

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



**William P. White**  
**Acting Commissioner**

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

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

**ORDER**

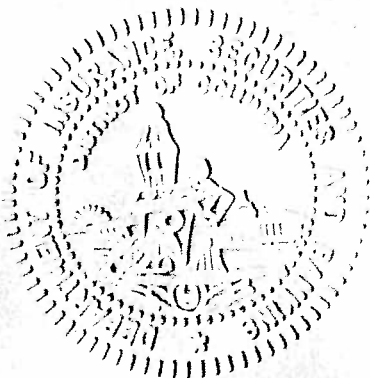
Pursuant to Examination Warrant 2010-2, an Examination of **District of Columbia Insurance Guaranty Association** as of December 31, 2009 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

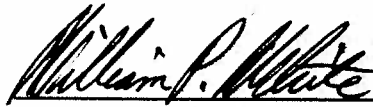
It is hereby ordered on this 29th day of March, 2011, that the attached financial condition examination report be adopted and filed as an official record of this Department.

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

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

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



  
\_\_\_\_\_  
William P. White  
Acting Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

DISTRICT OF COLUMBIA Insurance Guaranty Association.

AS OF

DECEMBER 31, 2009

## Table of Contents

	<b>Page</b>
Salutation .....	1
Scope of Examination .....	1
Status of Prior Examination Findings .....	2
History .....	2
General .....	2
Management .....	3
Committees .....	4
Conflicts of Interest .....	4
Corporate Records .....	4
Affiliated Companies/Intercompany Agreements .....	4
Fidelity Bond and Other Insurance .....	5
Statutory Deposits .....	5
Territory and Plan of Operation .....	5
Insurance Products and Related Practices .....	6
Accounts and Records .....	6
Financial Statements .....	6
Balance Sheet .....	7
Assets .....	7
Liabilities and Fund Balance .....	7
Statement of Activities .....	8
Comparative Financial Position of the Association .....	9
Note to Financial Statements .....	10
Comments and Recommendations .....	11
Subsequent Events .....	11
Conclusion .....	11
Signatures .....	12

**District of Columbia Insurance Guaranty Association**

Report on Examination

December 31, 2009

Washington, D.C.

February 24, 2011

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

Dear Commissioner:

In accordance with Section 31-5511 of the District of Columbia Official Code, we have examined the financial condition and activities of the

**District of Columbia Insurance Guaranty Association**

(Hereinafter called the Association) at its principle office located at One Bowdoin Square, Boston, Massachusetts 02114-2927, and the following Report on Examination is submitted.

**SCOPE OF EXAMINATION**

This examination, covering the period from the inception of the Association on August 14, 1973 to December 31, 2009, including any material transactions and/or events noted occurring subsequent to December 31, 2009, was conducted under the association plan of the National Association of Insurance Commissioners (NAIC) by examiners of the District of Columbia Department of Insurance, Securities and Banking (the Department).

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

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

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

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

## **District of Columbia Insurance Guaranty Association**

Report on Examination

December 31, 2009

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

### **STATUS OF PRIOR EXAMINATION FINDINGS**

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

### **HISTORY**

#### **General:**

The District of Columbia Insurance Guaranty Association was created by an act of the United States Congress that became a public law on August 14, 1973. Public law 93-89 was the District of Columbia Insurance Act, and Title I of the act was the District of Columbia Post Assessment Insurance Guaranty Association Act. The Act gave the Association jurisdiction over specific kinds of direct written property and casualty insurance and provided for the administration of the Association and the assessment of member insurers.

The Association joined Guaranty Fund Management Services (GFMS) in 1982. GFMS was created in 1981 by six Property and Casualty guaranty funds of New England. The six states were New Hampshire, Maine, Massachusetts, Connecticut, Vermont, and Rhode Island. In 1985 the guaranty fund of Virginia joined the group.

The Property and Liability Insurance Guaranty Association Act of 1993 codified the Association into the District of Columbia statutes via District Law Title 31-5503 on October 21, 1993. The purpose of the Association, as stated in the statute, is to avoid financial loss to claimants and policy holders because of an insolvency of a licensed insurance company doing business in the District of Columbia. Membership in the association is required of insurers who write certain lines of insurance and are licensed to transact business in the District of Columbia.

