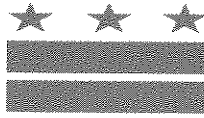


Government of the District of Columbia
Department of Insurance, Securities and Banking



Thomas E. Hampton
Commissioner

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

Limited-Scope Examination of Capitol Specialty Insurance, Ltd. and
Capitol Specialty Insurance Risk Retention Group, Inc.
for the Period January 1, 2005 through June 30, 2005

ORDER

A limited-scope examination of Capitol Specialty Insurance, Ltd. and Capitol Specialty Insurance Risk Retention Group, Inc. for the Period January 1, 2005 through June 30, 2005 was conducted at its office in accordance with the provisions of Section 15 of the Captive Insurance Companies Act of 2004.

It is hereby ordered on this 15th day of December, 2006, that the attached limited-scope examination report be adopted and filed as an official record of this Department. All findings and conclusions resulting from the review of the limited-scope financial examination report, relevant examiner work papers, and any appropriate changes based on the Company's written submissions or rebuttals are incorporated in the attached examination report.

The Department will continue to hold the contents of the examination report as private and confidential information for period of ten (10) days from the date of this Order.

A handwritten signature in cursive script, appearing to read "Thomas E. Hampton".

Thomas E. Hampton, Commissioner

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



Thomas E. Hampton
Acting Commissioner

Limited-Scope Examination for
Capitol Specialty Insurance, Ltd.
and
Capitol Specialty Insurance Risk Retention Group, Inc.

For the Period

January 1, 2005 through June 30, 2005

Mr. Thomas Hampton
Acting Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, N.E., Suite 701
Washington, DC 20002

Acting Commissioner Hampton:

Under the provisions of the District of Columbia Insurance Code, Section 3931.14 *et seq.*, a limited-scope examination was made of the conduct, performance, and practices of

CAPITOL SPECIALTY INSURANCE, LTD.
and
CAPITOL SPECIALTY INSURANCE RISK RETENTION GROUP, INC.

with administrative offices located at 300 Redland Court, Suite 105, Owings Mills, MD 21117. This limited-scope examination, as of June 30, 2005, reflects the insurance activities for Capitol Specialty Insurance, Ltd. (hereinafter referred to as "CSIL") and Capitol Specialty Insurance Risk Retention Group, Inc. (hereinafter referred to as "CSIR") (or collectively hereinafter referred to as the "Companies"). CSIR's National

Association of Insurance Commissioners ("NAIC") individual company code number is 12018. CSIL is a captive insurer and does not have an NAIC individual company code number.

ACKNOWLEDGEMENT

In addition to the undersigned, Bruce Schowengerdt and Edward Dinkel of Rector & Associates, Inc. participated in this limited-scope examination.

Respectfully submitted,



Lee Backus, Examiner-in-Charge
For the District of Columbia
Department of Insurance, Securities and Banking

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SCOPE OF EXAMINATION

The limited-scope examination covers the period from January 1, 2005 through June 30, 2005. The examination work commenced on August 29, 2005 and concluded on October 1, 2005. CSIL and CSIR have only been domiciled (licensed) in the District of Columbia since May 2003 and May 2004, respectively, and thus we have not performed a full-scope examination of CSIL or CSIR in the past.

The limited-scope examination of the Companies was called by the District of Columbia Department of Insurance, Securities, and Banking ("DISB") to address issues raised regarding the Companies' operations, including transactions with Insurance Designers of Maryland, Inc. ("IDMD"), the Companies' affiliated managing general agent, issuance of workers' compensation policies by CSIL, production of new business by CSIR during 2005, and the Companies' marketing, underwriting, and rating procedures and documentation. The scope of the examination was designed to specifically address the issues raised.

Rector & Associates, Inc. ("R&A") performed the limited-scope examination of the Companies in accordance with the procedures outlined in the Final Scope – Targeted Financial/Market Conduct Examination – Capitol Specialty Insurance Company, RRG and Capitol Specialty Insurance Company, Ltd., which was approved by the DISB.

The limited-scope examination included the following procedures: review of affiliated agreements (i.e., Master General Agency Agreement, Claims Servicing Agreement, and Cost Allocation Agreement); review of June 30, 2005 financial statements; review and confirmation of cash and invested assets; review of agents and the marketing/sales process; tests of underwriting and rating, analysis of handling of premiums by IDMD; and tests of claims processing and payment.

The limited-scope examination consisted of a review of extensive information provided by the DISB, IDMD, and the Companies, four days of on-site examination work that included meetings and discussions with personnel from the Companies and IDMD, and telephone conferences and/or e-mail correspondence with personnel from the DISB, the Companies, and IDMD.

The procedures performed were based on the limited-scope examination scope approved by the DISB. The examination was not a "full-scope" examination as described in the NAIC *Financial Condition Examiners Handbook* and the NAIC *Market Conduct Examiners Handbook* and is not intended to communicate all matters of importance for an understanding of the Companies. We did not examine or verify any information, data, processes, etc. beyond the scope of the limited procedures performed. Had we performed a more comprehensive "full-scope" examination, information may have been obtained that would have altered the conclusions in this report.

Some unacceptable or non-complying practices may not have been discovered in the course of this limited-scope examination. Failure to identify or criticize specific practices

does not constitute acceptance of such practices by the DISB. This report should not be construed to endorse or discredit any insurance company or insurance product.

COMPANY OPERATIONS AND MANAGEMENT

CSIL and CSIR were organized under the Laws of the District of Columbia. CSIL, a captive insurer, was incorporated on April 10, 2003 and commenced business on May 23, 2003. CSIR, a risk retention group, was incorporated on May 14, 2004 and commenced business on May 18, 2004. The Companies are licensed only in the District of Columbia. CSIL is authorized to write crime, liability, liquor liability, umbrella (excess liability), commercial automobile, and commercial property coverage. CSIR is authorized to write all of the same types of policies except for commercial property coverage. The Companies insure restaurants, bars, night clubs, larger entertainment venues, and entertainers. CSIL writes in 25 states and CSIR has written in 24 states.

Management and Control

Jeffrey Cohen owns 60% of the common stock and 100% of the preferred stock of CSIL. Neal and Sandra Cohen each own 20% of the common stock of CSIL.

RB Entertainment Ventures, LLC (a limited liability company wholly-owned by Jeffrey Cohen) owns 100% of the CSIR Class A common stock issued and outstanding. The International Association of Entertainment Businesses (a C-corporation, whose members are insured by CSIR) owns 100% of the CSIR Class B common stock.

The directors and officers of CSIL and CSIR are the same for each company and are as follows:

Jeffrey Cohen	President and Director
Sandra Cohen	Secretary and Director
Neal Cohen	Treasurer and Director
Thomas Stranger II	Chief Financial Officer

Affiliated entities wholly-owned by Jeffrey Cohen include IDMD (an insurance agency and managing general agency), TAL, LLC ("TAL") (an insurance agency), and Redland Holdings Group, Inc. ("Redland") (an off-shore insurance company writing workers' compensation business).

Captive Manager

Potomac Captive Managers, LLC ("Potomac") serves as captive manager for both CSIL and CSIR. However, during the examination, it was noted that, on August 1, 2005, in accordance with the terms of the engagement letter dated May 2003, Potomac gave 60 days notice of termination of service for CSIL and, in accordance with the terms of the Management Agreement dated March 2004, Potomac gave 90 days notice of termination

of service to CSIR. At the time of the examination, the Companies had not contracted with new captive managers.

Managing General Agent

CSIL entered into a Master General Agency Agreement with IDMD dated May 1, 2003, whereby IDMD agreed to function as CSIL's managing general agent ("MGA") and perform the following services: marketing; underwriting; rating; premium billing and collection; claims settlement; and policyholder service.

CSIR entered into a similar Master General Agency Agreement with TAL dated May 1, 2004. However, Mr. Cohen indicated that the MGA services are being provided to CSIR by IDMD rather than TAL. In support of this change, Mr. Cohen provided us with a copy of a Written Consent of the Sole Shareholder and Directors of IDMD dated June 16, 2003 ("Written Consent"), which authorized the officers, staff, and personnel of IDMD to act on behalf of TAL and to assume and perform all obligations of TAL, including, but not limited to, contractual obligations. Although this Written Consent allows IDMD to act on behalf of TAL and perform TAL's obligations, we were not provided with any documentation evidencing TAL's or CSIR's acceptance of IDMD functioning as CSIR's MGA. In addition, although it was requested, we were not provided with any evidence that the DISB was notified of this change in MGAs.

We also noted three significant instances of non-compliance by IDMD with the provisions of the Companies' Master General Agency Agreements. First, Section 2.12 of each of the Master General Agency Agreements states that the MGA shall not solicit, receive, or accept applications or proposals for insurance, or issue and countersign policies of insurance and endorsements thereto, in excess of \$500,000 in total premiums for any 12-month period from the effective date of the Agreement without the prior written consent of CSIL or CSIR. IDMD has generated premiums in excess of \$500,000 in a 12-month period in both CSIL and CSIR without prior written consent. Mr. Cohen indicated that his interpretation of this provision is that it limits the premium on any one policy to \$500,000 and, thus, no prior written consent was required because no individual policy has been issued by either of the Companies with an annual premium in excess of \$500,000. We disagree with Mr. Cohen's interpretation of this provision.

Second, Section 3.1 of each of the Master General Agency Agreements states that all premiums received by the MGA for either CSIL or CSIR shall be segregated and held by the MGA in a fiduciary capacity in a bank trust account in a bank that is either federally or state chartered and that is a member of the Federal Deposit Insurance Corporation. However, at the time of our on-site examination, IDMD had not established separate bank trust accounts for CSIL and CSIR. Rather, premiums received by IDMD are deposited into a separate IDMD "premium account". Included in this bank account are the commingled premiums of CSIL, CSIR, and Redland.

Third, Section 7 of each of the Master General Agency Agreements states that, within 60 days after the end of each calendar month, the MGA shall remit all premiums collected

(net of commissions) to the Companies. Mr. Cohen indicated that IDMD is currently remitting premiums to the Companies in a timely manner. However, he noted that CSIL has a large receivable from IDMD for premiums collected by IDMD pertaining to business written in the last two months of 2003 and the first six months of 2004 that has not yet been remitted to CSIL. According to documentation provided by Mr. Stranger, CSIL's receivable pertaining to this old business was \$1,988,104.53 (net of IDMD commissions) as of June 30, 2005. Per Mr. Cohen, he has asked the DISB to approve a note from IDMD to CSIL for the old outstanding premiums receivable that would be paid off by IDMD over a period of five years. Mr. Cohen indicated that IDMD did not currently have enough cash to pay the amount due to CSIL. He stated that IDMD had used the CSIL premiums collected to purchase equipment and to pay for other start-up expenses associated with the Companies' business.

One of the examination procedures was to test, for a limited sample of policies, the receipt of premiums by the Companies. However, because of limitations in the Companies' systems, we could not test individual policy premiums from receipt by IDMD to subsequent remittance to the Companies. Alternatively, we performed a reasonableness test to determine whether premiums collected by IDMD during the first five months of 2005 were being remitted to the Companies. The results of this reasonableness test indicate that premiums collected by IDMD during the first five months of 2005 were remitted to the Companies. However, the premiums are not always being remitted timely (within 60 days after the end of the month in which the premiums are received) in accordance with the Master General Agency Agreement. For example, the premiums collected by IDMD in April 2005 (which should have been remitted to the Companies prior to June 30, 2005) and in May 2005 (which should have been remitted to the Companies prior to July 31, 2005) were not remitted to the Companies until August 26, 2005. Also, the premiums collected by IDMD in June 2005 had not been remitted to the Companies as of September 1, 2005 (the last day of our examination fieldwork).

Claims Processing

CSIL entered into a Claims Servicing Agreement with TAL dated May 1, 2003, whereby TAL agreed to process claims for CSIL. CSIL entered into a similar Claims Servicing Agreement with TAL dated May 1, 2004. However, Mr. Cohen indicated that the claims processing services are being provided to the Companies by IDMD rather than by TAL. In support of this change, as noted above regarding the MGA, Mr. Cohen provided us with a copy of the Written Consent, which authorized the officers, staff, and personnel of IDMD to act on behalf of TAL and to assume and perform all obligations of TAL, including, but not limited to, contractual obligations. Although this Written Consent allows IDMD to act on behalf of TAL and perform TAL's obligations, we were not provided with any documentation evidencing TAL's or the Companies' acceptance of IDMD as the Companies' claims servicer. In addition, although it was requested, we were not provided with any evidence that the DISB was notified of this change in claims servicers.

Cost Allocation Agreement

The Companies, along with IDMD and Redland, entered into a Cost Allocation Agreement dated March 1, 2005, and made effective as of January 1, 2005. The Cost Allocation Agreement amended Section 4.1 (Agent's Compensation) and Section 8 (Operation and Acquisition Expenses) of the Companies' Master General Agency Agreements. As a result of the amendments, IDMD's MGA compensation was reduced from 35% of written premiums (which, according to the Companies' Master General Agency Agreements, included the cost of all operating and acquisition expenses incurred by IDMD in connection with the Companies' business) to 25% of written premiums. However, as a result of the amendments, the Companies now agree to share and allocate the costs incurred by IDMD, as reasonably determined by IDMD, in connection with the performance of its duties as MGA, including the payment of commissions to sub-producers.

The effect of the Cost Allocation amendments to the Master General Agency Agreements was to significantly increase the Companies' cost of doing business. During the first six months of 2005, CSIL's commissions to IDMD, commissions to sub-producers, and allocated expenses paid to IDMD totaled \$1,438,252.81 (46.9% of CSIL's written premiums), which is \$363,806.51 more than would have been paid by CSIL under the terms of the Master General Agency Agreement. During the first six months of 2005, CSIR's commissions to IDMD, commissions to sub-producers, and allocated expenses paid to IDMD totaled \$391,603.03 (80.4% of CSIR's written premiums), which is \$221,134.69 more than would have been paid by CSIR under the terms of the Master General Agency Agreement.

Although it was requested, we were not provided with any evidence that the DISB was notified of the Cost Allocation Agreement that amended the Companies' Master General Agency Agreements, which had been previously approved by the DISB.

MGA Errors and Omissions Insurance

During the examination, we were provided with policy declarations pages evidencing IDMD's errors and omissions liability coverage. For the period August 17, 2004 to August 17, 2005, IDMD had an insurance agents and brokers errors and omissions liability policy issued by Utica Mutual Insurance Company on a "claims-made" basis, with policy limits of \$2 million per occurrence and \$4 million in the aggregate. In addition, IDMD had a commercial umbrella liability policy issued by Pennsylvania National Mutual Casualty Insurance Company on a "claims-made" basis, covering the same policy period, with policy limits of \$10 million per occurrence and \$10 million in the aggregate.

Per Mr. Cohen, IDMD has not yet received the renewal policies from the insurers that are effective August 17, 2005 to August 17, 2006. However, Mr. Cohen provided us with copies of e-mails from the insurers' representatives indicating that the renewal coverage

was bound. In our review of the e-mail from the Pennsylvania National Mutual Casualty Insurance Company Program Manager, it was noted that the umbrella policy was being renewed subject to certain terms and conditions. One of the conditions is that TPA activities will now be excluded from the coverage. This change in terms and conditions on the umbrella policy (that excludes TPA activities) would appear to place IDMD in non-compliance with the provisions of Article VII. D. of the CSIL Claims Servicing Agreement, which requires IDMD to have errors and omissions coverage of at least \$5 million per wrongful act, since IDMD's underlying errors and omissions liability policy has limits of only \$2 million per occurrence.

