

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 - **Atlas Risk Retention Group, Inc.**, as of December 31, 2007

ORDER

An Examination of **Atlas Risk Retention Group, Inc.**, as of December 31, 2007 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

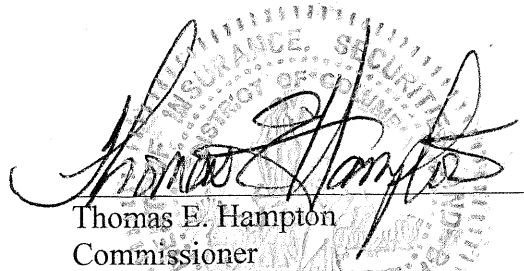
It is hereby ordered on this 29th day of June, 2009, that the attached financial condition examination report be adopted and filed as an official record of this Department.

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

ATLAS RISK RETENTION GROUP, INC.

AS OF

DECEMBER 31, 2007

NAIC NUMBER 11064

TABLE OF CONTENTS

Salutation	1
Scope of Examination	1
Status of Prior Examination Findings	2
History.....	2
General	2
Ownership	2
Dividends and Distributions	3
Management.....	3
Board of Directors.....	3
Officers	3
Committees	4
Conflicts of Interest.....	4
Corporate Records	4
Captive Manager	4
Affiliated Parties and Transactions.....	4
Fidelity Bond and Other Insurance.....	5
Pension and Insurance Plans.....	5
Statutory Deposits.....	5
Territory and Plan of Operation.....	5
Insurance Products and Related Practices.....	7
Reinsurance.....	7
Accounts and Records.....	8
Financial Statements	9
Balance Sheet.....	10
Assets	10
Liabilities, Surplus and Other Funds	11
Statement of Income	12
Capital and Surplus Account	13
Analysis of Examination Changes to Surplus.....	13
Comparative Financial Position of the Company	14
Notes to Financial Statements.....	15
Comments and Recommendations.....	17
Conclusion	20
Signatures.....	21

Washington, D.C.
November 5, 2008

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

Atlas Risk Retention Group, Inc.

hereinafter referred to as the “Company” or “Atlas”, at the office of its captive manager, located at 1800 Second Street, Suite 909, Sarasota, Florida 34236, and at the office of its program manager, located at 200 Pinebrook Place, Orwigsburg, Pennsylvania 17961.

SCOPE OF EXAMINATION

This full-scope examination, covering the period July 22, 2005 through December 31, 2007, including any material transactions and/or events noted occurring subsequent to December 31, 2007, 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 has been 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. We placed substantial reliance on the audited financial statements for calendar years 2005 and 2006, and consequently performed only minimal testing for those periods. We

concentrated our examination efforts on the year ended December 31, 2007. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2007. We placed reliance on the work of the auditor and directed our efforts, to the extent practical, to those areas not covered by the independent auditors.

STATUS OF PRIOR EXAMINATION FINDINGS

This is the first examination of the Company.

HISTORY

General:

The Company was incorporated as an association captive insurer under the laws of the District of Columbia and obtained a certificate of authority on July 22, 2005, operating as a risk retention group. The Company commenced operations on September 1, 2005.

The Company was organized to provide excess of loss insurance coverage on the contractual liability risks of administrator obligors (“AOs”) which are in the business of selling and/or administering automobile extended service contracts on an occurrence basis. Preferred Warranties, Inc. (“Preferred Warranties”) and Superior Warranties, Inc. (“Superior Warranties”), both AOs, are the Company’s sole policyholders, and own 80 percent and 20 percent of the Company’s common stock, respectively.

Prior to August 2006, the Company’s majority owner/policyholder, Preferred Warranties, was wholly owned by PWI Holdings, Inc. (PWI Holdings), which ultimately controls the Company. Superior Warranties was owned by two individuals, Wayne Herring (80 percent), and Jay Linard (20 percent). During August 2006, with approval of the Department, PWI Holdings and Superior Warranties and the respective stockholders entered into an agreement with Harbert Private Equity Fund II, LLC (“Harbert”). Under this agreement, 72.2 percent of the outstanding stock of PWI Holdings was sold to Harbert. In addition, ownership of Superior Warranties was transferred to PWI Holdings. After consummation of the transaction, Preferred Warranties and Superior Warranties are both wholly owned by PWI Holdings; PWI Holdings is owned by Harbert (72.2 percent), Northstar Mezzanine Partners IV L.P (6.1 percent), Wayne Herring (19.2 percent), and Jay Linard (2.5 percent); and Harbert became the Company’s ultimate controlling parent.

Ownership:

Atlas is a stock company. As a risk retention group, it is wholly owned by its policyholders. The Company is authorized to issue 10,000,000 shares of common stock, with a par value of \$1 per share. As of December 31, 2007, 250,000 shares of common stock were issued to the

Company's two owners/policyholders, Preferred Warranties and Superior Warranties, which hold 200,000 and 50,000 shares respectively.

Dividends and Distributions:

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

MANAGEMENT

The following persons were serving as the Company's directors as of December 31, 2007:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Donald R. Beard Alabama	Vice President and Director of Investments Harbert Private Equity Fund II, LLC
J. David Harper Alabama	Vice President and Director of Investments Harbert Private Equity Fund II, LLC
Debra Herring Pennsylvania	Vice-President Preferred Warranties, Inc.
Wayne Herring Pennsylvania	President Preferred Warranties, Inc.
Michael A. Rowland Alabama	Director of Investments Harbert Private Equity Fund II, LLC

The following persons were serving as the Company's officers as of December 31, 2007:

<u>Name</u>	<u>Title</u>
Wayne Herring	President/Treasurer
Debra Herring	Secretary
Troy Winch	Assistant Treasurer
Heather Ross	Assistant Secretary

Committees:

As of December 31, 2007, 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 provides captive management services, including accounting and regulatory services, to the Company.