As stated in the Plan of Operation, the purpose for which the Association was organized is for the continuing coverage to eligible policy holders and claimants. All insurers licensed or holding a certificate of authority in the District of Columbia to sell any type of insurance covered under the Act are member insurers of the association. The period of existence of the Association is perpetual.

The assessments are used to obtain funds necessary to carry out the powers and duties of the association and pay covered claims in the statute. In addition, assessments are made to meet the costs of administering impaired insurers or insolvencies. The calculations of these assessments

**District of Columbia Insurance Guaranty Association**

Report on Examination

December 31, 2009

are based on information provided by the District of Columbia Department of Insurance Securities and Banking, and the National Association of Insurance Commissioners.

Management:

The Plan of Operation (the Plan) of the Association provide that the responsibility for the control and management of the affairs, property and interests of the Association is vested in its Board of Directors composed of seven (7) members who shall be elected to three year term by the members. The Plan provides that the officers of the Association shall consist of a Chairman and such other officers, as the Board of Directors may from time to time deem advisable. The Board of Directors shall elect the officers of the Association at the regular annual meeting of the Board.

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

Name and Address

Principal Occupation

**Mr. Larry Hinton**  
Bowie, MD  
**Chairman**

Government Employees Insurance  
Company  
Senior Counsel

**Ms. Joanne Locke**  
Boston MA  
**Vice Chair**

Liberty Mutual Insurance Company  
Sr. Corporate Counsel

**Mr. Robert DiUbaldo**  
New York, NY

National Union Fire Insurance Company of  
Pittsburg, PA  
Associate General Counsel

**Ms. Peggy Echols**  
Charlottesville, VA

State Farm Mutual Automobile Insurance  
Company  
Vice President - Operations

**Mr. Howard Friedman**  
Birmingham, AL

ProAssurance National Capital Insurance  
Company  
President

**Ms. Joyce Hall Mellinger**

Maryland Casualty Company

**District of Columbia Insurance Guaranty Association**

Report on Examination

December 31, 2009

Reisterstown, MD

Vice President and Senior Assistant General  
Counsel

**Mr. Jeff Williams**

Clarksville, MD

Allstate Insurance Company

Regional Counsel

The Officers of the Association are employees of GFMS and are:

Mr. Paul Gulko	Manager
Ms. Kathleen Lavin	Treasurer
Mr. James Winskowicz	Claims Manager

Committees:

The Association shares the oversight of several committees with other guaranty funds managed by GFMS. The committees consist of the member insurers of the guaranty associations. This includes the Audit Committee which is required per the Association's Plan of Operation.

Conflicts of Interest:

Directors and officers of the Association annually complete conflict of interest questionnaires. No conflicts of interest reporting forms were completed for 2009. See the Comments and Recommendations section of this report for further discussion.

Corporate Records:

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

**AFFILIATED COMPANIES/INTERCOMPANY AGREEMENTS**

Effective January 1, 1982, the Association entered into an agreement with GFMS to provide management and claim supervisory services. GFMS is a voluntary non-profit unincorporated association whose principal office is located in Boston MA. GFMS also provides services to seven other state guaranty associations. The agreement provides that certain operating costs of GFMS shall be distributed among the member guaranty funds based on the ratio of net premiums written on covered lines of insurance for each association to the total of net premiums written for all associations under the agreement. In addition, the agreement provides that each guaranty fund shall be responsible for the payment of its own direct obligations. Expense other than direct expenses are allocated to each insolvency based on the time maintained by certain employees, transaction activity and/or premium ratios.

## **District of Columbia Insurance Guaranty Association**

Report on Examination

December 31, 2009

### **FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2009, GFMS had fidelity bond coverage of \$2,000,000. The Association is a named insured on the bond. The Association appears to have adequate insurance coverage.