FINANCIAL STATEMENT REVIEW

We obtained the Companies' June 30, 2005 internal financial statements and reconciled them to the Companies' general ledgers and, for CSIR, to the June 30, 2005 quarterly statement filed with the DISB. CSIL is not required to file quarterly statements. As of June 30, 2005, CSIL reported surplus of \$2.6 million and CSIR reported surplus of \$1.1 million, per the June 30, 2005 internal financial statements.

Analytical Review

As a part of the examination, we performed an analytical review of the Companies' June 30, 2005 financial statements, including a comparison to the Companies' December 31, 2004 financial statements. Reasonable explanations were obtained from Mr. Stranger and/or Mr. Cohen for all significant unusual items and fluctuations noted as a result of the analytical review.

Cash and Invested Assets

Bank reconciliations and detail listings of invested assets were obtained as of June 30, 2005 in support of all of the Companies' cash accounts and invested assets. The bank reconciliations and invested asset detail listings were clerically tested (i.e., footed). Balances were agreed to the Companies' general ledgers and to statements from the banks and investment custodians. No unusual reconciling items were noted in our review.

All of the Companies' cash accounts and invested assets as of June 30, 2005 were confirmed directly with the banks and investment custodians except for certificates of deposit ("CDs") in the amount of \$325,000 for CSIL and \$500,000 for CSIR, which were reflected on the Companies' June 30, 2005 financial statements as "CDs at Virginia Commerce Bank". According to Mr. Cohen and Mr. Stranger, those CDs were actually cashed out in May 2005 and that, as of June 30, 2005, the checks from Virginia Commerce Bank for the proceeds from the CDs were being retained in a vault at the Companies' office. Mr. Cohen and Mr. Stranger indicated that they intended to deposit the checks from Virginia Commerce Bank into new CSIL and CSIR accounts at RBC Centura Bank immediately. However, Mr. Cohen and Mr. Stranger indicated that several

delays were encountered in the establishment of the new bank accounts and that once the bank accounts were finally opened in early August 2005, the checks were deposited. Mr. Cohen and Mr. Stranger did not indicate why the proceeds were not deposited into existing CSIL and CSIR bank accounts or otherwise reinvested immediately upon receipt of the checks from Virginia Commerce Bank.

We could not verify that the checks from Virginia Commerce Bank were in a vault at the Companies' office on June 30, 2005. However, Mr. Stranger provided us with a copy of the checks from Virginia Commerce Bank dated May 12, 2005 for the CD proceeds and a copy of the authenticated deposit receipts from RBC Centura Bank showing the deposit of the proceeds into the Companies' RBC Centura Bank accounts on August 10, 2005. We also obtained a copy of the Companies' bank statements from RBC Centura Bank and the bank reconciliations as of August 31, 2005 and confirmed the bank balances as of August 31, 2005 directly with RBC Centura Bank.

Liabilities

We obtained detail listings of the Companies' liabilities for unearned premiums and case reserves as of June 30, 2005. These detail listings were clerically tested (i.e., footed) and the totals were traced to agreement in the Companies' general ledgers. No exceptions were noted.

SALES AND MARKETING

CSIL/CSIR Licensing/Registration

CSIL has written business in 25 states, based on a review of Schedule T (Exhibit of Premiums Written) in CSIL's 2004 Annual Report. However, Mr. Cohen indicated that CSIL is only licensed in its state of domicile, the District of Columbia. Per Mr. Cohen, CSIL does not need to be licensed or registered in any other jurisdictions because it is an agency captive that is not marketing in any other jurisdictions. Rather, all potential insureds must come to CSIL for insurance. According to Mr. Cohen, CSIL only insures risks on policies that are placed by, or through, IDMD for insureds that qualify under direct procurement or "industrial insured" exemptions. Mr. Cohen indicated that all CSIL policies are deemed to be produced by IDMD in the District of Columbia and that he and IDMD are properly licensed agents in the District of Columbia. However, upon our review of the licenses issued by the District of Columbia that were provided by Mr. Cohen, we noted that, although Mr. Cohen is authorized to produce both life/health and property/casualty business, IDMD is only authorized to produce life/health business. Therefore, it appears that IDMD does not have the authority to produce CSIL's business.

CSIR has written business in 24 states, based on a review of Schedule T (Exhibit of Premiums Written) in CSIR's 2004 Annual Statement and June 30, 2005 Quarterly Statement. CSIR is only licensed in its state of domicile, the District of Columbia. According to Section 3902(a)(1)(D) of the Federal Liability Risk Retention Act, any state

may require a risk retention group to register with, and designate the state insurance commissioner as its agent solely for the purpose of receiving service of legal documents. However, a risk retention group is not required to be licensed in each of the states in which it does business. Mr. Cohen indicated that no business has been written by CSIR in states in which it is not registered. As a part of the examination, we reviewed copies of applications/registrations filed with all states in which CSIR has written business. No exceptions were noted as a result of this review.

Appointed Agents

While we were on-site, Mr. Cohen provided us with a list of the Companies' appointed agents/brokers, which included eight agencies as follows:

- IDMD (Owings Mills, MD) (active)
- Speare & Company (Sherman Oaks, CA) (active)
- Preston-Patterson Company, Inc. (Conshohocken, PA) (inactive)
- The Buckner Group (Salt Lake City, UT) (inactive)
- Music Pro Insurance (Woodbury, NY) (active)
- Robertson Taylor California Insurance Brokers (Beverly Hills, CA) (inactive)
- Max Fitelson & Son, Inc. (Stratford, CT) (active)
- HGR Group, Inc (New York, NY) (active)

Mr. Cohen indicated that most of the Companies' business is produced by four of the appointed agents/brokers: IDMD; Max Fitelson & Son, Inc.; HGR Group, Inc.; and Speare & Company.

As a part of our testing of Underwriting and Rating (see the following section of the examination report), we selected a sample of 77 policies written by the Companies to determine whether the Companies were authorized to write the coverages written. We used this same sample to test whether the Companies' policies were being produced by appointed agents. As a result of the testing performed, we noted that 75 of the 77 sample policies were produced by one of the agencies identified as being appointed agents of the Companies. For the other two policies (CSIL policy #3003241 and CSIR policy #3002617), the agent indicated on the policy declarations pages was Fucci & Friedman, Inc.

While we were on-site, Mr. Cohen indicated that Fucci & Friedman, Inc. was not an appointed agent for the Companies. Rather, according to Mr. Cohen, Fucci & Friedman, Inc. is currently being evaluated and may become an appointed agent for the Companies in the future. However, during this evaluation period, Mr. Cohen indicated that Fucci & Friedman, Inc. has referred business to IDMD, which business was then produced by IDMD. In those instances, according to Mr. Cohen, IDMD was the agent and Fucci & Friedman was paid a referral fee from IDMD rather than a commission from the Companies. While we were on-site, Mr. Cohen indicated that the Companies would consider appointing Fucci & Friedman, Inc. later this year.

When we inquired again regarding the status of Fucci & Friedman, Inc., since the agency was shown as the agent for two of the sample policies, Mr. Cohen provided us with a new list of the Companies' appointed agents, which included the following agencies in addition to the eight agencies listed previously:

- HG Insurance Agency, Inc. (Cedarhurst, NY) (inactive)
- Dewitt Stern-Nashville (Nashville, TN) (inactive)
- Dewitt Stern-New York (New York, NY) (inactive)
- MR Korman Insurance (Bellmore, NY) (inactive)
- Near North-New York (New York, NY) (inactive)
- Fucci & Friedman, Inc. (Syosset, NY) (inactive)

Mr. Cohen also indicated that Fucci & Friedman, Inc. was not an appointed agent initially. However, the agency was appointed by the Companies after it had referred business to IDMD for several months. It is not clear from the conflicting information provided by Mr. Cohen whether Fucci & Friedman, Inc. was an appointed agent at the time the two policies noted in our sample were issued.

We further noted that IDMD was indicated as the agent on the policy declarations page for only 17 of the 54 CSIL policies included in our test of 77 sample policies. IDMD was noted as the "underwriter's representative" on the policy declarations pages for all of the sample policies except for the excess liability policies. However, it is not clear whether this satisfies the requirement that all CSIL policies be produced by, or through, IDMD as noted above in the discussion of CSIL/CSIR Licensing/Registration. Also, for the two excess liability policies issued by CSIL in the sample that were indicated as being produced by an agent other than IDMD, there was no indication that IDMD was the "underwriter's representative" for these policies.

New CSIR Premium Writings

While we were on-site, Mr. Cohen stated that CSIR had indicated to the DISB that it would not write any new premium in 2005 due to DISB concerns regarding the volume of CSIR's writings in 2004 relative to its surplus position. However, Mr. Cohen further indicated that CSIR had some premiums in 2005 due to renewals that had to be offered because CSIR was not able to issue notices of intent to non-renew in time to allow non-renewal of all of CSIR's policies. In our review of CSIR's general ledger activity for the first six months of 2005, we noted that there had been no premiums subsequent to March 1, 2005 other than a small amount of endorsement premium. However, in our review of the policy declaration pages for the 77 sample policies, we noted four policies issued by CSIR in 2005 that, according to the policy declarations pages, were new policies (#3002352, #3002670, #3002671, and #3002617).

When we inquired again about new policies issued by CSIR in 2005, after we found the four policies in our sample of 77, Mr. Cohen indicated that CSIR ceased writing new business during the month of February 2005 rather than at the end of 2004. He also

provided us with a copy of a letter from CSIL's captive manager to the DISB dated March 28, 2005 that indicated that CSIR ceased writing new business in February 2005, and will not write any new business until reinsurance is obtained and CSIR's ratios are in line with those approved by the DISB.

Further, in response to our request regarding policies issued by CSIR in 2005, Mr. Cohen provided a list showing that CSIR had written 32 new policies in January and February 2005. The list also included two additional policies issued after the end of February (one on March 1, 2005 and the other on August 12, 2005) that, according to Mr. Cohen, should have been issued by CSIL but were issued by CSIR in error.

UNDERWRITING AND RATING

CSIL Maximum Policy Limits

The following table reflects the maximum per occurrence policy limits (total insured value for property coverage) for CSIL outlined in the CSIL plan of operations, the CSIL feasibility study performed by Milliman USA, Inc. ("Milliman"), and per discussion with Mr. Cohen:

<u>CSIL Policy Type</u>	<u>Plan of Operations</u>	<u>Feasibility Study</u>	<u>Per Mr. Cohen</u>
General Liability	\$1 million	\$1 million	\$1 million
Liquor Liability	\$1 million	\$1 million	\$2 million
Excess Liability	-----	-----	\$2 million
Property	\$1 million	\$1 million	\$2 million

Neither the CSIL plan of operations nor the Milliman feasibility study anticipated the issuance of excess liability policies by CSIL. The CSIL plan of operations noted that CSIL retention would be limited to \$200,000, either through reinsurance or through policy issuance with limits of \$200,000. The Milliman feasibility study assumed \$1 million limits with no reinsurance. During the examination, it was noted that CSIL does not have any reinsurance coverage to protect itself from exposure to large losses.

The Milliman feasibility study indicated that CSIL's net per occurrence retention of \$1 million is relatively high compared to its surplus and that, since reinsurance has not yet been obtained, CSIL's protection consists of low historical loss ratios (which translate to future expected profits) and the commitment to contribute more capital in the event that surplus falls below the minimum level.

Mr. Cohen indicated that a former management employee of the DISB had approved \$2 million per occurrence policy limits for liquor liability and excess liability policies and \$2

million total insured value limits for property coverage policies issued by CSIL. However, although it was requested, Mr. Cohen did not provide us with any written evidence that the DISB had, in fact, approved these limits.

It was also noted that the Milliman feasibility study has not been updated to incorporate the higher policy limits for liquor liability and property coverage that have actually been written by CSIL, the fact that CSIL has issued excess liability policies of up to \$2 million per occurrence, and the fact that CSIL has written excess liability policies for policyholders to which it has also written the underlying liability coverage.

CSIR Maximum Policy Limits

The following table reflects the maximum per occurrence policy limits for CSIR outlined in the CSIR plan of operations, the CSIR feasibility study performed by Milliman, and per discussion with Mr. Cohen:

<u>CSIR Policy Type</u>	<u>Plan of Operations</u>	<u>Feasibility Study</u>	<u>Per Mr. Cohen</u>
General Liability	\$1 million	\$1 million	\$1 million
Liquor Liability	\$1 million	\$1 million	\$2 million
Excess Liability	\$1 million	\$1 million	\$2 million

The CSIR plan of operations noted that CSIR would purchase aggregate reinsurance from CSIL and the Milliman feasibility study assumed that aggregate reinsurance would be purchased from CSIL at a net loss ratio of 75%. However, during the examination, it was noted that CSIR does not have any reinsurance coverage to protect itself from exposure to large losses.

The Milliman feasibility study also assumed that excess liability policies would not be offered to policyholders purchasing underlying general liability or liquor liability policies from CSIR. During the examination, it was noted that CSIR was issuing excess liability policies to policyholders who had purchased underlying general liability and/or liquor liability policies from CSIR.

The Milliman feasibility study indicated that CSIR's net per occurrence retention of \$1 million is relatively high compared to its surplus and that CSIL's protection consists of low historical loss ratios (which translate to future expected profits), aggregate excess reinsurance (which was assumed by Milliman but which does not exist), and the commitment to contribute more capital in the event that surplus falls below the minimum level.

Mr. Cohen indicated that a former management employee of the DISB had approved the \$2 million per occurrence policy limits for liquor liability and excess liability. However,

although it was requested, Mr. Cohen did not provide us with any written evidence that the DISB had, in fact, approved these limits.

It was also noted that the Milliman feasibility study has not been updated to incorporate the higher policy limits for liquor liability and excess liability coverage that have actually been written by CSIR, the fact that CSIR has no reinsurance protection, and the fact that CSIR has written excess liability policies for policyholders to which it has also written the underlying liability coverage.

Workers Compensation Policies

Prior to the on-site examination, the DISB had become aware that CSIL had issued some workers compensation policies. The Companies are not authorized to write workers compensation policies, and the DISB asked Mr. Cohen to provide a list of all workers compensation policies written. The list of workers compensation policies issued that was provided by Mr. Cohen to the DISB contained eight policies (#3002388, #3002394, #3002669, #3002738, #3002859, #3003107, #3003113, and #3003234). When we were on-site, Mr. Cohen stated that only two of those policies were issued by the Companies (#3003107 and #3003234, both of which were issued by CSIL) and that no other workers compensation policies had been issued by the Companies. However, Mr. Cohen has refused to provide us with documentation (policy declarations pages, etc.) that would support his statement that six of the eight policies on the list provided to the DISB were not issued by the Companies. In addition, it appears that at least one of the policies that Mr. Cohen indicated was not issued by the Companies (policy #3003113 to D12 Touring, Inc.) was issued by CSIL. The DISB has obtained a copy of Binder #11472-1, which was provided to us subsequent to our on-site work. That binder indicates that "Capitol Specialty" policy #3003113 will provide workers compensation coverage for D12 Touring, Inc. for the policy period July 6, 2005 through July 6, 2006. While we were on-site, Mr. Cohen indicated to us that, when the carrier is indicated as "Capitol Specialty", the carrier is CSIL.

When asked how workers compensation policies could have been issued by CSIL, Mr. Cohen indicated that he had discovered that they had been issued improperly from the Companies' old policy system by an underwriting technician. According to Mr. Cohen, the Companies' new policy system has safeguards in it that will prevent similar instances in the future. Mr. Cohen indicated that he would not provide us or the DISB with the name of the employee. However, he did state that the employee was no longer employed by IDMD. This information was communicated to the DISB, and the DISB asked us to inquire again regarding the employee. Again, Mr. Cohen refused to identify the employee. We asked if the employee was either Frank Nerney, senior underwriter, or Ethan Nadorlik, assistant underwriter. Mr. Cohen said that neither of those employees was the employee that issued the policies and indicated again that the employee was no longer employed by IDMD.

