

Government of the District of Columbia
Department of Insurance, Securities and Banking



William P. White
Acting Commissioner

**BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA**

Re: Report on Examination – **District of Columbia Health and Life Insurance Guaranty Association** as of December 31, 2009

ORDER

Pursuant to Examination Warrant 2010-1, an Examination of **District of Columbia Life and Health Insurance Guaranty Association** as of December 31, 2009 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 18th day of May, 2011, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the Association shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.



William P. White
Acting Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

DISTRICT OF COLUMBIA LIFE AND HEALTH INSURANCE
GUARANTY ASSOCIATION

AS OF

DECEMBER 31, 2009

District of Columbia Life and Health Insurance Guaranty Association

Report on Examination

December 31, 2009

Table of Contents

	Page
Salutation	2
Scope of Examination	2
Status of Prior Examination Findings	3
History	3
General	3
Management.....	3
Committees	5
Conflicts of Interest.....	5
Corporate Records	5
Affiliated Companies/Intercompany Agreements	5
Fidelity Bond and Other Insurance	5
Statutory Deposits	5
Territory and Plan of Operation.....	5
Insurance Products and Related Practices.....	6
Accounts and Records.....	6
Financial Statements	6
Balance Sheet.....	7
Assets	7
Liabilities, Unrestricted Assets, and Other Funds	7
Statement of Receipts	8
Comparative Financial Position of the Association.....	9
Note to Financial Statements	10
Comments and Recommendations.....	11
Subsequent Events	12
Conclusion	12
Signatures.....	13

District of Columbia Life and Health Insurance Guaranty Association
Report on Examination
December 31, 2009

Washington, D.C.

April 29, 2011

Honorable William P. White
Acting Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Commissioner:

In accordance with Section 31-5412 of the District of Columbia Official Code, we have examined the financial condition and activities of

District of Columbia Life and Health Insurance Guaranty Association

(Hereinafter called the Association) at its principle office located at 1200 G Street, NW, Suite 800, Washington, DC 20005, and the following Report on Examination is submitted.

SCOPE OF EXAMINATION

This examination, covering the period from the inception of the Association on July 22, 1992 to December 31, 2009, including any material transactions and/or events noted occurring subsequent to December 31, 2009, was conducted under the association plan of the National Association of Insurance Commissioners (NAIC) by examiners of the District of Columbia Department of Insurance, Securities and Banking (the Department).

This represents the initial examination of the Association and was a full scope examination.

Our examination was conducted in accordance with examination policies and standards established by the District of Columbia Department of Insurance, Securities and Banking and procedures recommended by the NAIC and, accordingly, included such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

Our examination included a review of the Association's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Association was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Association is audited annually by an independent public accounting firm. The auditors expressed unqualified opinions on the Association's financial statements for the period under examination. We placed substantial reliance on the audited financial statements for calendar

District of Columbia Life and Health Insurance Guaranty Association

Report on Examination

December 31, 2009

years 2008 through 2009, and consequently performed only minimal testing for that period. We concentrated our examination efforts on the year ended December 31, 2009. We reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2009, and directed our efforts to the extent practical to those areas not covered by the firm's audit.

STATUS OF PRIOR EXAMINATION FINDINGS

As this examination represents the initial examination of the Association, there are no prior examination findings with regards to the Association.

HISTORY

General:

District of Columbia Life and Health Insurance Guaranty Association is a District of Columbia regulated insurance association. The purpose of the association is to guarantee payments on covered policies issued in the District by licensed insurers of certificate of authority in the District.

As stated in the Association's Plan of Operation, the purpose for which the Association was organized was for the continuing coverage to eligible policy owners, and paying benefits to insured's, beneficiaries, annuitants, payees and assigns of certain life insurance policies, annuity contracts, and supplemental contracts in the case of impairment or insolvency of member insurers that issue and delivered the policies or contracts. All insurers licensed or holding a certificate of authority in the District of Columbia to sell any type of insurance covered under the Life and Health Insurance Guaranty Association Act of 1992 are member insurers of the association. The period of existence of the Association is perpetual.