### **STATUTORY DEPOSITS**

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

### **TERRITORY AND PLAN OF OPERATION**

As stated in the Plan of Operation, insurers which were admitted, as of August 14, 1973, to transact the kinds of insurance covered by the Act in the District of Columbia shall be members of the Association. Each insurer admitted after August 14, 1973, to transact the kinds of insurance covered by the Act shall automatically become, effective on date of its admission, members of the Association. According to the statute members include all insurers who write all classes of direct insurance except life, annuity, health or disability, mortgage guaranty, financial guaranty (or other forms of insurance offering protection against investment risk), fidelity or surety bonds (or any other bonding obligations)' credit insurance, insurance of warranties or service contracts, title insurance, ocean marine insurance or any insurance provided or guaranteed by government.

The Association is obligated to pay covered claims existing prior to the determination of the insolvency arising within 30 days after the determination of insolvency, or before the policy expiration date if less than 30 days after the determination of insolvency, or before the insured replaces the policy or causes its cancellation, if the insured does so within 30 days of the determination. The obligation shall extend to covered claims reported pursuant to an optional extended period to report claims sold to the insured by the liquidator. Such obligations include unearned premiums in excess of \$100 but not exceeding \$10,000, the full amount of a workers' compensation claim, and all other claims not exceeding \$300,000.

For purposes of administration and assessment, the Association is required to have three separate accounts: a workers' compensation insurance account, an automobile insurance account and an account for all other applicable insurance. Claims and expenses paid are to be allocated among these accounts separately. Assessments also are to be made against members separately for each account in an amount necessary to pay the obligations of the Association. Assessment of each member shall be based on the ratio of the net direct written premiums of the member insurer to the net direct written premiums of all member insurers. This ratio is determined using premiums for the preceding calendar year for the specific account.



**District of Columbia Insurance Guaranty Association**

Report on Examination

December 31, 2009

**INSURANCE PRODUCTS AND RELATED PRACTICES**

The Association does not issue insurance products. The Association as stated above assists in the orderly liquidation of troubled companies in accordance with The District of Columbia Official Code 31-5505.

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

Claims Processing (Timeliness)

Complaints

**ACCOUNTS AND RECORDS**

The general accounting and claims records of the Association are processed by GFMS. GFMS appears to have the necessary expertise in servicing records and claims of this type of association. Our review did not disclose any significant deficiencies in these records.

**FINANCIAL STATEMENTS**

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

<u>STATEMENT</u>	<u>PAGE</u>
Balance Sheet:	
Assets	7
Liabilities, Fund Balance	7
Statement of Activities	8
Comparative Financial Position of the Association	9

The accompanying "Notes to Financial Statements" are an integral part of these financial statements.

**District of Columbia Insurance Guaranty Association**  
 Report on Examination  
 December 31, 2009

**BALANCE SHEET**

**Assets**

	<b>Assets</b>	<b>Examination Adjustments</b>	<b>Assets Per Examination</b>
Cash and cash equivalents	\$7,473,209	\$	\$7,473,209
Assessments Receivable	15,333		15,333
Investments at market value	12,629,358		12,629,358
Accrued interest	144,617		144,617
Other assets (advances)	52,800		52,800
<b>Totals assets</b>	<b>\$20,315,317</b>	<b>\$ 0</b>	<b>\$ 20,315,317</b>

**Liabilities and Fund Balance**

	<b>Assets</b>	<b>Examination Adjustments</b>	<b>Assets Per Examination</b>
Insolvencies and impairments			
Accounts Payable	\$28,743		\$28,743
Refunds payable	3,273		3,273
<b>Total Liabilities</b>	<b>32,016</b>		<b>32,016</b>
Fund Balance	20,283,301		20,283,301
<b>Total liabilities and Fund Balance</b>	<b>\$ 20,315,317</b>	<b>\$ 0</b>	<b>\$ 20,315,317</b>

**District of Columbia Insurance Guaranty Association**  
Report on Examination  
December 31, 2009

**STATEMENT OF ACTIVITIES**

**Receipts:**

Assessments from members	\$ 2,893,833
Recoveries from insolvencies	617,023
Investment Income	568,200
Total Revenues	<u>\$ 4,079,056</u>