Mr. Cohen indicated that, even though only two of the eight policies were issued by CSIL, all eight policies were issued in error. He further indicated that all eight of the

policies had been cancelled flat as of inception and that the premiums had either been returned or, in one instance, applied to premiums outstanding on another CSIL policy. We reviewed a copy of a check to Fucci & Friedman Inc. for \$72,775.32, dated October 1, 2005, which included the workers compensation premiums paid on six of the policies, net of Fucci & Friedman, Inc.'s commission. We also reviewed documentation supporting the application of the workers compensation premiums paid to premiums outstanding on another of the policyholder's policies for the one instance in which this was done. However, Mr. Cohen has refused to provide us with evidence that the workers compensation premiums paid on policy #3003113 (D12 Touring, Inc.) were returned.

In our review of the supporting documentation for the check to Fucci & Friedman, Inc. for the refund of workers compensation premiums paid, we noted a refund of premiums for a policy to "Lamb of God Touring". That policy was not included on the list of policies provided to the DISB. Mr. Cohen stated that the policy was not issued by the Companies. However, he refused to provide us with documentation (policy declarations page, etc.) that would support his statement.

Subsequent to our on-site work, the DISB provided us with copies of two additional insurance binders that had been obtained by the DISB, which indicate that CSIL has bound coverage for workers compensation policies. Neither of the policies was included on the list of eight workers compensation policies provided to the DISB by Mr. Cohen. Binder #11414-1 indicates that "Capitol Specialty" policy #3003242 will provide workers compensation coverage for "As I Lay Dying Touring, LLC" for the policy period July 14, 2005 through September 5, 2005 and Binder #11416-1 indicates that "Capitol Specialty" policy #3003238 will provide workers compensation coverage for "The Black Dahlia Murder Partnership" for the policy period July 14, 2005 through September 5, 2005. As noted previously, while we were on-site, Mr. Cohen indicated to us that, when the carrier is indicated as "Capitol Specialty", the carrier is CSIL.

We requested a copy of the policy declarations pages and documentation supporting the return of premiums for both of those policies. However, Mr. Cohen refused to provide us with that information, indicating that the two policies were not issued on CSIL paper and, therefore, are outside the scope of our examination. Mr. Cohen did not address the fact that the binders indicate that the carrier is CSIL. He also refused to provide us with documentation (policy declarations pages, etc.) that would support his statement that the policies were not issued by CSIL. Further, he refused to provide us with evidence that the workers compensation premiums paid on these two policies were returned.

Testing of Policies Issued

Because instances were noted where CSIL had issued workers compensation policies, which it is not authorized to write, we selected a sample of 77 policies issued by the Companies to test whether the Companies were authorized to write the coverages written. The sample size of 77 was based on sampling guidance in the NAIC *Financial Condition Examiners Handbook*. Policy declarations pages were obtained for the 77 sample policies. In each instance, it was noted that the Companies were authorized to write the

coverage indicated on the policy declarations pages. However, coverage amounts were in excess of maximum policy limits per the Companies' plans of operations in several instances.

Two of the sample policies were commercial property policies issued by CSIL, which had total insured values in excess of \$1 million. Policy #3002933 has a maximum property exposure of \$2,077,000 after consideration of coinsurance and policy #3002374 has a maximum property exposure of \$1,119,000 after consideration of coinsurance. As a result, because two of the commercial property policies in our sample had property exposure in excess of \$1 million (the maximum property exposure per the CSIL plan of operations), we requested a list of all in-force commercial property policies issued by CSIL with a maximum property exposure in excess of \$1 million in order to determine how pervasive the exceptions are in the total population of in-force commercial property policies. According to the list provided by Mr. Cohen, CSIL has 30 in-force commercial property policies with total insured values in excess of \$1 million, including five policies with total insured values in excess of \$2 million.

Two of the sample policies (CSIL policy #3002563 and CSIR policy #3002600) were liquor liability policies with limits of \$2 million per occurrence and \$2 million in the aggregate. As a result, because two of the liquor liability policies in our sample had policy limits in excess of \$1 million per occurrence and \$1 million in the aggregate (the maximum policy limits per the Companies' plans of operations), we requested a list of all in-force liquor liability policies issued by the Companies with policy limits in excess of \$1 million per occurrence and \$1 million in the aggregate in order to determine how pervasive the exceptions are in the total population of in-force liquor liability policies. In response, Mr. Cohen indicated that the two policies in our sample were the only liquor liability policies issued by the Companies with limits in excess of \$1 million per occurrence and \$1 million in the aggregate.

Three of the sample policies (CSIL policy #3003231, CSIL policy #3002293, and CSIR policy #3002160) were excess liability policies with limits of \$2 million per occurrence and \$2 million in the aggregate. As a result, because three of the excess liability policies in our sample had policy limits in excess of \$1 million per occurrence and \$1 million in the aggregate (the maximum policy limits per the Companies' plans of operations), we requested a list of all in-force excess liability policies issued by the Companies with limits in excess of \$1 million per occurrence and \$1 million in the aggregate in order to determine how pervasive the exceptions are in the total population of in-force excess liability policies. According to the list provided by Mr. Cohen, CSIL has 23 in-force excess liability policies with policy limits of \$2 million per occurrence and \$2 million in the aggregate and CSIR has 35 in-force excess liability policies with policy limits of \$2 million per occurrence and \$2 million in the aggregate.

We also noted that, in virtually all instances, the same carrier (CSIL or CSIR) that issued the excess liability policy also issued the underlying general liability and/or liquor liability policy. In all but one of these instances, the Companies' maximum liability exposure for a single occurrence is \$3 million. In the other instance, the maximum

liability exposure for a single liquor liability occurrence is \$4 million (CSIR issued liquor liability policy #3002600 with policy limits of \$2 million per occurrence and \$2 million in the aggregate and also issued excess liability policy #3002602 with policy limits of \$2 million per occurrence and \$2 million in the aggregate). These are all maximum net exposures because the Companies have no reinsurance protection.

Testing of Underwriting and Rating

From the sample of 77 policies issued by the Companies that was used in the testing of policy coverage (see the previous sub-section), we selected a limited subset of six policies to test the Companies' underwriting and rating procedures. As a result of the testing performed, we noted that the Companies generally followed their guidelines and procedures for underwriting and rating.

According to Mr. Cohen, the Companies are not required to file rates with any of the states in which the Companies do business. We recalculated the premiums for the six policies in our sample and noted that the premiums were generally calculated in accordance with the Companies' procedures and methods as outlined in the Companies' plans of operations that were filed with the DISB. However, although Mr. Cohen provided oral explanations for premium surcharges added to the calculated premiums on the sample policies, the rationale for the premium surcharges was not documented in the policy files.

We also recalculated the unearned premiums for these six policies as of June 30, 2005 and traced the amounts to inclusion in the Companies' June 30, 2005 unearned premiums detail listing, without exception.

CLAIMS SETTLEMENT

One of the examination procedures was to test, for a limited sample of claims paid in 2005, the Companies' claims processing and reserving processes. However, no claims were paid during the first six months of 2005 by either CSIL or CSIR. As a result, the examination procedure was modified to test a limited sample of claims and "incidents" reported to the Companies. According to Mr. Cohen, policyholders are required to file "incident" reports any time the policyholder becomes aware of an incident, whether or not the incident is likely to result in a claim. Our limited sample consisted of two "incident" reports, two claims that had been closed as of June 30, 2005, and two reported claims that were still open as of June 30, 2005.

As a result of the testing performed on this sample of claims and "incidents", we noted that the Companies generally followed their guidelines and procedures for claims processing and settlement, including the establishment of case reserves on reported claims. The "incident" reports were properly logged in and monitored by the Companies. No subsequent activity was noted for either of the "incident" reports that would indicate that the "incidents" would become a claim as of the time of our on-site review. Both of

the closed claims were closed without payment because the losses were not covered under the terms of the Companies' policies. It was noted that the two open claims were being monitored and processed in accordance with the Companies' policies and that case reserves had been established and adjusted as additional information regarding the claim became available. The case reserves on the two open claims were traced to inclusion in the Companies' case reserve detail listings as of June 30, 2005. No exceptions were noted.

Although no claims had been paid by either of the Companies as of June 30, 2005, Mr. Cohen indicated that CSIL paid a claim in September 2005. The total loss payment was \$300,000. In addition, \$52,468 of loss adjustment expenses associated with that claim were paid by CSIL. However, Mr. Cohen further indicated that CSIL has initiated litigation against the insured for recovery of all amounts paid on the insured's behalf. CSIL claims it is entitled to recover the amounts it paid related to the claim because, as facts developed during the course of the case against the insured that led to the loss and expense payments, CSIL never had a duty to defend or indemnify the insured because there was never any possibility of a covered claim under the insured's policy.

SUMMARY OF FINDINGS

The limited-scope examination revealed the following areas that we would like to bring to the attention of the DISB:

1. Captive Manager Notice of Termination Reference page 5

On August 1, 2005, the Companies' captive manager gave 60 days notice of termination of services for CSIL and 90 days notice of termination of services for CSIR. At the time of the on-site examination, the Companies had not contracted with new captive managers.

2. MGA Reference page 6

CSIR entered into a Master General Agency Agreement with TAL dated May 1, 2004. However, Mr. Cohen indicated that the MGA services are being provided to CSIR by IDMD rather than by TAL. We were not provided with any documentation evidencing TAL's or CSIR's acceptance of IDMD functioning as CSIR's MGA. In addition, we were not provided with any evidence that the DISB was notified of this change in MGAs.

3. MGA Premium Production Reference page 6

Section 2.12 of the Companies' Master General Agency Agreements states that the MGA shall not solicit, receive, or accept applications or proposals for insurance, or issue and countersign policies of insurance and endorsements thereto, in excess of \$500,000 in total premiums for any 12 month period from the effective date of the

Agreement without the prior written consent of CSIL or CSIR. IDMD has generated premiums in excess of \$500,000 in a 12 month period in both CSIL and CSIR without prior written consent.

4. Premium Trust Account

Reference page 6

Section 3.1 of the Companies' Master General Agency Agreements states that all premiums received by the MGA for either CSIL or CSIR shall be segregated and held by the MGA in a fiduciary capacity in a bank trust account in a bank that is either federally or state chartered and which is a member of the Federal Deposit Insurance Corporation. However, IDMD has not established bank trust accounts. Rather, premiums received by IDMD are deposited into a separate IDMD "premium account". Included in this bank account are the commingled premiums of CSIL, CSIR, and Redland.

5. CSIL Premiums Receivable

Reference page 7

CSIL has a large receivable from IDMD for premiums collected by IDMD pertaining to business written in the last two months of 2003 and the first six months of 2004 that has not yet been remitted to CSIL. According to documentation provided by Mr. Stranger, CSIL's receivable pertaining to this old business was \$1,988,104.53 (net of IDMD commissions) as of June 30, 2005. Per Mr. Cohen, he has asked the DISB to approve a note from IDMD to CSIL for the old outstanding premiums receivable that would be paid off by IDMD over a period of five years. Mr. Cohen indicated that IDMD did not currently have enough cash to pay the amount due to CSIL. He stated that IDMD had used the CSIL premiums collected to purchase equipment and to pay for other start-up expenses associated with the Companies' business.

6. Timely Remittance of Premiums from IDMD

Reference page 7

Premiums are not always being remitted to the Companies by IDMD in a timely manner (within 60 days after the end of the month in which the premiums are received) in accordance with the Master General Agency Agreement. For example, the premiums collected by IDMD in April 2005 (which should have been remitted to the Companies prior to June 30, 2005) and in May 2005 (which should have been remitted to the Companies prior to July 31, 2005) were not remitted to the Companies until August 26, 2005. Also, the premiums collected by IDMD in June 2005 had not been remitted to the Companies as of September 1, 2005 (the last day of our examination fieldwork).

7. Claims Servicer

Reference page 7

CSIL entered into a Claims Servicing Agreement with TAL dated May 1, 2003, whereby TAL agreed to process claims for CSIL. CSIR entered into a similar Claims Servicing Agreement with TAL dated May 1, 2004. However, Mr. Cohen

indicated that the claims processing services are being provided to the Companies by IDMD rather than by TAL. We were not provided with any documentation evidencing TAL's or the Companies' acceptance of IDMD as the Companies' claims servicer. In addition, we were not provided with any evidence that the DISB was notified of this change in claims servicers.

8. Cost Allocation Agreement

Reference page 8

The Companies, along with IDMD and Redland, entered into a Cost Allocation Agreement dated March 1, 2005, and made effective as of January 1, 2005. The Cost Allocation Agreement amended Section 4.1 (Agent's Compensation) and Section 8 (Operation and Acquisition Expenses) of the Companies' Master General Agency Agreements. The effect of the Cost Allocation amendments to the Master General Agency Agreements was to significantly increase the Companies' cost of doing business. During the first six months of 2005, CSIL's commissions to IDMD, commissions to sub-producers, and allocated expenses paid to IDMD totaled \$1,438,252.81 (46.9% of CSIL's written premiums), which is \$363,806.51 more than would have been paid by CSIL under the terms of the Master General Agency Agreement. During the first six months of 2005, CSIR's commissions to IDMD, commissions to sub-producers, and allocated expenses paid to IDMD totaled \$391,603.03 (80.4% of CSIR's written premiums), which is \$221,134.69 more than would have been paid by CSIR under the terms of the Master General Agency Agreement. We were not provided with any evidence that the DISB was notified of the Cost Allocation Agreement that amended the Companies' Master General Agency Agreements, which had been previously approved by the DISB.

9. Errors and Omissions Coverage

Reference page 8

For the period August 17, 2004 to August 17, 2005, IDMD had an insurance agents and brokers errors and omissions liability policy with limits of \$2 million per occurrence and \$4 million in the aggregate and a commercial umbrella liability policy with limits of \$10 million per occurrence and \$10 million in the aggregate. Per Mr. Cohen, IDMD has not yet received the renewal policies from the insurers that are effective August 17, 2005 to August 17, 2006. However, Mr. Cohen provided us with copies of e-mails from the insurers' representatives indicating that the renewal coverage was bound. It was noted that the umbrella policy was being renewed subject to certain terms and conditions. One of the conditions is that TPA activities will now be excluded from the coverage. By excluding TPA activities, this change in terms and conditions on the umbrella policy would appear to place IDMD in non-compliance with the provisions of Article VII. D. of the CSIL Claims Servicing Agreement, which requires IDMD to have errors and omissions coverage of at least \$5 million per wrongful act, since IDMD's underlying errors and omissions liability policy has limits of only \$2 million per occurrence.

10. IDMD Agency License

Reference page 10

During our on-site examination, Mr. Cohen indicated that all CSIL policies are deemed to be produced by IDMD in the District of Columbia and that he and IDMD are properly licensed agents in the District of Columbia. However, upon our review of the licenses issued by the District of Columbia that were provided by Mr. Cohen, we noted that, although Mr. Cohen is authorized to produce both life/health and property/casualty business, IDMD is only authorized to produce life/health business. Therefore, it appears that IDMD does not have the authority to produce CSIL's business.

11. Appointed Agent

Reference page 11

While we were on-site, Mr. Cohen indicated that Fucci & Friedman, Inc. was not an appointed agent for the Companies. Rather, according to Mr. Cohen, Fucci & Friedman, Inc. is currently being evaluated and may become an appointed agent for the Companies in the future. During this evaluation period, Mr. Cohen indicated that Fucci & Friedman, Inc. has referred business to IDMD, which was then produced by IDMD. However, according to the policy declarations pages for two of our sample policies (CSIL policy #3003241 and CSIR policy #3002617), the agent was Fucci & Friedman, Inc. When we inquired again regarding the status of Fucci & Friedman, Inc. since the agency was shown as the agent for two of the sample policies, Mr. Cohen provided us with a new list of the Companies' appointed agents, which included Fucci & Friedman, Inc. Mr. Cohen also indicated that Fucci & Friedman, Inc. was not an appointed agent initially. However, the agency was appointed by the Companies after it had referred business to IDMD for several months. It is not clear from the conflicting information provided by Mr. Cohen whether Fucci & Friedman, Inc. was an appointed agent at the time the two policies noted in our sample were issued.