Two types of assessments are used to obtain funds necessary to carry out the powers and duties of the Association. Class A assessments are made for the purpose of meeting administrative and legal costs and other general expenses necessary to aid in the detection and prevention of insolvencies or impairments. Class B assessments are made to meet the costs of administering impaired insurers or insolvencies. The calculations of these assessments are based on information provided by the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA).

Management:

The Plan of Operation(the Plan) of the Association provide that the responsibility for the control and management of the affairs, property and interests of the Association is vested in its Board of Directors be composed of not less than five (5) nor more than (9)

District of Columbia Life and Health Insurance Guaranty Association

Report on Examination

December 31, 2009

members who shall be elected annually by the members. The Plan provides that the officers of the Association shall consist of a Chairman, a Vice Chairman, a Secretary, a Treasurer, and such other officers, as the Board of Directors may from time to time deem advisable. The Board of Directors shall elect the officers of the Association at the regular annual meeting of the Board following the annual meeting of members. Each member company is entitled to one vote at the annual meeting for Directors.

Directors duly elected and serving at December 31, 2009 follows. Addresses and business affiliations were provided by the Association.

<u>Name and Address</u>	<u>Principal Occupation</u>
Robert-John H. Sands, Esquire Bethesda, MD Chairman	Senior Vice President & General Counsel The Acacia Group
Ms. Marcelle Benjamin, Esquire Washington, DC	Union Labor Life Insurance Company, Inc
Jeanne Kennedy Owings Mills, MD Treasurer/Secretary	Vice President Business Risk, Management & Treasurer CareFirst Blue Cross Blue Shield
Ulysses Lee, Esquire New York, NY	Assistant Counsel, Government Relations Guardian Life Insurance Company of America
Christine Warren, Esquire San Antonio, Texas	Assistant Vice President- Executive Attorney USAA

The Association did not obtain approval of the Directors from the Department as required by District of Columbia statutes (See the Comments and Recommendations section of this report for further details).

The Plan of Operation provides that the principle officer of the Association shall be the Executive Director. As of December 31, 2009 the Executive Director is Robert M. Willis, Esquire. Mr. Willis is considered an independent contractor with regards to the Association and serves in his capacity as Executive Director subject to a service contract with the Association.

District of Columbia Life and Health Insurance Guaranty Association

Report on Examination

December 31, 2009

Committees:

The Association's Plan of Operation calls for the establishment of the following committees; Executive, Audit, Claims, and Nomination. As of December 31, 2009, the Association was not in compliance with the Plan with regards to these committees. The Examiner noted that the Claims committee was not staffed and the Nominations committees was not meeting. In addition, the Executive committee which was to have four members had only two. The Audit committee had two members where three were required. (See the Comments and Recommendations section of this report for further details).

Conflicts of Interest:

Directors and officer of the Association annually certify that they have received a copy of the conflict of interest policy, have read and understand the policy and agree to comply with the policy. No conflicts were disclosed by any of the directors or officer per our review of the responses to the questionnaires completed for 2009.

Corporate Records:

We reviewed the minutes of the meetings of the stockholders and board of directors for the period under examination. Based on our review, it appeared that the minutes documented the Association's significant transactions and events, and that the directors approved those transactions and events.

AFFILIATED COMPANIES/INTERCOMPANY AGREEMENTS

The Association has no affiliated companies, or intercompany agreements.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2009, the Association had fidelity bond coverage of \$1,000,000. The Association appears to have adequate insurance coverage.

STATUTORY DEPOSITS

The Association is not required by District of Columbia Statutes to maintain a statutory deposit.

TERRITORY AND PLAN OF OPERATION

As stated in the Plan of Operation, the purpose for which the Association was organized was for the continuing coverage to eligible policy owners, and paying benefits to insured's, beneficiaries, annuitants, payees and assigns of certain life insurance policies, annuity contracts, and supplemental contracts in the case of impairment or insolvency of member insurers that issue and

District of Columbia Life and Health Insurance Guaranty Association
Report on Examination
December 31, 2009

delivered the policies or contracts. All insurers licensed or holding a certificate of authority in the District of Columbia to sell any type of insurance covered under the Act are member insurers of the association. The period of existence of the Association is perpetual.

