

**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**

Re: Report on Examination - **Global International Insurance Company, Inc., A Risk Retention Group**, as of December 31, 2006

**ORDER**

An Examination of **Global International Insurance Company, Inc., A Risk Retention Group**, as of December 31, 2006 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

It is hereby ordered on this 24<sup>th</sup> day of June, 2008, that the attached financial condition examination report be adopted and filed as an official record of this Department.

In addition, it is hereby ordered that the Company comply with the recommendations in the attached financial condition examination report.

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 company 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.

Thomas E. Hampton  
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

GLOBAL INTERNATIONAL INSURANCE  
COMPANY, INC.,  
A RISK RETENTION GROUP

AS OF

DECEMBER 31, 2006

NAIC NUMBER 10991

## TABLE OF CONTENTS

Salutation .....	1
Scope of Examination .....	1
Status of Prior Examination Findings .....	2
History.....	2
General.....	2
Membership .....	3
Dividends to Members .....	3
Management.....	3
Board of Directors.....	3
Officers .....	4
Committees .....	4
Conflicts of Interest.....	4
Corporate Records .....	4
Captive Manager .....	4
Affiliated Parties and Transactions.....	4
Fidelity Bond and Other Insurance.....	6
Pension and Insurance Plans.....	6
Statutory Deposits.....	6
Territory and Plan of Operation.....	6
Insurance Products and Related Practices.....	8
Reinsurance.....	9
Accounts and Records.....	9
Financial Statements .....	10
Balance Sheet.....	11
Assets .....	11
Liabilities, Surplus and Other Funds .....	12
Statement of Income .....	13
Capital and Surplus Account .....	14
Analysis of Examination Changes to Surplus.....	14
Comparative Financial Position of the Company .....	15
Notes to Financial Statements.....	16
Comments and Recommendations.....	19
Conclusion .....	21
Signatures.....	22

Washington, D.C.  
December 21, 2007

Honorable Thomas E. Hampton  
Commissioner  
Department of Insurance, Securities and Banking  
Government of the District of Columbia  
810 First Street, NE, Suite 701  
Washington, D.C. 20002

Dear Sir:

In accordance with Section 31-3931.14 of the District of Columbia Official Code, we have examined the financial condition and activities of

**Global International Insurance Company, Inc., A Risk Retention Group**

hereinafter referred to as the “Company” or “Global”, at the office of the Company’s captive manager, located at 1800 Second Street, Suite 909, Sarasota, Florida 34236.

**SCOPE OF EXAMINATION**

This full-scope examination, covering the period January 1, 2003 through December 31, 2006, including any material transactions and/or events noted occurring subsequent to December 31, 2006, was conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

Our examination was conducted in accordance with examination procedures established by the Department and procedures recommended by the National Association of Insurance Commissioners (“NAIC”) and, accordingly, included such tests of the accounting records and such other examination procedures as we considered necessary in the circumstances.

Our examination included a review of the Company’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 Company 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 Company was audited annually by an independent public accounting firm. The firm expressed an unqualified opinion on the Company’s financial statements for all years under examination with an explanation regarding the Company’s \$500,000 letter of credit in calendar years 2006 and 2005. The explanation states that the letter of credit is included in the computation of assets and equity under the laws of the District of Columbia; however, its

recognition as an asset and as equity is not in accordance with generally accepted accounting principles. We placed substantial reliance on the audited financial statements for calendar years 2003 through 2005 and, consequently, performed only minimal testing for those periods. We reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2006, and directed our efforts to the extent practical to those areas not covered by the independent audit.

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

The prior examination of the Company was a full scope examination conducted as of December 31, 2002 by the State of Hawaii Department of Commerce and Consumer Affairs Insurance Division. The exam report, dated December 30, 2003, contained three recommendations.

Our examination included a review to determine the current status of the three recommendations in the prior exam report, and determined that the Company had satisfactorily addressed these conditions.

### **HISTORY**

#### **General:**

The Company was incorporated in Hawaii on June 7, 1999 as a captive insurance company, and commenced business in the State of Hawaii on July 15, 1999. Effective March 17, 2005, the Company re-domesticated to the District of Columbia under the D.C. Captive Insurance Company Act of 2004, operating as a Risk Retention Group.

The Company provides aggregate excess of loss insurance coverage to automobile service contract providers (also known as administrator obligors), which are in the business of selling and/or administering automobile extended service contracts. The Guardian Warranty Corporation (“Guardian”) and L.S.D.L. Inc. (“LSDL”), both administrative obligors, are the sole policyholders of the Company. Prior to August 2006, Guardian and LSDL were privately held by four individuals, including John A. Stultz, the Company’s current Chairman and President.

During August 2006, with approval of the Department, the ownership of both Guardian and LSDL were transferred, pursuant to a Securities Purchase Agreement, to GWC InvestCo, Inc., a newly formed Delaware corporation, which is owned 15 percent by John A. Stultz, and 85 percent by CIVC Partners, LP (“CIVC”), a Chicago-based private equity firm. Consequently, CIVC became the Company’s ultimate controlling parent.

As of December 31, 2006, the Company maintains an AM Best financial strength rating of “A-”. The Company initially received this rating in May 2006.

Membership:

As a risk retention group, Global is owned by its members/policyholders. As of December 31, 2006, the Company had two members/policyholders, The Guardian Warranty Corporation and LSDL. Each owned 50 percent of the Company's common stock.