12. Producer of CSIL Policies

Reference page 12

We noted that IDMD was indicated as the agent on the policy declarations page for only 17 of the 54 CSIL policies included in our test of 77 sample policies. IDMD was noted as the "underwriter's representative" on the policy declarations pages for all of the sample policies except for the excess liability policies. However, it is not clear whether this satisfies the requirement that all CSIL policies be produced by, or through, IDMD. Also, for the two excess liability policies issued by CSIL in the sample that were indicated as being produced by an agent other than IDMD, there was no indication that IDMD was the "underwriter's representative" for these policies.

13. CSIR New Business in 2005

Reference page 12

While we were on-site, Mr. Cohen stated that CSIR had indicated to the DISB that it would not write any new premium in 2005 due to concerns regarding the volume

of its writings in 2004 to its surplus position. Nevertheless, Mr. Cohen indicated that CSIR had some premiums in 2005 due to renewals that had to be offered because CSIR was not able to issue notices of intent to non-renew in time to allow non-renewal of all of CSIR's policies. However, in our review of the policy declaration pages for the 77 sample policies, we noted four policies issued by CSIR in 2005 that, according to the policy declarations pages, were new policies (#3002352, #3002670, #3002671, and #3002617). When we inquired again about new policies issued by CSIR in 2005, after we had found the four policies in our sample of 77, Mr. Cohen indicated that CSIR ceased writing new business during the month of February 2005 rather than at the end of 2004. He also provided us with a copy of a letter from CSIL's captive manager to the DISB dated 3/28/05 that indicated that CSIR ceased writing new business in February 2005. Further, in response to our request regarding policies issued by CSIR in 2005, Mr. Cohen provided a list showing that CSIR had written 32 new policies in January and February 2005. The list also included two additional policies issued after the end of February (one on March 1, 2005 and the other on August 12, 2005) that, according to Mr. Cohen, should have been issued by CSIL but were issued by CSIR in error.

14. DISB Approval of CSIL Policy Limits Reference page 13

Mr. Cohen indicated that a former management employee of the DISB had approved \$2 million per occurrence policy limits for liquor liability and excess liability policies and \$2 million total insured value limits for property coverage policies issued by CSIL. However, we were not provided with any evidence that the DISB had, in fact, approved those limits.

15. CSIL Feasibility Study Reference page 14

The Milliman feasibility study for CSIL has not been updated to incorporate the higher policy limits for liquor liability and property coverage that have actually been written by CSIL, the fact that CSIL has issued excess liability policies of up to \$2 million per occurrence, and the fact that CSIL has written excess liability policies for policyholders to whom it has also written the underlying liability coverage.

16. DISB Approval of CSIR Policy Limits Reference page 14

Mr. Cohen indicated that a former management employee of the DISB had approved \$2 million per occurrence policy limits for liquor liability and excess liability policies issued by CSIR. However, we were not provided with any evidence that the DISB had, in fact, approved those limits.

17. CSIR Feasibility Study Reference page 15

The Milliman feasibility study for CSIR has not been updated to incorporate the higher policy limits for liquor liability and excess liability coverage that have

actually been written by CSIR, the fact that CSIR has no reinsurance protection, and the fact that CSIR has written excess liability policies for policyholders to whom it has also written the underlying liability coverage.

18. Documentation Re: Workers Comp Policies Reference page 15

Prior to the on-site examination, Mr. Cohen provided to the DISB a list of workers compensation policies written by the Companies. The list contained eight policies (#3002388, #3002394, #3002669, #3002738, #3002859, #3003107, #3003113, and #3003234). When we were on-site, Mr. Cohen stated that only two of the policies were issued by the Companies (#3003107 and #3003234, both of which were issued by CSIL) and that no other workers compensation policies had been issued by the Companies. However, Mr. Cohen refused to provide us with documentation (policy declarations pages, etc.) that would support his statement that six of the eight policies on the list provided to the DISB were not issued by the Companies. In addition, it appears that at least one of the policies that Mr. Cohen indicated was not issued by the Companies (policy #3003113 to D12 Touring, Inc.) was issued by CSIL. The DISB has obtained a copy of Binder #11472-1, which was provided to us subsequent to our on-site work. That binder indicates that "Capitol Specialty" policy #3003113 will provide workers compensation coverage for D12 Touring, Inc. for the policy period July 6, 2005 through July 6, 2006. While we were on-site, Mr. Cohen indicated to us that, when the carrier is indicated as "Capitol Specialty", the carrier is CSIL.

19. Refusal to Identify Employee Re: Workers Comp Policies Reference page 15

When asked how workers compensation policies could have been issued by CSIL, Mr. Cohen indicated that he had discovered that they had been issued improperly from the Companies' old policy system by an underwriting technician. However, Mr. Cohen has refused to identify the employee.

20. Documentation Re: Workers Comp Policies Reference page 16

Mr. Cohen has refused to provide us with evidence that the workers compensation premiums paid on policy #3003113 (D12 Touring, Inc.) were returned.

21. Documentation Re: Workers Comp Policies Reference page 16

In our review of the supporting documentation for the check to Fucci & Friedman, Inc. for the refund of workers compensation premiums paid, we noted a refund of premiums for a policy to "Lamb of God Touring". The policy was not included on the list of policies provided to the DISB. Mr. Cohen stated that the policy was not issued by the Companies. However, he refused to provide us with documentation (policy declarations page, etc.) that would support his statement.

22. Documentation Re: Workers Comp Policies Reference page 16

Binder #11414-1 indicates that "Capitol Specialty" policy #3003242 will provide workers compensation coverage for "As I Lay Dying Touring, LLC" for the policy period July 14, 2005 through September 5, 2005 and Binder #11416-1 indicates that "Capitol Specialty" policy #3003238 will provide workers compensation coverage for "The Black Dahlia Murder Partnership" for the policy period July 14, 2005 through September 5, 2005. As noted previously, while we were on-site, Mr. Cohen indicated to us that, when the carrier is indicated as "Capitol Specialty", the carrier is CSIL. We requested a copy of the policy declarations pages and documentation supporting the return of premiums for both of these policies. However, Mr. Cohen refused to provide the supporting documentation, indicating that the two policies were not issued on CSIL paper and, therefore, are outside the scope of our examination. Mr. Cohen did not address the fact that the binders indicate that the carrier is CSIL. He also refused to provide us with documentation (policy declarations pages, etc.) that would support his statement that the policies were not issued by CSIL. Further, he refused to provide us with evidence that the workers compensation premiums paid on these two policies were returned.

23. Property Policies with TIV in Excess of \$1 Million Reference page 17

CSIL has 30 in-force commercial property policies with total insured values in excess of \$1 million, including five policies with total insured values in excess of \$2 million.

24. Liquor Policies with Limits in Excess of \$1 Million Reference page 17

CSIL and CSIR each have one in-force liquor liability policy with limits of \$2 million per occurrence and \$2 million in the aggregate.

25. Excess Policies with Limits in Excess of \$1 Million Reference page 17

CSIL has 23 in-force excess liability policies with policy limits of \$2 million per occurrence and \$2 million in the aggregate and CSIR has 35 in-force excess liability policies with policy limits of \$2 million per occurrence and \$2 million in the aggregate.

26. Excess Policies by Same Carrier as Underlying Policies Reference page 17

In virtually all instances where the Companies have issued an excess liability policy, the same carrier (CSIL or CSIR) that issued the excess liability policy also issued the underlying general liability and/or liquor liability policy. In all but one of those instances, the Companies' maximum liability exposure for a single occurrence is \$3 million. In the other instance, the maximum liability exposure for a single liquor liability occurrence is \$4 million (CSIR issued liquor liability policy #3002600 with policy limits of \$2 million per occurrence and \$2 million in the

aggregate and also issued excess liability policy #3002602 with policy limits of \$2 million per occurrence and \$2 million in the aggregate). These are all maximum net exposures because the Companies have no reinsurance protection.

27. Documentation of Calculated Rates

Reference page 18

We recalculated the premiums for six policies issued by the Companies and noted that the premiums were generally calculated in accordance with the Companies' procedures and methods as outlined in the Companies' plans of operations that were filed with the DISB. However, although Mr. Cohen provided oral explanations for premium surcharges added to the calculated premiums on the sample policies, the rationale for the premium surcharges was not documented in the policy files.

RECOMMENDATIONS

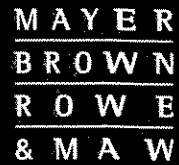
1. The Companies should notify the DISB of their new captive manager.
2. CSIR should enter into a Master General Agency Agreement with IDMD rather than with TAL (since IDMD is serving as CSIR's MGA), and a copy of the agreement should be filed with the DISB.
3. IDMD should obtain written consent from the Companies prior to generating premium volume in excess of \$500,000 in a 12 month period, as required by Section 2.12 of the Companies' Master General Agency Agreements.
4. IDMD should establish premium trust accounts in a qualified bank for the deposit of premiums collected for the Companies, as required by Section 3.1 of the Companies' Master General Agency Agreements. Separate premium trust accounts should be established for each company, and the premiums should not be commingled.
5. IDMD should remit to CSIL the \$1,988,104.53 owed, which represents CSIL premiums collected by IDMD in the last two months of 2003 and the first six months of 2004.
6. IDMD should remit premiums to the Companies in a timely manner (within 60 days after the end of the month in which the premiums are received) in accordance with the Master General Agency Agreements in all instances.
7. The Companies should enter into Claims Servicing Agreements with IDMD rather than with TAL (since IDMD is serving as the Companies' claims servicer), and a copy of the agreements should be filed with the DISB.
8. The Cost Allocation Agreement that the Companies entered into dated March 1, 2005, and made effective as of January 1, 2005, should be submitted to the DISB

for approval since the Cost Allocation Agreement amends certain provisions of the Companies' Master General Agency Agreements that have previously been approved by the DISB.

9. IDMD should cease the cost allocations, based on the Cost Allocation Agreement, until such time as the DISB has approved the Cost Allocation Agreement.
10. If the Cost Allocation Agreement is not approved by the DISB, the excess amounts paid by the Companies to IDMD as a result of the Cost Allocation Agreement amendments to the Master General Agency Agreements should be returned to the Companies.
11. Copies of IDMD's insurance agents and brokers errors and omissions liability policy and commercial umbrella policy renewals for the period August 17, 2005 to August 17, 2006 should be provided to the DISB when the policies are received by IDMD.
12. IDMD should comply with the provisions of Article VII. D. of the CSIL Claims Servicing Agreement, which requires IDMD to have errors and omissions coverage of at least \$5 million per wrongful act.
13. IDMD should ensure that the Companies' policies are only sold by agents properly appointed by the Companies.
14. All CSIL policies should be issued by, or through, IDMD.
15. CSIL should apply for an agent's license from the District of Columbia that includes authority to produce property/casualty business.
16. Until IDMD has received authority from the District of Columbia to produce property/casualty business, it should cease producing such business for CSIL.
17. No policies should be issued by CSIR until CSIR has obtained reinsurance and CSIR's ratios are in line with those approved by the DISB, in accordance with the captive manager's letter to the DISB dated March 28, 2005.
18. Requested policy limits for the Companies' policies should be submitted to the DISB for written approval. Until such time as the requested policy limits are approved in writing by the DISB, policies should not be issued with limits in excess of the limits specified in the Companies' plans of operations, which were previously submitted to the DISB.
19. The Milliman feasibility study for CSIL should be updated to incorporate the higher policy limits for liquor liability and property coverage that have actually been written by CSIL, the fact that CSIL has issued excess liability policies of up to \$2

million per occurrence, and the fact that CSIL has written excess liability policies for policyholders to whom it has also written the underlying liability coverage.

20. The Milliman feasibility study for CSIR should be updated to incorporate the higher policy limits for liquor liability and excess liability coverage that have actually been written by CSIR, the fact that CSIR has no reinsurance protection, and the fact that CSIR has written excess liability policies for policyholders to whom it has also written the underlying liability coverage.
21. All of the documentation requested by the examiners regarding workers compensation policies that Mr. Cohen refused to provide during the examination (see findings #17, #19, #20, and #21 in the Summary of Findings section of the examination report) should be provided to the DISB.
22. The identity of the "rogue" employee who improperly issued the workers compensation policies should be disclosed to the DISB.
23. Excess liability policies should not be issued to policyholders who have purchased underlying general liability or liquor liability coverage from the same company (CSIL or CSIR).
24. The Companies' policy files should contain adequate documentation to support all premium credits/surcharges.



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Andrew J. Morris
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amorris@mayerbrownrowe.com

March 21, 2006

BY HAND DELIVERY

Mr. Thomas Hampton
Acting Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First St., NE, Suite 701
Washington, DC 20002

Re: Response re: Limited Scope Examination of
Capitol Specialty Insurance, Ltd. and Capitol
Specialty Insurance Risk Retention Group, Inc.

Dear Commissioner Hampton:

Pursuant to D.C. Code section 31-1404(b) and 31-3931.14, Capitol Specialty Insurance, Ltd. ("CSIL") and Capitol Specialty Insurance Risk Retention Group, Inc. ("CSIR") (sometimes collectively referred to as "the Companies"), for purposes of responding to the Notice of Hearing dated December 22, 2005, hereby resubmit their response to the report of Limited Scope Examination of the Companies for the period January 1, 2005 through June 30, 2005. A copy of the Companies' submission dated November 23, 2005 is attached hereto and incorporated herein. The Companies will rely on this letter and its prior written submission related to the examination as its testimony. The Companies note that, since that submission, they have addressed a number of the items identified in the report of Limited Scope Examination, as set out in correspondence with the Department.

The Companies wish to reiterate their intention to redomicile or to transfer their respective portfolios in full in the next several weeks, and shall report upon specific intended actions as soon as such details are available.

Moreover, the Companies wish to reiterate that the examiners conducted an extensive review of the financial books, records and accounts of the Companies and found them to be in good order. The examiners found the Companies' financial statements to be properly prepared based on the examiners' analytical review. Bank reconciliations, detail listings of invested assets and all cash accounts were confirmed as correct by the examiners. Detail listings of the

Mr. Thomas Hampton

March 21, 2006

Page 2

Companies' liabilities for unearned premiums and case reserves were clerically tested and totals traced to agreement in the Companies' general ledgers, with no exceptions noted. These most important findings by the examiners must be given appropriate weight as they demonstrate the financial stability and integrity of the Companies.

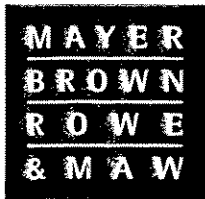
Please contact me if any additional information would be helpful or if you wish to discuss any aspect of this.

Very truly yours,

A handwritten signature in black ink that reads "Andrew J. Morris". The signature is written in a cursive, flowing style.

Andrew J. Morris

cc: Barry Kreiswirth
Dana Sheppard



November 23, 2005

Mayer, Brown, Rowe & Maw LLP
1909 K Street, N.W.
Washington, D.C. 20006-1101

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BY HAND DELIVERY

Mr. Thomas Hampton
Acting Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, DC 20002

Andrew J. Morris
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RECEIVED
NOV 23 P 2:27

Re: Response re: Limited Scope Examination of
Capitol Specialty Insurance, Ltd. and Capitol
Specialty Insurance Risk Retention Group, Inc.