**Disbursements:**

Loss and loss adjustment expense	\$ 1,148,518
Assessments refunded to members	105,102
General and administrative expenses	<u>212,158</u>
Total Disbursements	<u>\$ 1,465,778</u>
Excess of revenues over disbursements	\$ 2,613,278
Change in net unrealized gains on investments	\$ 375,991
Surplus	<u>\$ 2,989,269</u>

---

**District of Columbia Insurance Guaranty Association**  
 Report on Examination  
 December 31, 2009

**COMPARATIVE FINANCIAL POSITION OF THE ASSOCIATION**

The comparative financial position of the Association for the five-year period ended December 31, 2009, is as follows (in 000's)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets	\$20,315	\$17,311	\$18,502	\$18,541	\$19,731
Liabilities	32	17	20	18	113
Unrestrictive Net Assets	20,283	17,294	18,482	18,523	19,618
Assessments	2,894	2,029	610	2,585	3,923
Disbursements	1,466	4,789	3,377	5,171	7,963
Fund Balance beginning of year	17,291	18,481	18,523	19,618	21,407
Fund Balance end of year	\$20,283	\$17,294	18,481	18,523	19,618

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

**District of Columbia Insurance Guaranty Association**

Report on Examination

December 31, 2009

**NOTES TO FINANCIAL STATEMENTS**

Method of Accounting:

The financial statements of the Association have been prepared on the modified basis of cash receipts and disbursements as recommended by the National Conference of Insurance Guaranty Funds (NCIGF). This accounting is a comprehensive basis of accounting other than Statutory Accounting Principles (SAP) in that, for example, loss and loss adjustment expenses are recognized when paid rather than when incurred. As a result, estimated case basis loss and loss adjustment expense reserves and estimated amounts for losses incurred but not reported have not been included in the Association's financial statements.

The Association's method of accounting for bonds is to carry them at fair value in the financial statements. Management determines fair values primarily using information received from independent pricing services. The change in unrealized gains and losses on investments are included in the financials as a charge against surplus. This treatment differs from SAP in that, under SAP, bonds designated as high quality are reported at amortized cost; with all other bonds reported at the lower of amortized cost or fair value.

Assessments

Assessments are used to obtain funds necessary to carry out the powers and duties of the association. The calculations of these assessments are based on information provided by DISB and the NAIC.

## District of Columbia Insurance Guaranty Association

Report on Examination

December 31, 2009

### COMMENTS AND RECOMMENDATIONS

#### Conflict of Interest Questionnaires:

The Association did not have Officers and Directors complete conflict of interest questionnaires. The contents of the blank form were under review by the legal committee. The questionnaires were completed during the examination correcting the condition.

#### Additional Comments and Recommendations

During our examination, in addition to the above Comments and Recommendations, we made other suggestions and recommendations to the Association with regard to record keeping and other procedures relating to its operations. These additional suggestions and recommendations were not deemed significant for purposes of our Report on Examination, and are not included in our Report on Examination.

### SUBSEQUENT EVENTS

In 2010 the Board of Directors recognized the insolvency of Imperial Casualty and Indemnity Insurance Company.

### CONCLUSION

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

Total assets	<u>\$ 20,315,317</u>
Liabilities	<u>\$ 32,016</u>
Fund Balance	<u>\$ 20,283,301</u>
Total liabilities and Fund Balance	<u>\$ 20,315,317</u>

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

**District of Columbia Insurance Guaranty Association**

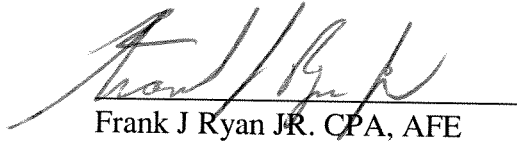
Report on Examination

December 31, 2009

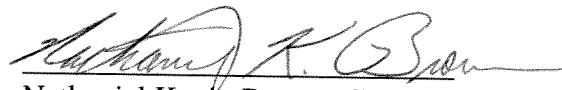
**SIGNATURES**

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

Respectfully submitted,



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



Nathaniel Kevin Brown. CPA, CFE  
Chief Examiner

District of Columbia Department of  
Insurance, Securities and Banking