In addition to common stock, the Company has issued preferred series A stock and preferred series B stock to its members. Series A and series B preferred stock entitles the members to receive dividends based upon an 8 percent dividend rate if declared by the board of directors and approved by the Insurance Commissioner of the District of Columbia. Dividends on series A preferred stock are cumulative while dividends on Series B preferred stock are non-cumulative. Dividends on series A preferred stock will be paid in full prior to any dividends paid on series B preferred stock. Series A and series B preferred shares do not carry any voting rights. LSDL owns 20 percent and Guardian owns 80 percent of series A preferred stock, and Guardian owns 100 percent of series B preferred stock.

The following table depicts the Company's capital stock as of December 31, 2006:

	<b>Par Value</b>	<b>Shares Authorized</b>	<b>Shares Outstanding</b>
Common stock	\$.01	1,500,000	1,276,116
Preferred stock series A	\$1,000	1,000,000	595
Preferred stock series B	\$1,000	1,000,000	1,208

Dividends to Members:

The Company did not declare or pay any dividends during the period under examination.

**MANAGEMENT**

The following persons were serving as the Company's directors as of December 31, 2006:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
John A. Stultz, Chairman Pennsylvania	Chairman/President The Guardian Warranty Corporation
Paul Dreabit Pennsylvania	Treasurer The Guardian Warranty Corporation
B. Troy Winch Florida	Vice President Risk Services, LLC

The following persons were serving as the Company's officers as of December 31, 2006:

<u>Name</u>	<u>Title</u>
John A. Stultz	Chairman and President
Paul Dreabit	Treasurer
B. Troy Winch	Assistant Treasurer
Heather Ross	Secretary

Committees:

As of December 31, 2006, the Company's board of directors had not established any committees.

Conflicts of Interest:

Our review of the conflict of interest statements signed by the Company's directors and officers for the period under examination disclosed no conflicts that would adversely affect the Company. Furthermore, no additional conflicts of interest were identified during our examination.

Corporate Records:

We reviewed the minutes of the meetings of the shareholders and board of directors for the period under examination. Based on our review, it appears that the minutes documented the board's review and approval of the Company's significant transactions and events.

### **CAPTIVE MANAGER**

Risk Services, LLC, which has been the Company's captive manager since the Company's re-domestication to the District of Columbia in 2005, provides captive management services, including accounting and regulatory services, to the Company.

### **AFFILIATED PARTIES AND TRANSACTIONS**

As indicated in the "Membership" section of this report, the Company had two members as of December 31, 2006; The Guardian Warranty Corporation and LSDL, Inc., each owning 50 percent of Global's common stock.

Guardian and LSDL are owned by GWC InvestCo, Inc. which is owned 15 percent by John Stultz, President of the Company, and 85 percent by CIVC Partners, LP, a Chicago-based private equity firm. The partners of CIVC include Daniel Helle, Michael Miller, Christopher Perry, Marcus Wedner, and Keith Yamada.

As of December 31, 2006, the Company had two significant affiliated party agreements in place:

Administrative Agreement:

During the period under examination, the Company had an administrative agreement in place with Guardian. Based on the agreement, Guardian provides daily management and administrative services, including business consultation, premium collection, and claims handling to the Company for no compensation.

Under the terms of the administrative agreement, Guardian agrees to “maintain a separate fiduciary account for its dealer reserve funds”. However, though Guardian has maintained the dealer loss reserve funds in separate bank and investment accounts, there is no formal fiduciary or trust agreement established. See the “Comments and Recommendations” section of this Report, under the caption “Administrative Agreement” subtitle “Fiduciary Account” for further comments regarding this condition.

In addition, the agreement requires that Guardian maintain at least \$1 million of Errors & Omissions (E&O) coverage. As of December 31, 2006, Guardian had not obtained an E&O policy. See the “Comments and Recommendations” section of this Report, under the caption “Administrative Agreement” subtitle “Errors and Omissions Coverage” for further comments regarding this condition.

Tax Sharing Agreement:

The Company entered into a tax sharing agreement, signed on May 1, 2007, and retroactive to August 2006, with GWC InvestCo, Inc. as the “Parent” and Global as one member of the Affiliated Group. Other companies in the Affiliated Group include GWC Administrators, Inc., LSDL, The Guardian Warranty Corporation, Inc., GWC HoldCo, Inc., and GWC ServiceCo, Inc. (Except for transactions under this tax sharing agreement, the Company has no affiliated transactions with any of these other members of the Affiliated Group, except for transactions with Guardian under the aforementioned Administrative Agreement.)

Under terms of the tax sharing agreement, each member shall generally be liable for the amount of tax it would ordinarily pay on a separate return basis.



## **FIDELITY BOND AND OTHER INSURANCE**

The Company has Fidelity Bond coverage with limits of \$10 million. This exceeds the requirement of coverage of at least \$4 million, as required by the administrative agreement between Global and Guardian. The fidelity bond insures both Guardian and Global employees. The coverage also met the minimum amount of fidelity bond coverage recommended by the NAIC for the companies on a consolidated basis.

The Company has no other insurance coverage since it has no employees.

## **PENSION AND INSURANCE PLANS**

The Company has no employees and therefore has no employee pension or insurance plans.