Dear Commissioner Hampton:

Pursuant to D.C. Code section 31-1404(b) and 31-3931.14, Capitol Specialty Insurance, Ltd. ("CSIL") and Capitol Specialty Insurance Risk Retention Group, Inc. ("CSIR") (sometimes collectively referred to as "the Companies"), hereby submit their response to the report of Limited Scope Examination of the Companies for the period January 1, 2005 through June 30, 2005, which was provided to the Companies on October 24, 2005.

Plans to Redomicile

As the Companies recently discussed with the Department of Insurance, Securities and Banking ("DISB" or the "Department"), CSIL intends to redomicile as soon as possible. CSIL's intention is to redomicile in the next several months. CSIL is willing to agree to a specific date for redomiciling and/or to keep the Department well informed of the precise steps it is taking, if that is helpful to the DISB. A more detailed redomestication plan related to the Companies will be provided to the Department.

The General Soundness of the Companies' Books, Records and Accounts

At the outset, note that the "Summary of Findings" set out in the report, and addressed in the numbered paragraphs below, identify only exceptions raised by the examiners. They do not put them in the context of the examination as a whole, or of the Companies' performance and status as a whole. That context is, however, critical to a proper understanding of the report. This examination involved the "review of extensive information," four days of on-site work by the examiners, and a variety of other communications between the examiners, the Companies and

Berlin Brussels Charlotte Chicago Cologne Frankfurt Houston London Los Angeles New York Palo Alto Paris Washington, D.C.
Independent Mexico City Correspondent: Jauregui, Navarrete y Nader S.C.

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Mr. Thomas Hampton
November 23, 2005
Page 2

Insurance Designers of Maryland, Inc. ("IDMD"). On the whole, the report does not dispute that the books, records and accounts of the Companies are in good order. For example, with respect to the "Financial Statement Review," the examiners conducted an overall analytical review of the Companies' financial statements and found no exceptions whatsoever. In fact, the examiners raised no questions at all about the Companies' financial reporting except for one point, addressed in the last section below, about "verifying" the treatment of two checks. ✓

In addition, as the Department is aware, the Companies' auditor, Johnson Lambert, completed its full-scope audit of the Companies' financial statements for the year ended December 31, 2004, and had no qualifications to a clean audit other than the pending issue relating to the treatment of the amount owed by IDMD to CSIL, which is addressed in number 5 below. The Companies received clean audit opinions in earlier years.

Responses to Specific Findings

In addition to providing the responses set out below, the Companies request confidential treatment for all customer or third-party identifying information contained in the report. Specifically, the Companies request that the information be redacted if the report is made public. A copy of the report indicating what portions of the report the Companies consider confidential is enclosed. In that copy, the confidential portions are identified by a strike-through font.

The following comments are identified based on the numbers and headings in the "Summary of Findings" section of the Examination Report.

1. Captive Manager Notice of Termination

The Companies notified DISB on September 20, 2005 that, effective October 1, 2005, the new captive manager is Aon Captive Managers.

2. MGA

CSIR will enter into a Master General Agency Agreement with IDMD, and will file a copy with the DISB by December 15, 2005.

3. MGA Premium Production

The intention of the premium threshold limit is to restrict premiums generating from any single account from exceeding \$500,000 in any single year policy term. The amended Master General Agency Agreement (referred to above) will provide that IDMD shall obtain written consent from the Companies prior to generating premium volume in excess of \$500,000 from any single account in a 12-month period.

Mr. Thomas Hampton
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Page 3

4. Premium Trust Account

If necessary, the Companies will agree to utilize separate escrow accounts for each of the carriers' premium holding accounts. However, this would be extremely inefficient because of the nature of customer payments. It is common for a client to make a single payment to IDMD that IDMD must pass on to several different entities, including various brokerage carriers, RHG, CSIR and CSIL. Establishing separate escrow accounts would require IDMD to send the customer several separate bills and to conduct separate ACH transactions. This would prevent IDMD from providing customers the ability to pay in a single payment.

A better solution is the new accounting system that IDMD is implementing. Under the new system, which should be fully operational by January 1, 2006, when IDMD receives a payment for a policyholder, a payable to the insurance carrier is automatically generated. If the client pays more than one insurance carrier in the same payment, a separate payable for each applicable insurance carrier is generated. This process will enable IDMD to determine which insurance carrier is owed money. It would be inefficient to settle this amount daily, so the Companies would recommend a weekly review and settlement of the payable to an escrow account or directly to the Companies. Although the monies come in together, the monies will be segregated shortly after receipt, which should help alleviate the DISB's concern about the commingling of funds. Under that system, settlements of premiums would be more timely, so that an escrow account would not be necessary.

5. CSIL Premiums Receivable

CSIL proposes to provide a promissory note from IDMD to CSIL addressing the remaining amounts outstanding relating to CSIL premiums collected by IDMD in the last two months of 2003 and the first six months of 2004. The terms of payment will, in general, be a \$400,000 lump sum after approval of the note and 20 quarterly installments of \$92,174.44.

The Companies are in receipt of the DISB's letter dated November 2, 2005 that denies the request to have a note between IDMD and CSIL to pay this amount over time. The Companies respectfully disagree with the Department's position concerning this note. First, the amount outstanding accumulated under a system that was superseded in July 2004, and no new amounts have been added to the balance since that time. Second, the Companies disagree that the approval of this note will threaten the solvency and liquidity of CSIL. Rather, the Companies contend that disapproving the note would threaten the liquidity of CSIL, because IDMD cannot currently immediately repay this amount lump sum, which would be a greater drain on liquidity of the overall operation than extending payment terms. However, if DISB approves the note, the full amount will be repaid in five years. Third, CSIL has more than enough cash on hand to pay its liabilities, including Losses and LAE. The Companies understand that DISB is probably looking beyond the ability to pay losses and LAE, and may be concerned about liabilities such as the Unearned Premium reserves. The Companies believe this should not be a concern because almost all policyholders are billed on an installment basis. Therefore, if a policy were cancelled and the unearned portion had to be "returned," very little cash would change hands because

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almost all of the unearned amount would not have been billed or collected yet. Therefore, CSIL generally needs only sufficient cash on hand to cover losses, LAE and general expenses (which are minimal). Taking into account that almost all of CSIL's reserves are IBNR, which do not require a lot of cash on hand, CSIL does not have a liquidity problem. Because IDMD is unable to pay this amount immediately, a Department's refusal to approve the note also could have a negative effect on solvency. The specific effect would depend on the accounting treatment resulting from the refusal to approve the note.

6. Timely Remittance of Premiums from IDMD

On November 1, 2005, IDMD began implementing a new accounting system that will automate the premium settlement process so that premiums are remitted within the allotted time frame. The Companies will be testing this system in November and December 2005 to work out bugs, if any, and ensure it works correctly before the final implementation on January 1, 2006. The prior system relied on a very basic structure that did not allow automation and multi-company transactions. Under the new system, the time consuming "manual" premium reconciliation process will be eliminated, which will ensure that premiums are settled timely.

7. Claims Servicer

The Companies will enter into Claims Servicing Agreements with IDMD in lieu of the agreements with TAL. A copy of the agreements will be filed with the DISB by December 15, 2005.

8. Cost Allocation Agreement

Per the terms of the DISB captive regulations, the cost allocation agreement was submitted to Potomac Captive Managers prior to the implementation of the agreement. See attached email from J. Cohen to M. Mead dated January 24, 2005. In addition, the Companies are submitting the Cost Allocation Agreement, dated March 1, 2005, and made effective as of January 1, 2005, to the Department for approval (enclosed). The Companies entered into the Cost Allocation Agreement because IDMD and the Companies realized in 2004 that 35% (commission and claims administration fees) could not cover all the Companies' costs of doing business outside of the Companies' specific costs, such as audit and actuarial fees and taxes. Therefore, IDMD reviewed its expenses and determined that commission could be reduced to 25% and then certain costs (such as claims payroll, office rent, and other administrative costs) could be allocated based on stated percentages of premiums and claims. The DISB may think these costs are high; however, these are costs included for underwriting, claims handling, and loss control which are directly responsible for the Companies' very low loss/LAE ratio. For both Companies, that ratio is below 30%, which includes the actuarially determined IBNR. Therefore, the Companies believe putting additional expenses into underwriting, claims and loss control are justified, because it has reduced overall loss exposures. This approach contributes to the success of the Companies and IDMD in controlling loss costs.

Mr. Thomas Hampton
November 23, 2005
Page 5

9. Errors and Omissions Coverage

The Companies will provide copies of IDMD's insurance agents and brokers errors and omissions liability policy and commercial umbrella policy renewals for the period August 17, 2005 to August 17, 2006, when the policies are received by IDMD.

10. IDMD Agency License

IDMD is ensuring that the Companies' policies are sold only by agents properly appointed by the Companies.

11. Appointed Agent

All CSIL policies are issued by, or through, IDMD. Currently, only two brokers are appointed to submit business into either carrier via IDMD: HGR Group & Fiteslon and Sons.

12. Producer of CSIL Policies

There is no requirement that the MGA be identified on every policy. If this does not resolve this issue, please let us know.

13. CSIR New Business in 2005

CSIR has issued no new policies since the end of February 2005. It has issued a limited number of policy endorsements, which included changes to policies or audit premiums. Since CSIR issued the original policy, the endorsement premiums had to also be done by CSIR.

14. DISB Approval of CSIL Policy Limits

As stated above, CSIL intends to redomicile as soon as possible to a domicile in which these policy limits are not an issue.

15. CSIL Feasibility Study

As stated above, CSIL intends to redomicile as soon as possible. Once that occurs, there will be no need for this feasibility study.

16. DISB Approval of CSIR Policy Limits

First, CSIR is not issuing new policies, as noted above. Second, if CSIR resumes issuing policies, it will do so at a maximum retention of \$100,000.

Mr. Thomas Hampton
November 23, 2005
Page 6

17. CSIR Feasibility Study

Because CSIR will issue new policies only at maximum retention of \$100,000, there will be no need for this feasibility study.

18. Documentation Re: Workers Comp. Policies

CSIL will provide copies of the requested documents, redacting customer information.

19. Refusal to Identify Employee Re: Workers Comp. Policies

The policies were issued with the incorrect issuing carrier listed on the policies. This is a clerical error. When our system creates new policies, the user can select one of many carriers, and the wrong carrier was selected in error. Now, IDMD has controls in place that prevent policies from being issued without the approval of IDMD's President and to verify the proper carrier is selected in every instance.

20. Documentation Re: Workers Comp. Policies

CSIL will provide redacted copies of the requested documents.

21. Documentation Re: Workers Comp. Policies

CSIL will provide redacted copies of the requested documents.

22. Documentation re: Workers Comp. Policies

CSIL will provide redacted copies of the requested documents.

23. CSIL Property Policies with TIV in Excess of \$1 Million

As explained above, CSIL intends to redomicile as soon as possible to a domicile in which these policy limits are not an issue.

Mr. Thomas Hampton
November 23, 2005
Page 7

24. CSIL and CSIR Liquor Policies with Limits in Excess of \$1 Million

As explained above, CSIL intends to redomicile as soon as possible to a domicile in which these policy limits are not an issue, and CSIR does not intend to issue additional policies at these levels.

25. CSIL Excess Policies with limits in Excess of \$1 Million

As explained above, CSIL intends to redomicile as soon as possible to a domicile in which these policy limits are not an issue.

26. CSIL and CSIR Excess Policies by Same Carrier as Underlying Policies

As explained above, CSIL intends to redomicile as soon as possible to a domicile in which these policy limits are not an issue, and CSIR does not intend to issue additional policies at these levels.

27. Documentation of Calculated Rates

The Companies will ensure that the policy files contain documentation of premium credits and/or surcharges.

Other Comments

Financial Statement Review: Cash and Invested Assets

The Companies request that the report's discussion of "Cash and Invested Assets" be amended to include the Companies' explanation of the two certificates of deposit addressed in the second and third paragraphs of that section. The Companies request that those paragraphs be deleted, or alternatively, be amended as follows, adding the underlined text and deleting the text that is struck out:

All of the Companies' cash accounts and invested assets as of June 30, 2005 were confirmed directly with the banks and investment custodians except for certificates of deposit ("CDs") in the amount of \$325,000 for CSIL and \$500,000 for CSIR, which were reflected on the Companies' June 30, 2005 financial statements. We were informed that the Companies redeemed CDs because the money was going to be used to open new accounts with another bank. The Companies experienced several delays in setting up the accounts, which resulted in the proceeds being held in a safe longer than the Companies anticipated. The Companies were ending their relationship with the current bank, so they did not re-deposit the funds in that bank after the delays began. We did use alternative procedures to ensure the proceeds from the redeemed CDs were actually deposited into new bank accounts with a new bank as of August 31, 2005. ~~"CDs at Virginia Commerce Bank". According to Mr. Cohen and Mr. Stranger, these CDs were actually cashed out in May 2005 and that, as of June 30, 2005, the checks from Virginia Commerce Bank for the proceeds from the CDs were being retained in a vault at the~~

Mr. Thomas Hampton
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Page 8

~~Companies' office. Mr. Cohen and Mr. Stranger indicated that they intended to deposit the checks from Virginia Commerce Bank into new CSIL and CSIR accounts at RBC Centura Bank immediately. However, Mr. Cohen and Mr. Stranger indicated that several delays were encountered in the establishment of the new bank accounts and that once the bank accounts were finally opened in early August 2005, the checks were deposited. Mr. Cohen and Mr. Stranger did not indicate why the proceeds were not deposited into existing CSIL and CSIR bank accounts or otherwise reinvested immediately upon receipt of the checks from Virginia Commerce Bank.~~

~~We could not verify that the checks from Virginia Commerce Bank were in a vault at the Companies' office on June 30, 2005. However, Mr. Stranger provided us with a copy of the checks from Virginia Commerce Bank dated May 12, 2005 for the CD proceeds and a copy of the authenticated deposit receipts from RBC Centura Bank showing the deposit of the proceeds into the Companies' RBC Centura Bank accounts on August 10, 2005. We also obtained a copy of the Companies' bank statements from RBC Centura Bank and the bank reconciliations as of August 31, 2005 and confirmed the bank balances as of August 31, 2005 directly with RBC Centura Bank.~~

* * *

Please contact me if any additional information would be helpful or if you wish to discuss any aspect of this.

Very truly yours,



Andrew J. Morris

Cc: Barry Kreiswirth
Dana Sheppard

Mr. Thomas Hampton
November 23, 2005
Page 9

Attachments

- Cost Allocation Agreement between IDMD and the Companies.
- Declaration pages relating to workers compensation policies:
 - 3002388
 - 3002394
 - 3002669
 - 3002738
 - 3002859
 - 3003107
 - 3003234
 - 3002618
- Email from J. Cohen to M. Mead dated January 24, 2005 (relating to cost allocation agreement)

ATTACHMENT 1

COST ALLOCATION AGREEMENT

By and Among

Insurance Designers of Maryland, Inc.
Capitol Specialty Insurance, Ltd.
Redland Holdings Group, Inc., and
Capitol Specialty Insurance Risk Retention Group, Inc.

THIS ALLOCATION AGREEMENT entered into as of the 1st day of March 2005, and made effective January 1, 2005, by and between Insurance Designers of Maryland, Inc., a Maryland corporation (hereinafter referred to as IDMD), Capitol Specialty Insurance, Ltd., a District of Columbia captive insurance company, Redland Holdings Group, Inc., an Maryland Corporation, and Capitol Specialty Insurance Risk Retention Group, Inc., a District of Columbia risk retention group (each a Company and, collectively, the Companies).