INSURANCE PRODUCTS AND RELATED PRACTICES

The Association does not issue products. The Association as stated above assists in the orderly liquidation of troubled companies in accordance with The District of Columbia Official Code 31-5405.

The scope of our examination did not include market conduct procedures, including, but not limited to, market conduct procedures in the following areas:

Claims Processing (Timeliness)
Complaints

ACCOUNTS AND RECORDS

The Association's general accounting records are processed by an independent service company. The service company has appears to have the necessary expertise in servicing records of this type of association. Our review did not disclose any significant deficiencies in these records.

FINANCIAL STATEMENTS

The following financial statements reflect the financial condition of the Association as of December 31, 2009, as determined by this examination:

<u>STATEMENT</u>	<u>PAGE</u>
Balance Sheet:	
Assets	7
Liabilities, Surplus and Other Funds	7
Statement of Receipts	8
Comparative Financial Position of the Association	9

The accompanying "Note to Financial Statements" is an integral part of these financial statements.

District of Columbia Life and Health Insurance Guaranty Association

Report on Examination

December 31, 2009

BALANCE SHEET

Assets

	Assets	Examination Adjustments	Assets Per Examination
Cash	\$363,949	\$	\$363,949
Equipment net of Depreciation	70		70
Security Deposit (collected in 2010)	2,095		2,095
 Totals, cash and invested assets	 \$ 366,114	 \$ 0	 \$ 366,114

Liabilities and Unrestricted Net Assets

	Assets	Examination Adjustments	Assets Per Examination
Insolvencies and impairments			
Life			\$(2,364)
Health	\$(2,364)		325
Annuity	325		(6,048)
	(6,048)		
General and Administrative	374,201		374,201
 Total liabilities and unrestricted net assets	 \$ 366,114	 \$ 0	 \$ 366,114

District of Columbia Life and Health Insurance Guaranty Association
Report on Examination
December 31, 2009

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN NETASSETS

Receipts:

Assessments from members	\$ 437,955
Refunds from insolvencies	1,436
Interest and other Income	4,291
Total Receipts	\$ 443,682

Disbursements:

Assessments refunded to member insured	\$ 344,542
Insolvency expenses	3,581
General and administrative expenses	241,483
Total Disbursements	\$ 589,606
Excess of receipts over (under)disbursements	\$ (145,924)
Unrestricted net assets (deficit) at beginning of year	\$ 512,038
Unrestricted net assets (deficit) at end of year	\$ 366,114

District of Columbia Life and Health Insurance Guaranty Association
 Report on Examination
 December 31, 2009

COMPARATIVE FINANCIAL POSITION OF THE ASSOCIATION

The comparative financial position of the Association for the five-year period ended December 31, 2009, is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets	\$366,114	\$512,038	\$403,864	\$412,578	\$228,471
Liabilities	(8,087)	302,192	(18,732)	157,380	33,693
Unrestrictive Net Assets	374,201	209,846	403,864	412,578	228,471
Assessments	443,682	347,746	483,960	458,696	387,856
Disbursements	589,606	239,572	492,674	274,589	17,429
Unrestricted assets beginning of year	512,038	403,864	412,578	228,471	358,044
Unrestricted assets ending of year	\$366,114	\$512,038	403,864	412,578	228,471

Note: Amounts for the years ended December 31, 2005 through 2008 were taken from the Annual Statements of the Association as filed with the Department. Amounts for the year ended December 31, 2009 are amounts per examination.

District of Columbia Life and Health Insurance Guaranty Association
Report on Examination
December 31, 2009

NOTES TO FINANCIAL STATEMENTS

Method of Accounting:

The financial statements of the Association have been prepared on the modified basis of cash receipts and disbursements as recommended by the National Council of Insurance Guaranty Funds. This accounting is a comprehensive basis of accounting other than principles generally accepted in the United States or statutory accounting for insurance companies.