## **STATUTORY DEPOSITS**

As of December 31, 2006, the Company did not have a statutory deposit in the District of Columbia and is not required to maintain one. In addition, the Company was not required to maintain statutory deposits with any other jurisdictions.

## **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2006, the Company was licensed in the District of Columbia, and was registered as a risk retention group with all states except Alaska, Florida, Hawaii and Wisconsin. During 2006, the Company wrote premiums totaling \$1.15 million in 31 jurisdictions, including Alabama, Arizona, Arkansas, California, Connecticut, Delaware, District of Columbia, Georgia, Illinois, Indiana, Kentucky, Maryland, Massachusetts, Michigan, Missouri, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, Virginia, and West Virginia. Approximately 50 percent of the total premiums were written from the following four (4) states: New York (15 percent ), Pennsylvania (14 percent ), California (13 percent ), and North Carolina (7 percent ).

The Company has no employees. Its member/policyholder, The Guardian Warranty Corporation (“Guardian”), pursuant to the terms of the aforementioned administrative agreement, acts as the program manager and manages the Company’s daily business, including business consultation, premium collection, claims handling, and other functions.

The Company provides aggregate excess of loss insurance coverage to automobile service contract providers (also known as administrator obligors), which are in the business of selling and/or administering automobile extended service contracts to individuals. Guardian and LSDL, both administrative obligors, are the sole policyholders of the Company. Guardian sells and administers used car extended service contracts sold through a network of automobile dealers.

These warranties are offered by dealers to a buyer upon the sale of a used car and are optional to the car buyer.

The cost to the purchasers of the vehicle service contracts varies based on the type of vehicle, mileage, and various other factors. The cost of a vehicle service contract can range from less than \$200 to over \$3,000. A portion of the contract cost is retained by the seller (generally the automobile dealer) for commission and administrative expenses, and the remainder is remitted to the administrative obligors, which then administer the contracts and are liable for payments under the contracts.

Under its contractual liability aggregate excess of loss policy with the Company, which is a claims made and reported policy, Guardian pays a premium to the Company for each vehicle service contract sold, subject to minimum and maximum annual premium amounts of \$850,000 and \$1,150,000, respectively. During the period under examination, the premium paid to the Company was \$15 per vehicle service contract sold. This is the amount recorded on the Company's Schedule "T" in its Annual and Quarterly Statement filings. Effective January 1, 2007, with the approval of the Department, the Company reduced its premium per vehicle service contract written to \$10, subject to the same minimum and maximum premium amounts. All premiums paid to the Company are non-refundable and are fully earned upon payment to the Company.

The Company's aggregate excess of loss policies insure Guardian and LSDL ("insureds") for contractual liabilities related to the insureds' obligations under the automobile extended service contracts. The Company's policies provide coverage to the insureds for amounts in excess of the insureds' deductibles. The deductible for each insured is equal to the amount of the underlying loss reserve fund required to be established and maintained by each insured. Under terms of the Company's policies with the insureds, the insureds are required to establish and maintain loss reserve funds consisting of a portion of the insureds revenue on each service contract sold, plus an additional \$5 per contract. In addition, accrued investment income becomes part of the loss reserve fund. Claims payments to the purchasers of the automobile extended service contracts are made directly by the insureds and are deducted from the loss reserve fund. The contract revenue percentage required to be placed in the loss reserve fund varies by each vehicle service contract based on a number of factors (e.g., type of vehicle, mileage, etc.), but this amount averages approximately 55 percent of total cost of each service contract. The Company's financial responsibility triggers only upon satisfaction by the insureds of the deductible, which is defined as the amount of the loss reserve fund of the insured. Once losses incurred by the insureds equal the loss reserve fund, the Company is then responsible for any further claims. (The Company's liability is limited to \$25,000 under each vehicle service contract.) However, under terms of the policy, if Guardian and LSDL are unable to perform their obligations for any reason, the Company will assume the responsibilities of Guardian and LSDL. See Note 2 in the "Notes to Financial Statements" section of this report for additional comments regarding the loss reserve fund. In addition, see the "Comments and Recommendations" section of this report, under the caption "Company Financial Responsibility", for further comments regarding the Company's financial responsibility under its policy with Guardian.

The Company's policies written to Guardian and LSDL are "Contractual Liability Aggregate Excess of Loss" policies, providing coverage above the insureds' deductibles, defined as the loss reserve fund. The policies do not directly insure the vehicle service contracts or obligations to the purchasers of the vehicle service contracts, but as noted above provide excess of loss coverage above the deductibles of Guardian and LSDL. However, certain jurisdictions require "first dollar" coverage of the obligations to the purchasers of vehicle service contracts. Of these jurisdictions, the State of Washington has required the Company to issue a first dollar policy. Specifically, during 2006, the Company issued a "Contractual Liability Insurance Policy" first dollar policy to Guardian in the State of Washington. The Company wrote no premiums in Washington during 2006, but during 2007 began writing premiums in Washington. As of December 31, 2006, the Company had not issued first dollar policies in any other jurisdictions.