WHEREAS, each of the Companies has separately entered into substantively similar program Master General Agency agreements (each a MGA Agreement and, collectively, the MGA Agreements) with IDMD for the performance of MGA services and; and

WHEREAS, Section 4 of each MGA Agreement sets forth compensation to be paid to IDMD by the counterparty thereto; and

WHEREAS, the parties hereto have determined that it serves to increase efficiency and decrease costs to collectively share and allocate the costs and expenses arising out of the MGA Agreements;

NOW, THEREFORE, for and in consideration of these premises and the mutual benefits accruing to the parties, it is hereby agreed as follows:

I. *Amendment of MGA Agreements.*

Each of the MGA Agreements is amended by deleting Section 8 thereof entitled OPERATION AND ACQUISITION EXPENSES and Section 4 thereof entitled AGENT'S COMPENSATION will be amended to read as follows:

4.1 With respect to the insurance policies produced by the Broker hereunder, the Company will pay and the Broker will accept as full compensation on business placed with and accepted by the company, 25% on all lines. Broker's commission is identified as a percentage of the gross net premiums written (gross written premiums less refunds or cancellations) collected by the Broker. The Broker is authorized to pay to Producers according to attached Schedule <<COMSKED>> if the gross net written premiums collected.

II. *Sharing of Cost and Expenses Incurred in Connection with the MGA Agreements.*

The Companies agree to share and allocate costs and expenses incurred by IDMD, as reasonably determined by IDMD, in connection with the performance of its duties under the MGA Agreement. Costs and expenses so determined shall be allocated based upon the following: 1) where practical, IDMD shall allocate specific costs and expenses to the entity IDMD reasonably deems appropriate to bear such cost or expense (to include commissions to outside brokers); or 2) IDMD may allocate costs and expenses on the basis of the weighted average of direct written premium and incurred claims expense of the Companies.

III. *Term of Agreement*

This agreement is effective the 1st day of January 2005 and shall remain in effect through the last day of the current calendar year. Thereafter, this Agreement shall automatically be renewed on the same terms and conditions for successive one (1) year terms unless any party terminates this agreement as provided in Article IV below.

IV. *Termination*

This agreement may be terminated by any party upon written notice given to the other parties.

V. *Miscellaneous*

This agreement may be modified from time to time by written agreement of the parties.

IN WITNESS WHEREOF, the parties have caused this instrument to be executed and attested by their respective proper officers on the day and date first hereinabove set out, and made effective January 1, 2005.

INSURANCE DESIGNERS OF
MARYLAND, INC.

BY:

TITLE:

CAPITOL SPECIALTY INSURANCE, LTD.

BY:

TITLE:

REDLAND HOLDINGS GROUP, INC.

BY:

TITLE:

CAPITOL SPECIALTY
INSURANCE RISK RETENTION GROUP, I
NC.

BY:

TITLE:

ATTACHMENT 2

WASHINGTON, DC

**EXCESS WORKERS COMPENSATION
AND EMPLOYERS LIABILITY**

INFORMATION PAGE

Policy No: 3002388
Renewal of:

Producer's Name & Address
Fucci & Friedman, Inc.
C/O Bradley & Parker, Inc.
200 Oak Drive
Syosset, NY 11791

Item 1. The Insured & Mailing Address:

A-Million Bucks Touring, Inc.
C/O LL Management
3000 Marcus Ave.
Lake Success, NY 11042

FORM OF BUSINESS:

- Individual
 Organization (other than partnership or joint venture)
 Partnership
 Joint Venture

BUSINESS DESCRIPTION: Corporation
FEDERAL EMPLOYER ID #: 201246590

Item 2. Policy Period The policy period is from: 11/12/2004 TO 11/12/2005 effective 12:01 AM Standard Time at the insured's Mailing Address

Item 3.

a. Named State(s) covered under this policy:
All States

b. Excluded State(s):

Item 4. Insurer's Limits of Liability and Insured's Retentions

a. Insurer's Limits of Liability:

Part One:

Bodily Injury By Accident each accident: \$100,000
Bodily Injury by Disease each employee: \$100,000/\$500,000 policy limit

Part Two:

Bodily Injury By Accident each accident: \$100,000
Bodily Injury by Disease each employee: \$100,000/\$500,000 policy limit

b. Insured's Retentions (For Parts One and Two):

each accident: \$500
each employee for disease: \$500

Item 5. Premium: Premium for the policy period is: \$5,500.00
Minimum Premium for the policy period is: \$5,500.00

This premium is an estimate and will be adjusted in accordance with PART five of this policy to determine the final premium.

Audit Period: Annual
Payment Plan: Annual
Payment Amount: See Payment Plan Page

Deposit Premium: N/A
Assessment(s)/Fee(s):
Total Deposit Due: N/A

Item 6. Endorsements and Schedules attached to this policy:
(SEE: "LISTING OF FORMS ENDORSEMENTS FORMING A PART OF THIS POLICY".)

WASHINGTON, DC

**EXCESS WORKERS COMPENSATION
AND EMPLOYERS LIABILITY**

INFORMATION PAGE

Policy No: 3002394
Renewal of:

Producer's Name & Address
Fucci & Friedman, Inc.
39B Railroad Avenue
Sayville, NY 11782

Item 1. The Insured & Mailing Address:

South Side Touring, Inc.
C/O LL Management
3000 Marcus Ave.
Lake Success, NY 11042

FORM OF BUSINESS:

- Individual
 Organization (other than partnership or joint venture)
 Partnership
 Joint Venture

BUSINESS DESCRIPTION:

FEDERAL EMPLOYER ID #: ~~XXXXXXXXXXXX~~

Item 2. Policy Period The policy period is from: 11/12/2004 TO 11/12/2005 effective 12:01 AM Standard Time at the insured's Mailing Address

Item 3.

a. Named State(s) covered under this policy:

~~States Covered~~

b. Excluded State(s):

~~States Excluded~~

Item 4. Insurer's Limits of Liability and Insured's Retentions

a. Insurer's Limits of Liability:

Part One:

Bodily Injury By Accident each accident: \$100,000
Bodily Injury by Disease each employee: \$100,000/\$500,000 policy limit

Part Two:

Bodily Injury By Accident each accident: \$100,000
Bodily injury by Disease each employee: \$100,000/\$500,000 policy limit

b. Insured's Retentions (For Parts One and Two):

each accident: \$500
each employee for disease: \$500

Item 5. Premium:

Premium for the policy period is: \$5,500.00

Minimum Premium for the policy period is: \$5,500.00

This premium is an estimate and will be adjusted in accordance with PART five of this policy to determine the final premium.

Audit Period: Annual
Payment Plan: Annual
Payment Amount: See Payment Plan Page

Deposit Premium: N/A
Assessment(s)/Fee(s):
Total Deposit Due: N/A

Item 6. Endorsements and Schedules attached to this policy:

(SEE: "LISTING OF FORMS ENDORSEMENTS FORMING A PART OF THIS POLICY".)

WASHINGTON, DC

**EXCESS WORKERS COMPENSATION
AND EMPLOYERS LIABILITY**

INFORMATION PAGE

Policy No: 3002669
Renewal of:

Producer's Name & Address
Fucci & Friedman, Inc.
39B Railroad Avenue
Sayville, NY 11782

Item 1. The Insured & Mailing Address:

G Unit Touring, Inc., ETAL
c/o LL Management
3000 Marcus Ave.
Suite 3W7
Lake Success, NY 11042

FORM OF BUSINESS:

- Individual
 Organization (other than partnership or joint venture)
 Partnership
 Joint Venture

BUSINESS DESCRIPTION:

FEDERAL EMPLOYER ID #: [REDACTED]

Item 2. Policy Period The policy period is from: 2/1/2005 TO 2/1/2006 effective 12:01 AM Standard Time at the insured's Mailing Address

Item 3.

a. **Named State(s) covered under this policy:**

[REDACTED]

b. **Excluded State(s):**

[REDACTED]

Item 4. Insurer's Limits of Liability and Insured's Retentions

a. **Insurer's Limits of Liability:**

Part One:

Bodily Injury By Accident each accident: \$100,000
Bodily Injury by Disease each employee: \$100,000/\$500,000 policy limit

Part Two:

Bodily Injury By Accident each accident: \$100,000
Bodily Injury by Disease each employee: \$100,000/\$500,000 policy limit

b. **Insured's Retentions (For Parts One and Two):**

each accident: \$500
each employee for disease: \$500

Item 5. Premium: Premium for the policy period is: \$25,000.00
Minimum Premium for the policy period is: \$25,000.00

This premium is an estimate and will be adjusted in accordance with PART five of this policy to determine the final premium.

Audit Period: Annual
Payment Plan: Annual
Payment Amount: See Payment Plan Page

Deposit Premium: N/A
Assessment(s)/Fee(s):
Total Deposit Due: N/A

Item 6. Endorsements and Schedules attached to this policy:
(SEE: "LISTING OF FORMS ENDORSEMENTS FORMING A PART OF THIS POLICY".)

WASHINGTON, DC

**EXCESS WORKERS COMPENSATION
AND EMPLOYERS LIABILITY**

INFORMATION PAGE

Policy No: 3002738
Renewal of:

Producer's Name & Address
Fucchi & Friedman, Inc.
39B Railroad Avenue
Sayville, NY 11782

Item 1. The Insured & Mailing Address:

Shot Touring, Inc.
C/O Whitehat Management
18 Hook Mountain Road
P.O. Box 896
Pine Brook, NJ 07058

FORM OF BUSINESS:

- Individual
 Organization (other than partnership or joint venture)
 Partnership
 Joint Venture

BUSINESS DESCRIPTION:

FEDERAL EMPLOYER ID #: ~~XXXXXXXXXXXX~~

Item 2. Policy Period The policy period is from: 3/1/2005 TO 3/1/2006 effective 12:01 AM Standard Time at the insured's Mailing Address

Item 3.

a. Named State(s) covered under this policy:

~~States Covered~~

b. Excluded State(s):

~~States Excluded~~

Item 4. Insurer's Limits of Liability and Insured's Retentions

a. Insurer's Limits of Liability:

Part One:

Bodily Injury By Accident each accident: \$100,000
Bodily Injury by Disease each employee: \$100,000/\$500,000 policy limit

Part Two:

Bodily Injury By Accident each accident: \$100,000
Bodily Injury by Disease each employee: \$100,000/\$500,000 policy limit

b. Insured's Retentions (For Parts One and Two):

each accident: \$500
each employee for disease: \$500

Item 5. Premium: Premium for the policy period is: \$5,000.00
Minimum Premium for the policy period is: \$5,000.00

This premium is an estimate and will be adjusted in accordance with PART five of this policy to determine the final premium.

Audit Period: Annual
Payment Plan: Quarterly-ACH
Payment Amount: See Payment Plan Page

Deposit Premium: N/A
Assessment(s)/Fee(s):
Total Deposit Due: N/A

Item 6. Endorsements and Schedules attached to this policy:

(SEE: "LISTING OF FORMS ENDORSEMENTS FORMING A PART OF THIS POLICY".)

WASHINGTON, DC

**EXCESS WORKERS COMPENSATION
AND EMPLOYERS LIABILITY**

INFORMATION PAGE

Policy No: 3002859

Renewal of:

Producer's Name & Address

Fucci & Friedman, Inc.
39B Railroad Avenue
Sayville, NY 11782

Item 1. The Insured & Mailing Address:

Slipknot Touring, LLC
C/O LL Business Management
3000 Marcus Ave., #3W4
Lake Success, NY 11042

FORM OF BUSINESS:

- Individual
 Organization (other than partnership or joint venture)
 Partnership
 Joint Venture

BUSINESS DESCRIPTION:

FEDERAL EMPLOYER ID #: ~~XXXXXXXXXXXX~~

Item 2. Policy Period The policy period is from: 3/30/2005 TO 3/30/2006 effective 12:01 AM Standard Time at the insured's Mailing Address

Item 3.

a. **Named State(s) covered under this policy:**

~~States Covered~~

b. **Excluded State(s):**

~~States Excluded~~

Item 4. Insurer's Limits of Liability and Insured's Retentions

a. **Insurer's Limits of Liability:**

Part One:

Bodily Injury By Accident each accident: \$100,000
Bodily Injury by Disease each employee: \$100,000/\$500,000 policy limit

Part Two:

Bodily Injury By Accident each accident: \$100,000
Bodily Injury by Disease each employee: \$100,000/\$500,000 policy limit

b. **Insured's Retentions (For Parts One and Two):**

each accident:: \$500
each employee for disease: \$500

Item 5. Premium: Premium for the policy period is: \$25,273.46
Minimum Premium for the policy period is: \$25,273.46

This premium is an estimate and will be adjusted in accordance with PART five of this policy to determine the final premium.

Audit Period: Annual
Payment Plan: Quarterly-ACH
Payment Amount: See Payment Plan Page

Deposit Premium: N/A
Assessment(s)/Fee(s):
Total Deposit Due: N/A

Item 6. Endorsements and Schedules attached to this policy:

(SEE: "LISTING OF FORMS ENDORSEMENTS FORMING A PART OF THIS POLICY".)

WASHINGTON, DC

**EXCESS WORKERS COMPENSATION
AND EMPLOYERS LIABILITY**

INFORMATION PAGE

Policy No: 3003107
Renewal of:

Producer's Name & Address
Fucci & Friedman, Inc.
39B Railroad Avenue
Sayville, NY 11782

Item 1. The Insured & Mailing Address:

Shady Touring, LLC, ETAL
3000 Marcus Ave.
Suite #3WL
Lake Success, NY 11042

FORM OF BUSINESS:

- Individual
 Organization (other than partnership or joint venture)
 Partnership
 Joint Venture

BUSINESS DESCRIPTION:

FEDERAL EMPLOYER ID #: ██████████

Item 2. Policy Period The policy period is from: 5/25/2005 TO 5/25/2006 effective 12:01 AM Standard Time at the Insured's Mailing Address

Item 3.

a. Named State(s) covered under this policy:

██████████

b. Excluded State(s):

██████████

Item 4. Insurer's Limits of Liability and Insured's Retentions

a. Insurer's Limits of Liability:

Part One:

Bodily Injury By Accident each accident: \$100,000
Bodily Injury by Disease each employee: \$100,000/\$500,000 policy limit

Part Two:

Bodily Injury By Accident each accident: \$100,000
Bodily Injury by Disease each employee: \$100,000/\$500,000 policy limit

b. Insured's Retentions (For Parts One and Two):

each accident: \$500
each employee for disease: \$500

Item 5. Premium: Premium for the policy period is: \$25,000.00
Minimum Premium for the policy period is: \$25,000.00

This premium is an estimate and will be adjusted in accordance with PART five of this policy to determine the final premium.

Audit Period: Annual
Payment Plan: Annual-ACH
Payment Amount: See Payment Plan Page

Deposit Premium: N/A
Assessment(s)/Fee(s):
Total Deposit Due: N/A

Item 6. Endorsements and Schedules attached to this policy:
(SEE: "LISTING OF FORMS ENDORSEMENTS FORMING A PART OF THIS POLICY".)

WASHINGTON, DC

**EXCESS WORKERS COMPENSATION
AND EMPLOYERS LIABILITY**

INFORMATION PAGE

Policy No: 3003234
Renewal of:

Producer's Name & Address
Fucci & Friedman, Inc.
C/O Bradley & Parker, Inc.
200 Oak Drive
Syosset, NY 11791

Item 1. The Insured & Mailing Address:

Gizmachi, LLC,
C/O LL Business Management
151 Lafayette Street, 6th Floor
New York, NY 10013

FORM OF BUSINESS:

- Individual
 Organization (other than partnership or joint venture)
 Partnership
 Joint Venture

BUSINESS DESCRIPTION:

FEDERAL EMPLOYER ID #: 20-223078

Item 2. Policy Period The policy period is from: 7/14/2005 TO 9/5/2005 effective 12:01 AM Standard Time at the insured's Mailing Address

Item 3.

a. Named State(s) covered under this policy:
All States

b. Excluded State(s):

Item 4. Insurer's Limits of Liability and Insured's Retentions

a. Insurer's Limits of Liability:

Part One:

Bodily Injury By Accident each accident: \$100,000
Bodily Injury by Disease each employee: \$100,000/\$500,000 policy limit

Part Two:

Bodily Injury By Accident each accident: \$100,000
Bodily Injury by Disease each employee: \$100,000/\$500,000 policy limit

b. Insured's Retentions (For Parts One and Two):

each accident: \$500
each employee for disease: \$500

Item 5. Premium: Premium for the policy period is: \$1,500.00
Minimum Premium for the policy period is: \$1,500.00

This premium is an estimate and will be adjusted in accordance with PART five of this policy to determine the final premium.