Assessments

Two types of assessments are used to obtain funds necessary to carry out the powers and duties of the association. Class A assessments are made for the purpose of meeting administrative and legal costs and other general expenses necessary to aid in the detection and prevention of insolvencies or impairments. Class B assessments are made to meet the costs of administering impaired insurers or insolvencies. The calculations of these assessments are based on information provided by the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA).

District of Columbia Life and Health Insurance Guaranty Association
Report on Examination
December 31, 2009

COMMENTS AND RECOMMENDATIONS

Approval of Directors:

District of Columbia Code Section 31-5404(a)(2) regarding the Association's Board of Directors states that "The members of the Board shall be selected by member insurers subject to the approval of the Mayor." District of Columbia Code Section 31-5407(c)(5) regarding the Association's Plan of Operation requires that the Association "establish the procedures whereby nominations to the Board of Directors will be made and submitted to the Mayor for approval." Article V, Section 5.3 of the Association's Plan of Operation states that "after each election of a Director or the filling of any vacancy on the Board, the Association shall submit the names of such Directors to the (Commissioner) in writing for approval. It was noted during the Examination that prior approval of nominations and selections of members of the Board of Directors had not been obtained by the Association, although member insurers standing for election were included in the annual meeting material provided to the Department.

The Association is required to obtain approval from the Department for nominations and selections of the Association's Directors and should implement a formal process to do so and should revise the Plan of Operations to incorporate the changes to comply with District of Columbia Code Section 31-5407(c)(5).

Committees of the Board:

The Plan of Operation requires several committees of the Board and spell out the number and requirements of members of those committees. There are four required committees per the plan of operation's Article V, Section 5.16. Specifically, they are the Executive Committee, Audit Committee, Claims Committee and Nominating Committee. The Examination noted that the number of directors on the committees does not conform to the plan of operation requirements.

The Association must either meet the requirements of its Plan of Operation regarding Committees of the Board or, if necessary, amend the Plan of Operation and submit the amendments to the Department for approval in accordance with District of Columbia Code Section 31-5407(a)(1).

Required Reports:

The Association's Plan of Operation's Article XI, Section 11.2 requires that the Board of Directors prepare a report for the Department containing such information as it may have in its possession bearing on the history and causes of insolvencies. Additionally, District of Columbia Official Code 31-5412 (b) requires a report of activities to the Mayor.

It is noted that the Association prepares a binder of documents for its Board meetings that is made available to the Department in the event that a representative from the Department can attend the Board meetings. This binder is intended to comply with the code's requirement. However, the Association is required to formally identify the report as such when submitting the report to the Department.

District of Columbia Life and Health Insurance Guaranty Association
Report on Examination
December 31, 2009

Additional Comments and Recommendations

During our examination, in addition to the above Comments and Recommendations, we made other suggestions and recommendations. These additional suggestions and recommendations were not deemed significant for purposes of our Report on Examination, and are not included in our Report on Examination.

SUBSEQUENT EVENTS

In 2010 there were no significant events to effect the Association.

CONCLUSION

Our examination disclosed that as of December 31, 2009, the Association had:

Admitted assets	\$ <u>366,114</u>
Liabilities	\$ <u>(8,087)</u>
Unrestricted Assets	\$ <u>374,201</u>
Total liabilities and Unrestricted Assets	\$ <u>366,114</u>

Based on our examination, the accompanying balance sheet properly presents the financial position of the Association as of December 31, 2009, and the accompanying statement of receipts properly presents the results of operations for the period then ended. The supporting financial statements properly present the information prescribed by the District of Columbia Official Code.

District of Columbia Life and Health Insurance Guaranty Association

Report on Examination

December 31, 2009

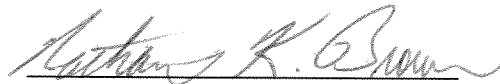
SIGNATURES

In addition to the undersigned, Chidinma Ukairo of the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

Respectfully submitted,



Frank J. Ryan JR. CPA, AFE
Examiner-In-Charge



Nathaniel Kevin Brown. CPA, CFE
Chief Examiner

District of Columbia Department of
Insurance, Securities and Banking