Under the Company's first dollar policy, the Company agrees to pay claims to the purchasers of the vehicle service contracts, on behalf of Guardian, subject to an "Aggregate Deductible", which is defined as the sum of the individual amounts for each vehicle service contract required to be placed in to the loss reserve fund. The Company's financial responsibility under the first dollar policy is essentially the same as under its non-first dollar policies, as both the "Aggregate Deductible" under the first dollar policy and the "Deductible" under the non-first dollar policies are equal to the amount of the loss reserve fund held by Guardian. The premiums paid to the Company, the obligations of the Company and Guardian, and the accounting transactions by and between the Company and Guardian with respect to the first dollar policy are the same as under the non-first dollar policies.

Under terms of the first dollar policy, the presence of the aggregate deductible does not prohibit a holder of a vehicle service contract from filing a claim directly with the Company.

### **INSURANCE PRODUCTS AND RELATED PRACTICES**

This examination was a financial examination, and did not include market conduct procedures. An examination of the market conduct affairs of the Company has never been conducted. A market conduct examination would include detailed reviews of the Company's sales and advertising, agent licensing, timeliness of claims processing, and complaint handling practices and procedures.

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

- Policy Forms
- Fair Underwriting Practices
- Advertising and Sales Materials
- Treatment of Policyholders:
  - Claims Processing (Timeliness)
  - Complaints

## **REINSURANCE**

The Company did not assume any business during the examination period.

For the period April 1, 2005 to March 31, 2006, the Company was a party to a ceded aggregate excess of loss reinsurance agreement on a one year term basis. The Company did not have any claims or recoveries against the agreement during the term of the agreement, and the Company chose, without objection by the Department, to not renew the treaty upon its expiration on March 31, 2006. During 2006, the Company reported ceded reinsurance premiums totaling approximately \$712,000. This amount was comprised of ceded premiums totaling approximately \$201,000, and forfeiture of contingent profit commission totaling approximately \$511,000 as a result of the Company's non-renewal of the policy. Despite the forfeiture of the contingent profit commission, management of the Company determined non-renewal of the treaty was in the best interest of the Company.

As of December 31, 2006, the Company did not have a ceded reinsurance agreement in place and did not report any assets or liabilities related to reinsurance transactions.

## **ACCOUNTS AND RECORDS**

During the period under examination, the primary locations of the Company's accounting and corporate records were at the offices of its captive manager, Risk Services, LLC, in Sarasota, Florida, and in Washington, DC; and at the offices of its program manager, The Guardian Warranty Corporation, in Avoca, Pennsylvania. We performed our examination fieldwork at the Sarasota, Florida, and the Avoca, Pennsylvania locations.

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers. Our review disclosed no significant deficiencies in these records.

## FINANCIAL STATEMENTS

The following financial statements, prepared in accordance with accounting practices generally accepted in the United States (“GAAP”), except for the conditions described in **NOTE 1**, reflect the financial condition of the Company as of December 31, 2006, as determined by this examination:

<u>STATEMENT</u>	<u>PAGE</u>
Balance Sheet:	11
Assets	11
Liabilities, Surplus and Other Funds	12
Statement of Income	13
Capital and Surplus Account	14
Analysis of Examination Changes to Surplus	14
Comparative Financial Position of the Company	15

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

**BALANCE SHEET**

**ASSETS**

	<i>Net Admitted Assets December 31, 2006</i>
Bonds	\$ 7,401,987
Common stocks	307,051
Cash (\$ 1,899,421) and short-term investments (\$ 3,563,704)	<u>5,463,125</u>
Subtotals, cash and invested assets	\$ 13,172,163
Investment income due and accrued	339,229
Net deferred tax asset	4,742
Aggregate write-ins for other than invested assets ( <b>NOTE 1</b> )	500,000
Total	<u>\$ 14,016,134</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

	<i>Current Year December 31, 2006</i>
Losses ( <b>NOTE 2</b> )	\$ 0
Loss adjustment expenses ( <b>NOTE 2</b> )	0
Other expenses (excluding taxes, licenses and fees)	19,004
Taxes, licenses and fees (excluding federal and foreign income taxes)	25,492
Current federal and foreign income taxes (including \$0 on realized capital gains (losses))	<u>51,032</u>
Total Liabilities	\$ 95,528
Common capital stock	12,761
Preferred capital stock ( <b>NOTE 3</b> )	1,803,000
Gross paid in and contributed surplus	8,196,607
Unassigned funds (surplus)	<u>3,908,238</u>
Surplus as regards policyholders	\$ 13,920,606
Totals	<u>\$ 14,016,134</u>

## STATEMENT OF INCOME

	<i>Current Year</i> <i>2006</i>
UNDERWRITING INCOME	
Premiums earned	\$ 437,631
DEDUCTIONS	
Losses incurred ( <b>NOTE 2</b> )	0
Loss expenses incurred ( <b>NOTE 2</b> )	0
Other underwriting expenses incurred	197,373
Total underwriting deductions	<u>197,373</u>
Net underwriting gain (loss)	240,258
INVESTMENT INCOME	
Net investment income earned	<u>567,576</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	807,834
Federal and foreign income taxes incurred	<u>171,223</u>
Net income	<u>\$ 636,611</u>



## CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2002	\$ 2,826,651
Net income, 2003	785,172
Surplus adjustments: Paid in	191,463
Net change in surplus as regards policyholders, 2003	<u>976,635</u>
Surplus as regards policyholders, December 31, 2003	\$ 3,803,286
Net income, 2004	480,098
Surplus adjustments: Paid in	395,547
Net change in surplus as regards policyholders, 2004	<u>875,645</u>
Surplus as regards policyholders, December 31, 2004	\$ 4,678,931
Net income, 2005	977,081
Change in net unrealized capital gains or (losses) less capital gains tax of \$0	(2,642)
Paid in capital	1,215,762
Surplus adjustments: Paid in	6,421,427
Net change in surplus as regards policyholders, 2005	<u>8,611,628</u>
Surplus as regards policyholders, December 31, 2005	\$ 13,290,559
Net income, 2006	636,611
Change in net unrealized capital gains or (losses) less capital gains tax of \$3,381	(6,564)
Net change in surplus as regards policyholders, 2006	<u>630,047</u>
Surplus as regards policyholders, December 31, 2006	\$ 13,920,606

## ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

There were no changes to the Company's surplus as a result of our examination.