Audit Period: Annual
Payment Plan: Annual-ACH
Payment Amount: See Payment Plan Page

Deposit Premium: N/A
Assessment(s)/Fee(s):
Total Deposit Due: N/A

Item 6. Endorsements and Schedules attached to this policy:
(SEE: "LISTING OF FORMS ENDORSEMENTS FORMING A PART OF THIS POLICY".)

WASHINGTON, DC

**EXCESS WORKERS COMPENSATION
AND EMPLOYERS LIABILITY**

INFORMATION PAGE

Policy No: 3002618
Renewal of:

Producer's Name & Address
Fucci & Friedman, Inc.
39B Railroad Avenue
Sayville, NY 11782

Item 1. The Insured & Mailing Address:

Lamb of God Touring, LLC
c/o Frank Warren
Harris, Hardy, & Johnstone
9211 Forest Hill Ave., Ste 101
Richmond, VA 23235

FORM OF BUSINESS:

- Individual
 Organization (other than partnership or joint venture)
 Partnership
 Joint Venture

BUSINESS DESCRIPTION:

FEDERAL EMPLOYER ID #: ~~XXXXXXXXXXXX~~

Item 2. Policy Period The policy period is from: 3/1/2005 TO 3/1/2006 effective 12:01 AM Standard Time at the insured's Mailing Address

Item 3.

a. Named State(s) covered under this policy:

~~States Covered~~

b. Excluded State(s):

~~States Excluded~~

Item 4. Insurer's Limits of Liability and Insured's Retentions

a. Insurer's Limits of Liability:

Part One:

Bodily Injury By Accident each accident: \$100,000
Bodily Injury by Disease each employee: \$100,000/\$500,000 policy limit

Part Two:

Bodily Injury By Accident each accident: \$100,000
Bodily Injury by Disease each employee: \$100,000/\$500,000 policy limit

b. Insured's Retentions (For Parts One and Two):

each accident: \$500
each employee for disease: \$500

Item 5. Premium: Premium for the policy period is: \$6,000.00
Minimum Premium for the policy period is: \$6,000.00

This premium is an estimate and will be adjusted in accordance with PART five of this policy to determine the final premium.

Audit Period: Annual
Payment Plan: Quarterly-ACH
Payment Amount: See Payment Plan Page

Deposit Premium: N/A
Assessment(s)/Fee(s):
Total Deposit Due: N/A

Item 6. Endorsements and Schedules attached to this policy:
(SEE: "LISTING OF FORMS ENDORSEMENTS FORMING A PART OF THIS POLICY".)

ATTACHMENT 3

Jeff Cohen

Subject: FW: Capitol Specialty Insurance Risk Retention Group, Inc.

-----Original Message-----

From: Jeff Cohen

Sent: Monday, January 24, 2005 3:31 PM

To: 'Mike Mead'

Subject: RE: Capitol Specialty Insurance Risk Retention Group, Inc.

Please be advised that we are changing the commission structure and the fee based service expense sharing between IDMD and the two carriers. We are going to a flat commission % and sharing the expenses equally between the entities. I will forward the new expense sharing/allocation agreement ASAP. Please advise DC accordingly, I'm not sure what else we need to do here.

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

Thomas E. Hampton
Commissioner



District of Columbia Department of Insurance, Securities and Banking)	
)	
v)	RFB-MC-05-11
)	RFB-CD-06-02
Capitol Specialty Insurance, Ltd. and Capitol Specialty Insurance Risk Retention Group, Inc.)	RFP-Corr. O-05-09
)	

CONSENT AGREEMENT AND ORDER

WHEREAS, on November 8, 2005, the Commissioner of the Department of Insurance, Securities and Banking ("Department") issued an Order to Take Corrective Action and Produce Documents ("November 8, 2005 Order") against Capitol Specialty Insurance, Ltd. ("CSIL"), DISB # AG009, and Capitol Specialty Insurance Risk Retention Group, Inc. ("CSIR"), NAIC # 12018, DISB # RR013 (collectively, the "Companies"), in which the Commissioner determined that grounds existed to conclude that the Companies had violated various provisions of the laws of the District of Columbia and both CSIL and CSIR requested a hearing in regard to such Order; and

WHEREAS, on April 6, 2006, the Commissioner issued an Order ("April 6, 2006 Order") adopting a report on the limited-scope examination of CSIL and CSIR for the period from January 1, 2005, to June 30, 2005, which report made various findings indicating possible violations of the laws and regulations of the District of Columbia, which report CSIL and CSIR had filed comments upon; and

WHEREAS, on April 14, 2006, the Commissioner issued a Summary Order to Cease and Desist ("April 14, 2006"), in which the Commissioner determined that grounds existed to conclude that the Companies had violated various provisions of the laws of the District of Columbia and had operated in manner that was hazardous to the general public and to the Companies' policyholders and creditors and the Companies had requested a hearing in regard to such Summary Order; and

WHEREAS, the Companies deny that they have violated any law or regulation of the District of Columbia or that the Companies have operated in a financially hazardous condition; and

WHEREAS, a dispute regarding these issues could lead to lengthy administrative proceedings and protracted litigation, imposing significant costs on both the Commissioner and the Companies and leading to uncertainties regarding the ultimate resolution; and

WHEREAS, the Commissioner believes that the public interest would be best served by forgoing further administrative proceedings and litigation and their attendant costs and uncertainties and instead entering into an agreement and issuing an order whereby the Companies will comply with specific terms, conditions, provisions that address the issues raised by the Commissioner's findings and determinations; and

WHEREAS, the Companies believe that it is in their best interests to forgo further administrative proceedings and litigation and their attendant costs and uncertainties and instead agree to comply with the terms, conditions, and provisions set forth in this Consent Agreement and Order; and

WHEREAS, the Companies agree to voluntarily waive all rights to a hearing upon entry of this Consent Agreement and Order, without admitting or denying the existence of a violation, and the Companies have consented to the entry of this Consent Agreement and Order and agree that they will, upon signature below, take the actions set forth in this Consent Agreement and Order and comply with all of the terms, conditions, and provisions therein;

NOW, THEREFORE, the Commissioner issues, and the Commissioner and the Companies agree and enter into, this Consent Agreement and Order.

CONSENT AGREEMENT

Writing, Marketing, and Administration of New Business of CSIL and CSIR: Fronting Agreement with American Safety Indemnity Company

- A. As of the effective date of this Consent Agreement and Order, the entertainment insurance program of the Companies shall be written, marketed, and administered only in accordance with all of the terms, conditions, and provisions of, the attached Program Managers Agreement between American Safety Indemnity Company ("ASIC") and The Agency, LLC (Exhibit A), the attached Master General Agency Agreement between CSIL and The Agency, LLC (Exhibit B), and the attached Master General Agency Agreement between CSIR and The Agency, LLC (Exhibit C); provided, CSIR may continue to write business in California, Connecticut, Maryland, Nevada, New Hampshire, New York, Pennsylvania, and Tennessee for the two (2) year period (or such longer period as may be authorized by the Commissioner under Paragraph M) authorized by Paragraph M. For the purposes of this Consent Agreement and Order and any associated documents, the phrase "entertainment insurance program" means those lines of insurance authorized to be written by the Companies under the approved

business plans of CSIL and CSIR (as herein modified), subject to all conditions, restrictions, and limitations in those business plans and subject to all conditions, restrictions, and limitations set forth in this Consent Agreement and Order.

- B. During the three (3) year period after the effective date of this Consent Agreement and Order, none of the agreements referenced in Paragraph A above shall be modified without the prior written approval of the Commissioner.
- C. All entertainment insurance program business of the Companies shall be written on the policy forms contained in the existing approved business plans of the Companies.
- D. No business shall be written, marketed, or administered by or on behalf of the Companies except for the entertainment insurance program business of the Companies.
- E. The Companies agree that although the attached Master General Agency Agreement between CSIL and The Agency, LLC (Exhibit C) may cover activities other than those authorized in this Consent Agreement and Order, CSIL shall not engage in, nor shall CSIL authorize The Agency, LLC to engage in on CSIL's behalf, any activities not authorized by this Consent Agreement and Order. The Companies agree that the activities of CSIL authorized by this Consent Agreement and Order are limited to reinsurance activities, as further described and limited in this Consent Agreement and Order.

Prior Business of CSIL and CSIR; Run-Off Business of CSIL and CSIR

- F. Any claims related to the business of the Companies written before the effective dates of the agreements referenced in Paragraph A above shall be handled pursuant to the attached Claims Servicing Agreement between CSIL and The Agency, LLC (Exhibit D) and the attached Claims Servicing Agreement between CSIR and The Agency, LLC (Exhibit E). Neither claims servicing agreement shall be modified without the prior written consent of the Commissioner.
- G. All business of the Companies written before the effective date of the agreements referenced in Paragraph A above shall be administered and managed pursuant to the attached Management Agreement between CSIR and B&D Consulting LLC (Exhibit F) and the attached Management Agreement between CSIL and B&D Consulting LLC (Exhibit G).
- H. The Commissioner hereby approves the attached Cost Allocation Agreement between CSIL, CSIR, and Insurance Designers of Maryland (Exhibit H) for business written after the effective date of the Cost Allocation Agreement and prior to the effective date of the agreements referenced in Paragraph A above.

Management Agreements with B&D Consulting LLC

- I CSIL shall comply with all of the terms, conditions, and provisions of, the attached Management Agreement between CSIL and B&D Consulting LLC ("B&D")(Exhibit F) and CSIR shall comply with, all of the terms, conditions, and provisions of, the attached Management Agreement between CSIR and B&D (Exhibit G).

The Companies shall contract with B&D, or include as part of the management agreements referenced in this Paragraph, a requirement that B&D, for a period of one (1) year, provide a quarterly report (in a form provided or approved by the Commissioner) of ASIC's, CSIL's and CSIR's premium accounting and policy issuance activities, and provide a written report to the Department for four consecutive quarters, provided, however, that information related to ASIC shall pertain only to ASIC's activities related to the entertainment insurance program managed by The Agency, LLC, and any other transactions related to CSIL or CSIR.

B&D's quarterly report shall report whether agent's balances and all other receivables from managing general agents or other producers shown as an admitted asset have due dates less than or equal to sixty (60) days from the date the policies are issued (or, if the policies are issued on an installment payment basis, within sixty (60) days after the date on which each installment payment is due, provided that in no case shall any installment payment be due later than three (3) months prior to the end of the policy term), whether reinsurance premiums are being paid to CSIL within 60 days from the date the policies are underwritten, and whether all lines of coverage and policy limits written by the Companies are in compliance with the Companies' business plans.

B&D shall also provide the Department with a separate quarterly bordereaux for CSIR for one year containing the following information:

Name of insured
Type of policy (line of business)
Premium amount
Policy limit(s)
Policy number
Effective date of policy
Term of policy

- J Neither CSIL nor CSIR shall agree, authorize, or allow any modification of any term, condition, provision, or wording of the management agreements referenced in Paragraph I above without the prior written approval of the Commissioner.

Discontinuation of Business of CSIR

- K. CSIR shall, as of the effective date of this Consent Agreement and Order, cease writing insurance business, including new policies, renewals, and endorsements, in every state, province, and jurisdiction other than the following: California, Connecticut, Maryland, Nevada, New Hampshire, New York, Pennsylvania, and Tennessee.
- L. CSIR shall, as of the effective date of the this Consent Agreement and Order, formally relinquish its authority (by letter to the insurance regulator of each relevant jurisdiction and surrender of the physical license or other authorization or such other method that is approved in writing by the Commissioner) to operate as an insurer in every state, province, and jurisdiction, where it has been formerly authorized by express approval of such state, other than the following: California, Connecticut, Maryland, Nevada, New Hampshire, New York, Pennsylvania, and Tennessee.
- M. Unless the Commissioner approves in writing otherwise, within two (2) years after the effective date of this Consent Agreement and Order, CSIR shall:
1. Cease writing insurance business, including new policies, renewals, and endorsements, in California, Connecticut, Maryland, Nevada, New Hampshire, New York, Pennsylvania, and Tennessee and shall formally relinquish (by letter to the insurance regulator of each relevant jurisdiction and surrender of the physical license or other authorization or such other method that is approved in writing by the Commissioner) its authority to operate as an insurer in those states, provided, however, that normal course endorsements shall be permitted to be issued during the policy terms of policies prior to the date that CSIR is required to cease writing insurance business under this Paragraph; provided, CSIR shall, prior to the end of the two (2) year period referenced in this Paragraph, cease writing insurance business in a state listed in Subparagraph 1 of this Paragraph within sixty (60) days after ASIC becomes authorized to operate as an admitted or surplus lines insurer in that state or two years following the effective date of this Consent Agreement and Order, whichever shall first occur;
 2. Relinquish and deliver to the Commissioner its license issued by the District of Columbia to operate as a captive insurer, provided, however, that the Commissioner shall authorize continued wind-down operations for the issuance of normal course endorsements and for the administration and handling of claims; and
 3. Formally dissolve the CSIR corporation

- N. CSIR shall immediately effect cancellations of all its registrations in all states where it is currently registered, other than the eight (8) states listed in Paragraph K above, and provide the Department with copies of those cancellations. CSIR shall not register in any state without the Commissioner's prior written approval.

Premiums Due from IDMD

- O. On or before October 23, 2006, Insurance Designers of Maryland, Inc. shall pay to CSIL, in cash, \$574,097 as partial payment of the \$1,574,097 amount due from IDMD to CSIL, as such amount is set forth on pages 2 and 13 the financial statement of CSIL for the years ended December 31, 2005 and 2004.
- P. On or before October 23, 2006, Insurance Designers of Maryland, Inc. and CSIL shall execute the attached promissory note (Exhibit I), in the amount of \$1,000,000, setting forth the terms for the payment of the remainder of the \$1,574,097 amount due from IDMD to CSIL, as such amount is set forth on pages 2 and 13 of the financial statement of CSIL for the years ended December 31, 2005 and 2004.

Letter of Credit

- Q. On or before October 23, 2006, Jeffrey Cohen or IDMD shall provide the Department with an evergreen letter of credit on the Department's standard letter of credit form (Exhibit J), without modifications, in the amount of \$500,000. The cost of the letter of credit shall not be borne by CSIL or CSIR, nor shall CSIL or CSIR pledge any assets as collateral for the letter of credit. The letter of credit shall appear on the balance sheet of CSIL. CSIL shall maintain the letter of credit indefinitely or until such time as the Commissioner notifies CSIL in writing that the letter of credit may be cancelled.
- R. On or before October 23, 2006, Jeffrey Cohen or IDMD shall provide the Department with a letter of credit on the Department's standard letter of credit form (Exhibit J) in the amount of \$500,000. This letter of credit shall be in addition to the letter of credit required by Paragraph Q and shall expire no sooner than May 31, 2007. The cost of the letter of credit shall not be borne by CSIL or CSIR, nor shall CSIL or CSIR pledge any assets as collateral for the letter of credit. The letter of credit shall appear on the balance sheet of CSIL. CSIL shall maintain the letter of credit until such time as the infusion of capital required by Paragraph S is made and the Commissioner notifies CSIL in writing that the letter of credit may be cancelled.

