30th and December 31, the Company reverses the outstanding check back into the bank account. The more appropriate treatment would be to reclassify the outstanding uncashed check into "Amounts Withheld" until such time as it is remitted to the Escheat/Abandoned Property Agency.

9. The examiners were also advised that no escheat forms have been filed with an abandoned property or escheat agency.

10. Custody Agreements: The Company did not have a Legg Mason custody agreement that complies with the requirements of the NAIC. At the last examination of the Company, the examiners recommended that the Company execute custody agreements with custodians of the Company's investments. The agreements were to contain indemnification clauses as required by the NAIC.

11. Agents Balances or Uncollected Premiums: The Company did not establish a tracking system for premiums past due in excess of ninety days.

12. Losses and Loss Adjustment Expenses: The Department's actuaries noted that the actuarial reserve opinion from the company's consulting actuary contained the required standard language, however the actuary did not mention IRIS ratios 9 through 11, which is a requirement of the reserve opinion.

WHEREAS, the Respondent agrees to make the following corrective actions as recommended by the Department:

1. The Respondent shall take immediate corrective steps to bring the corporate stock ledger up to date.

2. The Respondent shall require its Board of Directors, Officers and responsible employees complete conflict of interest questionnaires immediately. (Once these questionnaires have been completed and submitted to the Department, the issue with the Company's accounting manager and his fathers' employment with the CPA firm that conducts the annual audit will be reviewed.)

3. The Respondent shall sequentially number minutes of the meetings of the Board of Directors and annual shareholder meetings within the book; develop procedures for minutes of meetings to properly document significant or material transactions; and ensure that the minutes of the meetings of the Board of Directors reflect the approval of Officers and responsible employees salaries.

4. The Respondent shall approve future reports on examination from the Department of Insurance and Securities Regulation, and that the approval be noted in the minutes of meetings.

5. The Respondent shall take immediate action to secure fidelity coverage in the NAIC suggested amounts of $100,000 to $125,000.

6. The Respondent shall take the necessary steps and amend the agreement to reflect the actual commission rate paid to the Agency.

7. The Respondent shall develop and keep current a disaster recovery plan for its operations.

8. The Respondent shall develop a procedure for locating payees, and establish a separate liability for uncashed checks and report these in the liability account "Amounts With-held or Retained by Company for Account of Others".

9. The Respondent shall annual file escheat forms as required by the District of Columbia laws.

10. The Respondent shall take immediate steps to execute a custody agreement that is in compliance with the requirements of the NAIC.

11. The Respondent shall take necessary steps to institute a tracking system so that future receivables, in excess of ninety days past due are reported as non admitted assets.

12. The Respondent shall make sure that all future actuarial reserve opinions contain all required provisions.

WHEREAS, On May 13, 1999, the Respondent created a Holding Company, Anacostia Holdings Company, Inc., a Maryland corporation. On May 11, 1999, one thousand shares of Anacostia were issued to Gerald H. Schaeffer for a cost of $100. Pursuant to an assignment of Rights in Capital Stock of First Washington Insurance Company, Inc., ownership of the Respondent was transferred from Gerald Schaeffer to the Holding Company. This transfer is in violation of D.C. Code § 35-3701 et seq. The statute

requires that the acquisition of an insurer be subject to the specific approval of the D.C. Insurance Commissioner, D.C. Code § 35-3703(a)(2), for which the Commissioner may impose sanctions for said violations pursuant to D.C. Code § 35-3710.

WHEREAS, on November 19, 1999 the instructions from completion of a Form A was provided to the Company. The Respondent agrees to complete the form and seek approval for this transaction from the D.C. Insurance Commissioner in accordance with D.C. Code § 35-3703.

WHEREAS, a review of the Company's third quarter financial statements disclosed that the Respondent has loaned $1,000,000 to the holding company. The note matures June 1, 2002 and bears interest at 6% per year, in violation of D.C. Code § 35-3706. The Respondent agrees to immediately submit and seek approval for this transaction from the Commissioner of the Department of Insurance and Securities Regulation. The Respondent shall also make sure that future affiliated proposed transactions be submitted to the Commissioner of the Department for pre-approval in accordance with D.C. Code § 35-3706.

WHEREAS, the Respondent shall take corrective action pursuant to the recommendations of the Department of Insurance and Securities Regulation.

WHEREAS, the Respondent proffers that the exceptions alleged, supra, were not willful, but instead a result of inadvertence and/or administrative oversight.

WHEREAS, the Department, based on the information submitted by the Respondent is satisfied that the exceptions alleged, supra, were not willful and that corrective action is now being taken;

WHEREAS, the Respondent wishes to resolve said violations by entering into a Consent Agreement with the Department of Insurance and Securities Regulation, subject to the approval of the Department's Commissioner, as follows:

WHEREAS, the Respondent waives his right to further notice and hearing in this matter and admits that it violated the following foregoing provisions of the District of Columbia's Insurance Laws:

1. The Respondent shall pay an administrative settlement of Seventy-Five Hundred dollars ($7,500.00) as a result of said violations.
2. The Department of Insurance and Securities Regulation hereby accepts the administrative settlement, supra.

Dated: District of Columbia

6/7, 2000

DEPARTMENT OF INSURANCE AND SECURITIES REGULATION

By: _____
Rhonda K. Davis
Attorney Advisor

RESPONDENT

By: _____
First Washington Insurance Company

APPROVED and so ORDERED:
In Witness Whereof, I have hereunto set my hand and affixed the official seal Of this Department at the City of Washington, D.C., this 8th day of June, 2000.

_____
Lawrence H. Mirel, Commissioner