### COMPARATIVE FINANCIAL POSITION OF THE COMPANY

The comparative financial positions of the Company for the periods since January 1, 2003 are as follows:

	2006	2005	2004	2003
Assets	14,016,134	12,986,018	4,656,816	3,793,941
Liabilities ( <b>NOTE 4</b> )	95,528	(304,541)	(22,115)	(9,345)
Capital and surplus	13,920,606	13,290,559	4,678,930	3,803,286
Gross written premium	1,150,000	1,150,000	1,150,000	1,148,775
Net earned premium ( <b>NOTE 4</b> )	437,631	885,131	329,038	640,761
Net investment income	567,576	360,533	120,118	104,106
Net income	636,611	977,081	480,098	785,172

**Note:** Amounts in the preceding financial statements for the years ended December 31, 2003 through 2005 were taken from the Company's Annual Statements as filed with the Department. Amounts for the years ended December 31, 2002 and December 31, 2006 are amounts per examination.

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 – Aggregate Write-ins for Other than Invested Assets:**

At December 31, 2006, the Company reported “Aggregate write-ins for other than invested assets” of \$500,000, which is a letter of credit in possession of the District of Columbia Insurance Commissioner. Under the captive insurance laws of the District of Columbia, letters of credit approved by the Department may be treated as assets and as capital and surplus. Such inclusion of the amount of the letter of credit in assets and capital/surplus is not in accordance with accounting practices generally accepted in the United States (“GAAP”).

### **NOTE 2 – Loss and Loss Adjustment Expenses:**

The Company reported “Losses” and “Loss adjustment expenses” reserves totaling \$0 and \$0, respectively. These reserves represent management’s best estimate of the amounts necessary to pay all claims and related expenses that have been incurred under the Company’s policies, but are still unpaid as of December 31, 2006.

As previously indicated in this report, the Company provides aggregate excess of loss insurance coverage to automobile service contract providers (also known as administrator obligors), which are in the business of selling and/or administering automobile extended service contracts. Guardian and LSDL, both administrative obligors, are the sole policyholders of the Company. The Company’s aggregate excess of loss policies insure Guardian and LSDL (“insureds”) for contractual liabilities related to the insureds’ obligations under the automobile extended service contracts. The Company’s policies provide coverage to the insureds for amounts in excess of the insureds’ deductibles, which are equal to the amount of the underlying loss reserve funds required to be established and maintained by each insured. The Company’s financial responsibility triggers only upon exhaustion of the loss reserve funds.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2006, were reviewed as part of our examination. As part of our review, we relied on the Company’s independent actuary, who concluded that the Company’s reserves appeared to be sufficient. In addition, as part of our review of the Company’s reserves, we engaged an independent actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company’s independent actuary. The independent actuary utilized in our examination concluded that the methodologies and assumptions utilized by the Company’s independent actuary to compute these reserves, and the adequacy of the reserves as of December 31, 2006, were reasonable and adequate.

In addition, the Company reported “Losses incurred” and “Loss expenses incurred” for 2006 totaling \$0 and \$0, respectively. Since inception, the Company has never incurred losses or loss adjustment expenses, as all obligations relating to the vehicle service contracts insured by the Company have been paid out of the loss reserve funds established and maintained by the insureds of the Company.

During our examination, as part of our review of the adequacy of the Company's reserves, we also reviewed the loss reserve funds established and maintained by the Company's insureds. As part of this review, we relied on the work, performed on behalf of Guardian, of an independent actuary, who concluded that as of December 31, 2006, Guardian's ultimate losses (on an undiscounted basis) on its obligations relating to its vehicle service contracts, totaled between \$22 million and \$24 million. The actuary also indicated that as of December 31, 2006, Guardian had set aside investments totaling approximately \$36.8 million in its loss reserve fund accounts. In addition, the independent actuary engaged as part of our examination reviewed the methods employed, assumptions relied upon, and conclusions reached by the independent actuary regarding Guardian's loss reserve fund. The independent actuary utilized in our examination concluded that the methodologies and assumptions utilized by Guardian's independent actuary to compute the estimate of the ultimate losses to be incurred by Guardian were reasonable and adequate.

During the examination, we performed procedures to verify the existence of Guardian's investments totaling \$36.8 million backing its loss reserve fund. These investments, consisting of certificates of deposit, U.S. Treasury securities, corporate bonds, and other investments, are held in various accounts by Guardian.