Infusions of Capital

- S. On or before April 15, 2007, Jeffrey Cohen shall deposit \$500,000 of additional paid-in capital in the form of cash into CSIL. Such payment shall be made

pursuant to, and consistent with the terms of, the attached subordinate surplus note (Exhibit K). After the deposit of additional paid-in capital has been made, CSIL may request that the Commissioner authorize the cancellation of the letter of credit required by Paragraph R.

Business Plan Modifications: CSIR

- I CSIR hereby submits for approval, and the Commissioner hereby approves pursuant to D.C. Official Code § 31-3931.09(f), the following modifications to the business plan of CSIR:
1. B&D Consulting LLC ("B&D") will be engaged and will operate as the captive manager of CSIR, and B&D will be responsible for all internal financial reporting and operational controls in addition to its statutory reporting and management duties.
 2. On or before the effective date of this Consent Agreement and Order, the ownership structure of CSIR will be amended as follows:
 - a. The International Association of Entertainment Businesses will receive an equal number of shares of Class B stock as the number of shares of Class A stock held by RB Entertainment Ventures.
 - b. The articles of incorporation shall be amended so that CSIR's Class A and Class B shareholders shall have equal voting rights, except for the following matters, which shall only require approval of the Class A shareholders:
 - i. Incurrence of indebtedness for borrowed money in excess of \$250,000;
 - ii. Acquisitions or dispositions of assets, outside the ordinary course of business operations;
 - iii. Material changes to CSIR's business plan requiring approval of the Department of Insurance, Securities and Banking;
 - iv. Filing of a petition for liquidation, dissolution, or bankruptcy;
 - v. Initiation of any lawsuit or settlement of any lawsuit, claim, or demand involving more than \$50,000;
 - vi. The authorization, issuance, or sale of any equity interest, which has any more special rights than Class A shares; and
 - vii. Amendments to articles or bylaws.
 3. The operating name of CSIR will be changed to Indemnity Insurance Corporation of DC, Risk Retention Group
 4. CSIR will write its entertainment insurance program business, with the following limits:
 - a. \$1,000,000 each occurrence
 - b. \$2,000,000 each aggregate

5. CSIR will not write business other than business in its entertainment insurance program, as such entertainment insurance program is defined in Paragraph A above.
6. CSIR will enter into, and comply with the terms and conditions of, an excess of loss reinsurance contract with CSIL, with the following terms:
 - a. CSIR will retain \$250,000 each occurrence
 - b. CSIR will cede to CSIL \$750,000 each occurrence
7. The reinsurance described in Subparagraph 6 of this Paragraph shall be provided pursuant to the attached Liability Excess of Loss Reinsurance Contract between CSIL and CSIR (Exhibit L), which shall not be modified without the prior written approval of the Commissioner.
8. CSIR will not write any business of any type until the actions described in this Paragraph have been fully implemented.
9. After the actions described in this Paragraph have been fully implemented, CSIR shall cease writing any business except:
 - a. Business written in conformity with Paragraph A above; and
 - b. For the two (2) year period authorized under Paragraph M (or such longer period as may be approved by the Commissioner under Paragraph M) entertainment insurance program business written by CSIR in the states of California, Connecticut, Maryland, Nevada, New Hampshire, New York, Pennsylvania, and Tennessee. CSIR shall cease writing business altogether, as set forth in Paragraphs K through M above.

Business Plan Modifications: CSIL

- U. CSIL hereby submits for approval, and the Commissioner hereby approves pursuant to D.C. Official Code § 31-3931 09(f), the following modifications to the business plan of CSIL:
 1. B&D Consulting LLC ("B&D") will operate as the captive manager of CSIL, and B&D will be responsible for all internal financial reporting and operational controls in addition to its statutory reporting and management duties
 2. CSIL will operate pursuant to a fronting relationship with ASIC, pursuant to the following standards:
 - a. ASIC will issue policies on behalf of the entertainment program with the following limits:
 - i. \$1,000,000 each occurrence limit
 - ii. \$2,000,000 aggregate limit
 - b. ASIC will retain 35% of the first \$250,000 each occurrence
 - c. ASIC will cede 65% of the first \$250,000 each occurrence to American Safety Assurance, Ltd ("ASAL") and ASAL will retrocede 100% of such coverage to CSIL.
 3. CSIL will provide an excess of loss reinsurance policy to ASIC as follows:

- a. ASIC will cede to ASAL \$750,000 excess of the first \$250,000 each occurrence and ASAL will retrocede 100% of such coverage to CSIL.
4. CSIL will provide an excess of loss reinsurance policy to CSIR as follows: CSIR will cede to CSIL \$750,000 excess of the first \$250,000 each occurrence
5. The reinsurance and cedings of coverage referenced in Subparagraphs 2, 3, and 4 shall be governed by the terms of the attached Liability Excess of Loss Reinsurance Contract between CSIR and CSIL (Exhibit L), the attached Liability Quota Share Reinsurance Contract between American Safety Indemnity Company and American Safety Assurance, Ltd. (Exhibit M), and the Liability Excess of Loss Reinsurance Contract between CSIL and American Safety Indemnity Company (Exhibit N), and the Agreement for an Account Ownership Arrangement — Segregated Account B-207 (Exhibit O), none of which shall be modified without the prior written approval of the Commissioner.
6. CSIL will write no direct business and will only assume reinsurance ceded by ASAL and ASIC and by CSIR as provided in CSIL's business plan as modified herein. CSIL shall assume no other reinsurance from any source.
7. The fronting arrangement with ASIC and ASAL will include sufficient "cut-through" provisions and perfected security interests with respect to any escrow or deposit funds posted as security to protect the insureds on business reinsured by CSIL and CSIR in the event of insolvency of either ASIC or its Bermuda affiliate. *Subject to approval by ASIC and their respective reinsurers*
8. The operating name of CSIL will be changed to Indemnity Reinsurance Corporation of DC.
9. No business shall be written by or on behalf of CSIL except pursuant to the agreements set forth in Paragraph A above.
10. CSIL shall provide the Commissioner with a copy of ASAL's audited financial statements on or before June 30 of each year.

Fines

- V. On or before the effective date of this Consent Agreement and Order, CSIL shall, in settlement of the issues raised in the November 8, 2005 Order, April 6, 2006 Order, and April 14, 2006 Order, pay to the Government of the District of Columbia, via the Department of Insurance, Securities and Banking, by cashier's or certified check payable to "D.C. Treasurer" the amount of \$90,000.00, pursuant to the attached Schedule of Fines (Exhibit P).
- W. On or before the effective date of this Consent Agreement and Order, CSIR shall, in settlement of the issues raised in the November 8, 2005 Order, April 6, 2006 Order, and April 14, 2006 Order, pay to the Government of the District of Columbia, via the Department of Insurance, Securities and Banking, by cashier's

or certified check payable to "D.C. Treasurer" the amount of \$36,000.00, pursuant to the attached Schedule of Fines (Exhibit P)

Compliance with Laws, Regulations, and Orders

- X. CSIL and CSIR shall notify the Commissioner within 5 business days of any known or suspected violation of the insurance laws or regulations of the District of Columbia, or an order or directive of the Commissioner (including this Consent Agreement and Order), by any employee or officer of CSIL or CSIR, or any captive manager, third party administrator, or managing general agent of CSIL or CSIR and employees and officers thereof. B&D shall be contractually obligated to make such disclosure to the Commissioner should it become aware of any such known or suspected violations.

Required Modifications to Agreements

- Y. Within ten (10) calendar days after the effective date of this Consent Agreement and Order, the Companies shall make the following amendments to the specified documents and shall provide to the Commissioner executed copies of the amendments:
1. Program Managers Agreement between American Safety Indemnity Company and The Agency, LLC (Exhibit A):
 - a. The first paragraph on page 1 shall be modified by striking the phrase "1st day of August, 2006" and inserting in its place the date of October 1, 2006, or a later date that is within ten (10) calendar days after the effective date of this Consent Agreement and Order.
 - b. Section 4 k shall be amended by striking the phrase "\$1,000,00" and inserting the phrase "\$1 million" in its place
 - c. A new page 22 shall be inserted and shall read as follows: "THIS PAGE INTENTIONALLY LEFT BLANK"
 - d. Page 25 shall be replaced by a new page 25 that shall read as follows: "THIS PAGE INTENTIONALLY LEFT BLANK".
 2. Master General Agency Agreement between CSIL and The Agency, LLC (Exhibit B):
 - a. Section 2.11 shall be amended by striking the phrase "prior written consent of the Company" and inserting the phrase "prior written consent of the Broker".

- b. Section 16.6 b shall be amended by replacing the current contact information with contact information for Capitol Specialty Insurance, Ltd.
- c. Section 13.1 shall be amended by inserting an effective date that is either the effective date of this Consent Agreement and Order or a date that is within ten (10) calendar days after the effective date of this Consent Agreement and Order.
- d. Section I of the Cost Allocation Agreement that is attached to the Master General Agency Agreement between CSIL and The Agency, LLC shall be amended by inserting the phrase "of the gross net premium" after the phrase "35%".
- e. A new exhibit page will be added to the Cost Allocation Agreement that is attached to the Master General Agency Agreement between CSIL and The Agency, LLC; the exhibit page shall specify in detail the weighted average, including any associated formulas and calculations, referenced in Section II of the Cost Allocation Agreement.

3 Master General Agency Agreement between CSIR and The Agency, LLC (Exhibit C):

- a. Section 2.11 shall be amended by striking the phrase "prior written consent of the Company" and inserting the phrase "prior written consent of the Broker" in its place.
- b. Section 13.1 shall be amended by inserting an effective date that is either the effective date of this Consent Agreement and Order or a date that is within ten (10) calendar days after the effective date of this Consent Agreement and Order.
- c. Section I of the Cost Allocation Agreement that is attached to the Master General Agency Agreement between CSIR and The Agency, LLC shall be amended by inserting the phrase "of the gross net premium" after the phrase "35%".
- d. A new exhibit page will be added to the Cost Allocation Agreement that is attached to the Master General Agency Agreement between CSIL and The Agency, LLC; the exhibit page shall specify in detail the weighted average, including any associated formulas and calculations, referenced in Section II of the Cost Allocation Agreement.

4. Claims Servicing Agreement between CSIL and The Agency, LLC (Exhibit D):
 - a. Section VIII A shall be modified by adding at the end the following sentence: "Provided, We will not pay to you any claims servicing fee or service bonus for any claims servicing you provide for a policy that was written before the effective date of this agreement."
5. Claims Servicing Agreement between CSIR and The Agency, LLC (Exhibit E):
 - a. Section VIII A shall be modified by adding at the end the following sentence: "Provided, We will not pay to you any claims servicing fee or service bonus for any claims servicing you provide for a policy that was written before the effective date of this agreement."
6. Liability Excess of Loss Reinsurance Contract between CSIL and CSIR (Exhibit L):
 - a. Article 6, Section D shall be amended by striking the word "ad" and inserting the word "as" in its place.
 - b. Article 6, Section D shall be further amended by striking the word "Noting" and inserting the word "Nothing" in its place
 - c. Article 8, Section D shall be further amended by striking the phrase ", other than those expenses incurred by Environmental Calms Services, Inc Atlanta, Georgia".
 - d. Article 9, Section B shall be amended by striking the phrase "\$0,_____" and inserting the phrase "\$0 (zero)" in its place.
 - e. Article 9, Section B shall be further amended by striking the phrase "\$____,000" and inserting the phrase "\$0 (zero)" in its place
7. Liability Excess of Loss Reinsurance Contract between CSIL and American Safety Indemnity Company (Exhibit N):
 - a. Article 9, Section B shall be amended by striking the phrase "\$0,_____" and inserting the phrase "\$0 (zero)" in its place
 - b. Article 9, Section B shall be further amended by striking the phrase "\$____,000" and inserting the phrase "\$0 (zero)" in its place.

- c. Article 12 shall be amended by striking the phrase “__%” and inserting the phrase “0 (zero) %” in its place.

Miscellaneous

- Z. All references to CSIL and CSIR in this Consent Agreement and Order, and any documents referenced in or attached to this Consent Agreement and Order, shall be deemed to include any successors in interest to CSIL and CSIR.
- AA. This Consent Agreement and Order shall become a public document upon its execution by all of the parties.
- BB. The failure of CSIL, CSIR, or other party mentioned in this agreement to include a term required by this Consent Agreement in a document, agreement, or contract required by or incorporated into this Consent Agreement shall not be considered a waiver by the Department of the term nor shall it relieve CSIL, CSIR, or any other party from its requirement to comply with the term.

Non-Compliance with Consent Agreement and Order

- CC. If the Commissioner determines, after notice and an opportunity to be heard, that either CSIL or CSIR has violated or otherwise failed to comply with any term, condition, or provision of this Consent Agreement and Order or an agreement or other document attached hereto or incorporated by reference, the Commissioner may revoke the license of the non-complying entity and/or impose a fine of up to \$5,000 for each instance of non-compliance.
- DD. In addition to, or in lieu of, taking any action described in Paragraph CC above, the Commissioner may institute administrative or judicial proceedings against a non-complying party to enforce this Consent Agreement and Order or sanction the non-complying party and/or may take any other action authorized under applicable law or regulation.

Dismissal of Prior Proceedings

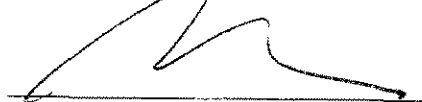
- EE. In consideration of the commitments of CSIL and CSIR pursuant to this Consent Agreement and Order, the Commissioner hereby withdraws the November 8, 2005 Order and the April 14, 2006 Order and deems resolved the issues raised in the April 6, 2006 Order; provided, the Commissioner may reinstate or deem unresolved the issues raised in any or all of the orders in the event of a breach of this Consent Agreement and Order by either CSIL or CSIR.

ORDER

It is hereby ORDERED that:

1. CSIL and CSIR shall comply with all of the terms, conditions, and provisions of this Consent Agreement and Order and all terms, conditions, and provisions of each of the agreements and other documents attached hereto or incorporated by reference
2. The changes to the business plans of CSIL and CSIR set forth in Paragraphs I and U above are approved.
3. The terms of this Consent Agreement and Order may not be modified, except by a subsequent order issued by the Commissioner.
4. This Consent Agreement and Order shall be effective upon the signature of the Commissioner.

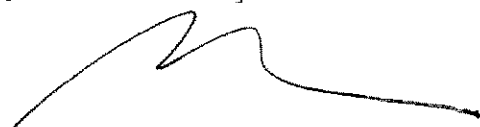
AGREED AND CONSENTED TO:



Capitol Specialty Insurance, Ltd.
by its president and director,
Jeffrey Cohen

DATE: October 13, 2006

[NOTARY BLOCK]



Capitol Specialty Insurance Risk
Retention Group, Inc.
by its president and director,
Jeffrey Cohen

DATE: October 13, 2006

[NOTARY BLOCK]



MITCHELL PAUL
NOTARY PUBLIC
BALTIMORE COUNTY
MARYLAND

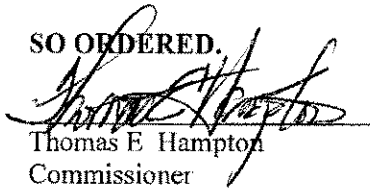
My Commission Expires Oct. 1, 2009



MITCHELL PAUL
NOTARY PUBLIC
BALTIMORE COUNTY
MARYLAND

My Commission Expires Oct. 1, 2009

SO ORDERED.



Thomas E. Hampton
Commissioner
Department of Insurance,
Securities and Banking

DATE: October 16, 2006