As previously indicated in the "Affiliated Parties and Transactions" section of this report, under terms of an administrative agreement with the Company, Guardian agrees to "maintain a separate fiduciary account for its dealer reserve funds". However, though Guardian has maintained the loss reserve funds in separate bank and investment accounts, there is no formal fiduciary or trust agreement established. See the "Comments and Recommendations" section of this Report, under the caption "Administrative Agreement" subtitle "Fiduciary Account" for further comments regarding this condition.

Although we concluded the assets held by Guardian appear sufficient to enable Guardian to satisfy its obligations relating to its vehicle service contracts, under the Company's policy with Guardian, the Company is ultimately responsible for the obligations of Guardian relating to its vehicle service contracts. But since the Company does not own and control the assets set aside to satisfy these potential obligations, we question the Company's ability to satisfy its potential future obligations under its policy with Guardian. See the "Comments and Recommendations" section of this Report, under the caption "Company Financial Responsibility" for further comments regarding this condition.

### **NOTE 3 – Accumulated Preferred Stock Dividends:**

As of December 31, 2006, the Company had issued 595 shares of 8 percent cumulative series A preferred stock, with a par of \$1,000 per share. As of December 31, 2006, the Company had never declared or paid any dividends on this preferred stock, but dividends on series A preferred stock are cumulative. As of December 31, 2006, the amount of accumulated dividends in arrears on this preferred stock totaled \$355,370. Since the Company has never declared these dividends, they do not have to be reflected as a liability in the Company's financial statements. However, all accumulated dividends in arrears are payable upon the payment of any dividends on common

stock and other preferred stock of the Company, redemption of series A preferred stock, or dissolution or liquidation of the Company.

**NOTE 4 – Fluctuation in Liabilities and Net Earned Premiums during the Period under Examination:**

For the years ending December 31, 2003, 2004 and 2005, the Company reported total negative liabilities. In addition, the Company reported significant fluctuations in net earned premiums for these years and also for the year ended December 31, 2006, even though the Company's gross premiums written totaled approximately \$1,150,000 in each of these years. We noted that the negative liability balances and the fluctuations in net earned premiums were as a result of transactions in those years under the Company's reinsurance treaty. As previously noted in the "Reinsurance" section of this Report, prior to April 1, 2006, the Company had a ceded excess of loss reinsurance treaty in place. Under the terms of the treaty, the Company was entitled to profit commission equal to a percentage of the accumulated net reinsurance profit at the end of each calendar year. For the years ending December 31, 2003, 2004 and 2005, the Company recorded accrued reinsurance profit commissions as an offset to "Ceded reinsurance premium payable" and as a reduction in ceded premiums. This resulted in negative ceded reinsurance premiums payable, as well as total negative liabilities for these years. The recording of contingent profit commission at year end also caused the fluctuations in the Company's net earned premiums for the years under examination.

## COMMENTS AND RECOMMENDATIONS

### Administrative Agreement:

As previously mentioned in the “Affiliated Companies and Transactions” section of this report, effective July 1, 1999, the Company entered into an administrative agreement with its policyholder/member, The Guardian Warranty Corporation, a Delaware corporation located in Avoca, Pennsylvania. Based on the agreement, Guardian provides daily management and administrative services to the Company. During the examination, we noted the following regarding the administrative agreement:

#### Fiduciary Account:

Under the terms of the administrative agreement, Guardian agrees to “maintain a separate fiduciary account for its dealer reserve funds”. However, though Guardian has maintained the dealer loss reserve funds in separate bank and investment accounts, there is no formal fiduciary agreement established. As a result of this condition, Guardian is not in compliance with the terms of the administrative agreement, and there is a lack of assurance that Guardian’s investments backing its loss reserve fund will be adequately protected, and will be fully available in the future to pay obligations of the loss reserve fund. **We recommend that the Company ensure Guardian’s compliance with the terms of the administrative agreement and require Guardian to maintain a separate fiduciary account for its dealer reserve funds. This account shall be established by July 1, 2008, pursuant to a fiduciary agreement approved by the Commissioner, with a fiduciary acceptable to the Commissioner.**

#### Errors & Omissions Coverage:

Under the terms of the administrative agreement, Guardian is required to maintain at least \$1 million of Errors & Omissions (E&O) insurance coverage. However, as of December 31, 2006, Guardian had no E&O policy in place. According to Guardian’s management, this lapse was inadvertent. During the examination, Guardian obtained E&O coverage retroactive to 2006. **We recommend that the Company ensure Guardian maintains E&O coverage at all times, in accordance with terms of the administrative agreement.**

### Company Financial Responsibility:

As previously noted in this report, the Company’s aggregate excess of loss policy insures Guardian for amounts in excess of Guardian’s deductible, which is equal to the amount of Guardian’s loss reserve fund. The Company’s financial responsibility triggers only upon satisfaction by Guardian of the deductible. Once losses incurred by Guardian equal the loss reserve fund, the Company is then responsible for any further claims. However, under terms of the policy, if Guardian is unable to perform its obligations for any reason, the Company will

assume the responsibilities of Guardian. In addition, as previously indicated, the loss reserve fund is not held by the Company, but rather it is held by Guardian. **We recommend the following:**

- 1. Because the Company does not own, and does not report as part of its assets the assets of the loss reserve fund, the Company shall amend its policy with Guardian to clarify that the Company's financial responsibility is not triggered until losses equal the amount of assets that should be in the loss reserve fund, regardless of the actual amount of assets available to satisfy obligations of the loss reserve fund, and regardless of Guardian's ability to otherwise perform its obligations. Or,**
- 2. If the Company remains liable for the full amount of the loss reserve fund, the Company shall take ownership and possession of the assets of the loss reserve fund, and shall record these assets and the corresponding liability in its financial statements filed with the Department.**

## CONCLUSION

Our examination disclosed that as of December 31, 2006 the Company had:

Admitted Assets	\$	14,016,134
Liabilities and Reserves		95,528
Common Capital Stock		12,761
Preferred Capital Stock		1,803,000
Gross Paid In and Contributed Surplus		8,196,607
Unassigned Funds (Surplus)		3,908,238
Total Surplus		13,920,606
Total Liabilities, Capital and Surplus	\$	14,016,134

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2006, and the accompanying statement of income properly presents the results of operations for the period then ended.

Chapter 39 (“CAPTIVE INSURANCE COMPANIES”) of Title 31 (“Insurance and Securities”) of the D.C. Official Code specifies the level of capital and surplus required for the Company. We concluded that the Company’s capital and surplus funds exceeded the minimum requirements during the period under examination.



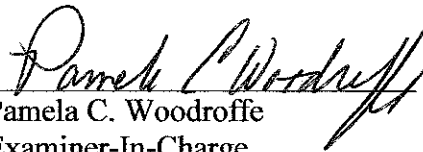
**SIGNATURES**

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

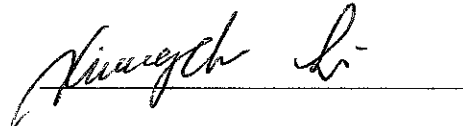
Christina M. Bonney, Collins Consulting, Inc.  
John G. Gantz, Jr., Collins Consulting, Inc.

The actuarial portion of this examination was completed by N. Terry Godbold, ACAS, MAAA, FCA, President & Senior Actuary, Godbold, Malpere & Co.

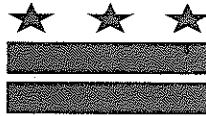
Respectfully submitted,

  
Pamela C. Woodroffe  
Examiner-In-Charge  
Collins Consulting, Inc.

Under the Supervision of,

  
Xiangchun (Jessie) Li, CFE  
Supervising Examiner  
District of Columbia, Department of  
Insurance, Securities and Banking

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



**Thomas E. Hampton**  
**Commissioner**

May 5, 2008

Paul Dreabit  
President and Chief Executive Officer  
Global International Insurance Company, Inc., A Risk Retention Group  
c/o Risk Services, LLC  
5101 Wisconsin Avenue, Suite 500  
Washington, D.C. 20016

Dear Mr. Dreabit:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination of the affairs and financial condition of **Global International Insurance Company, Inc., A Risk Retention Group**, as of December 31, 2006.

Please submit, to my attention, a written response calling attention to any errors or omissions. In addition, if this Report on Examination contains a section entitled "Comments and Recommendations" that discloses certain areas requiring action, the Company shall submit a statement covering the corrective measures which will be taken. If the Company's position on any of these points is contrary to the Examiner's findings, an explanation should be submitted covering each contested comment and/or recommendation.

If there are no errors or omissions to be brought to our attention, and there are no "Comments and Recommendations" requiring a response, please submit a statement that the Company accepts the Report.

All of your comments concerning these matters must be in writing and shall be furnished to this Department within **thirty (30) days from the date of this letter (June 4, 2008)**.

Sincerely,

A handwritten signature in black ink that reads "P. Sean O'Donnell".

P. Sean O'Donnell  
Director of Financial Examination,  
Risk Finance Bureau

Enclosure

**GLOBAL INTERNATIONAL INSURANCE COMPANY, INC.,  
A RISK RETENTION GROUP**

May 21, 2008

P. Sean O'Donnell  
Director of Financial Examination  
Risk Finance Bureau  
Department of Insurance, Securities and Banking  
1400 L Street, N.W., Suite 400  
Washington, D.C. 20005

**Re: Global International Insurance Company, Inc., A Risk Retention Group  
NAIC Company Code: 10991; NAIC Group Code: 0000; FEIN: 99-0342315**

Dear Mr. O'Donnell:

The following responses are submitted with respect to the comments and recommendations contained in the Report on Examination of the Company for the period January 1, 2003 through December 31, 2006 forwarded by the Risk Finance Bureau on May 5, 2008:

1. The Examiners recommend that the Company ensure Guardian's compliance with the terms of its administrative agreement with the Company and require Guardian to maintain a separate fiduciary account for its dealer reserve funds. This account shall be established by July 1, 2008, pursuant to a fiduciary agreement approved by the Commissioner, with a fiduciary acceptable to the Commissioner.

RESPONSE: The Company respectfully suggests that the term "fiduciary account" is being taken out of context and misconstrued as a "Trust Agreement". Guardian currently segregates the dealer reserve funds from its general operating accounts and serves in a "fiduciary" capacity over those funds, with the definition of "fiduciary" being "a person to whom property or power is entrusted for the benefit of another". The Administrative Agreement between Guardian and the Company, whereby it is stated that Guardian shall "maintain a separate fiduciary account for its dealer reserve funds" was never intended to require the utilization of a three party trust account, but instead was intended to require Guardian to segregate these funds from operating funds and serve in a fiduciary capacity with respect to managing these funds.

2. The Examiners recommend that the Company ensure Guardian maintains E&O coverage at all times, in accordance with terms of the administrative agreement between Guardian and the Company.

RESPONSE: The required E&O coverage has been secured. The Company shall endeavor to ensure that E&O coverage is maintained at all times in accordance with the terms of its administrative agreement with Guardian.

3. The Examiners recommend one of the following:
  - a. Because the Company does not own, and does not report as part of its assets the assets of the loss reserve fund, the Company shall amend its policy with Guardian to clarify that the Company's financial responsibility is not triggered until losses equal the amount of

May 21, 2008

Page 2

assets that should be in the loss reserve fund, regardless of the actual amount of assets available to satisfy obligations of the loss reserve fund, and regardless of Guardian's ability to otherwise perform its obligations; or,

- b. If the Company remains liable for the full amount of the loss reserve fund, the Company shall take ownership and possession of the assets of the loss reserve fund, and shall record these assets and the corresponding liability its financial statements filed with the Department.

RESPONSE: The Company agrees to amend its policy in accordance with recommendation "a." above. Currently Endorsement #1 to the Company's contractual liability policy provides coverage wording that in effect meets the conditions required as noted in "a." above, however Endorsement #3 could be interpreted to conflict with this protection afforded the Company. As such, the Company shall remove Endorsement #3 from its policy form effective with each member insured's next renewal.

Thank you. Should you have any further questions, please don't hesitate to contact me.

Sincerely,



Michael T. Rogers

President

**Risk Services, LLC**

As Managers for

**Global International Insurance Company, Inc.,**

**A Risk Retention Group**

MTR/hr

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



**Thomas E. Hampton**  
**Commissioner**

June 24, 2008

Paul Dreabit  
President and Chief Executive Officer  
Global International Insurance Company, Inc., A Risk Retention Group  
C/o Risk Services, LLC  
2233 Wisconsin Avenue, N.W.  
Suite 310  
Washington, DC 20007

Dear Mr. Dreabit:

We are in receipt of a response dated May 21, 2008, from Michael T. Rogers, President of Risk Services, LLC (as Managers for Global International Insurance Company, Inc., A Risk Retention Group (“Global”)), which addresses the corrective actions taken or to be taken by Global to comply with the recommendations made in the Report on Examination as of December 31, 2006. Except for the following, the response adequately addresses the recommendations made in the Report.

**Administrative Agreement:**

**Fiduciary Account:**

**We recommended that the Company ensure Guardian’s compliance with the terms of the administrative agreement and require Guardian to maintain a separate fiduciary account for its dealer reserve funds. This account shall be established by July 1, 2008, pursuant to a fiduciary agreement approved by the Commissioner, with a fiduciary acceptable to the Commissioner.**

The response clarifies the intent of the Company regarding the provision in the administrative agreement requiring a separate fiduciary account for its dealer reserve funds. The response goes on to indicate the Company’s belief that Guardian is in full compliance with this provision.

Based on the response, we will not dispute management’s position regarding the intent of the agreement, and the fact that management believes that Guardian is in full compliance

with the provision in question. However, the Department believes that a separate fiduciary account for dealer reserve funds, established pursuant to a fiduciary agreement approved by the Commissioner with a fiduciary acceptable to the Commissioner, is necessary to ensure that investments backing a dealer reserve fund will be adequately protected, and will be fully available in the future to pay obligations of the dealer reserve fund. In the near future the Department may promulgate regulations requiring a formal fiduciary arrangement for dealer reserve funds. The Company will be notified of any new requirements.

**Company Financial Responsibility:**

**We recommended the following:**

- a. Because the Company does not own, and does not report as part of its assets the assets of the loss reserve fund, the Company shall amend its policy with Guardian to clarify that the Company's financial responsibility is not triggered until losses equal the amount of assets that should be in the loss reserve fund, regardless of the actual amount of assets available to satisfy obligations of the loss reserve fund, and regardless of Guardian's ability to otherwise perform its obligations. Or,**
- b. If the Company remains liable for the full amount of the loss reserve fund, the Company shall take ownership and possession of the assets of the loss reserve fund, and shall record these assets and the corresponding liability in its financial statements filed with the Department.**

The response indicated the Company agrees to amend its policy with Guardian to clarify that the Company's financial responsibility is not triggered until losses equal the amount of assets that should be in the loss reserve fund, regardless of the actual amount of assets available to satisfy obligations of the loss reserve fund, and regardless of Guardian's ability to otherwise perform its obligations.

Please be advised that all "first-dollar" policies shall also be amended to make the above clarification. Please confirm in writing that Global is able to amend these policies.

Upon renewal of all policies, please submit the revised policy forms to the Department to my attention.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available, and will be forwarded electronically to each Commissioner whose name is set forth on

Paul Dreabit  
Global International Insurance Company, Inc., A Risk Retention Group  
June 24, 2008  
Page 3 of 3

Page 1 of the Report, as well as to the National Association of Insurance Commissioners, and to each state in which the Company is registered.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention at the Department.

Please contact me at 202-442-7785 if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "P. Sean O'Donnell". The signature is written in a cursive style with a long horizontal flourish at the end.

P. Sean O'Donnell  
Director of Financial Examination  
Risk Finance Bureau

Enclosures