AFFILIATED PARTIES AND TRANSACTIONS

As indicated in the "History" section of this report, the Company had two owners/policyholders as of December 31, 2007. Preferred Warranties is the majority stockholder and owns 80 percent of the Company's common stock. Superior Warranties owns 20 percent of the Company's common stock. Both Preferred Warranties and Superior Warranties are wholly owned by PWI Holdings Inc., which is owned 72.2 percent by Harbert Private Equity Fund II, LLC, 19.2 percent by Wayne Herring, President of Atlas, 6.1 percent by Northstar Mezzanine Partners IV L.P., and 2.5 percent by Jay Linard.

During the period under examination, the Company had an "Administration Agreement" in place with Preferred Warranties. Based on the terms of the agreement, Preferred Warranties provides administrative services, including underwriting, claims handling, and premium collection to Atlas. The terms of the agreement do not provide for any compensation to be paid by the Company to Preferred Warranties for these services. The agreement has an effective date of June 1, 2005 and is automatically renewed annually thereafter for successive one-year periods.

FIDELITY BOND AND OTHER INSURANCE

The Company has no employees and did not have fidelity bond coverage as of December 31, 2007.

PENSION AND INSURANCE PLANS

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

STATUTORY DEPOSITS

As of December 31, 2007, 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, 2007, the Company was licensed in the District of Columbia, and was registered as a risk retention group in fifteen states. During 2007, Atlas wrote premiums totaling approximately \$541,000. Approximately 85 percent of the premiums were written in the following six (6) states: Virginia (23 percent), Pennsylvania (23 percent), New Jersey (13 percent), Ohio (10 percent), Tennessee (9 percent), and Indiana (7 percent).

Since inception, the Company has no employees. Its owner/policyholder, Preferred Warranties, pursuant to the terms of the aforementioned Administration Agreement, acts as the Company's Program Manager and manages the Company's daily business activities, 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. Preferred Warranties and Superior Warranties, both administrative obligors, are the sole policyholders of the Company. Preferred Warranties sells and administers new and used car extended service contracts sold through a network of automobile dealers who sell them to consumers. These contracts are offered by dealers to a buyer upon the sale of car and are optional to the car buyer. We were informed by the Company that although Superior Warranties has a policy with the Company, Superior Warranties has never written any business through December 31, 2007.

The cost to the purchasers of the vehicle service contracts varies based on the type of vehicle, mileage, and various other factors. 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, Preferred Warranties pays a premium to the Company for each vehicle service contract sold. Prior to April 1, 2007, premiums paid to Atlas were \$10 per vehicle service contract sold with terms of 12 months or less and \$20 per vehicle service contract with terms greater than 12 months. Effective April 1, 2007, Atlas, with the Department’s consent, increased the per vehicle rate to \$12.50 and \$25, respectively. These are the amounts recorded as direct premiums written on the Company’s Schedule “T” in its Annual and Quarterly Statement filings.

The Company’s aggregate excess of loss policies insure Preferred Warranties and Superior Warranties (“insureds”) for contractual liabilities related to the insureds’ obligations under the automobile extended service contracts. The Company’s policies do not directly insure the vehicle service contracts or obligations to the purchasers of the vehicle service contracts but provide coverage to the insureds for amounts in excess of the insureds’ self-insured retention. The self-insured retention 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. 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., new or used vehicle, type of vehicle, mileage, etc.). The assets backing the loss reserve fund are held pursuant to a “Custodial Account Agreement” under which the Company is beneficiary, Preferred Warranties is grantor, and the custodian is an independent third party bank. During the examination, we noted some discrepancies in the Company’s operations compared to the provisions of the aggregate excess of loss insurance policies. See the “Comments and Recommendations” section of this Report, under the caption “Contractual Liability Aggregate Excess of Loss Policy” for further comments regarding these conditions.

The Company’s financial responsibility triggers only upon satisfaction by the insureds of the self-insured retention, 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 self insured retention is calculated based on the amount that is required to be in the LRF, regardless of the amount actually maintained in the LRF. If the LRF is not maintained at the required funding, the self-insured retention does not change, and is still calculated at the amount required to be maintained in the LRF. However, we did note that in one state in which Atlas does business, its aggregate excess of loss policy contains an endorsement requiring the Company to pay all losses and return of unearned premium if the policyholder is unable to fulfill its obligations for any reason, regardless of whether or not the self insured retention has been met. 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 in the above-mentioned state.

As of December 31, 2007, all states in which the Company does business have accepted the standard aggregate excess of loss insurance policy issued by the Company and filed by the Administrator Obligor (“AO”) and no states have required a “first dollar” policy.

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

Effective September 1, 2005, the Company entered into an aggregate excess of loss reinsurance agreement with Imagine Insurance Company Limited Barbados (“Imagine”) on a one year term basis. The expiration was extended each year through September 1, 2008. The Company’s retention is equal to 100 percent of its gross written premium, plus 120 percent of the loss reserve fund held by the administrator obligors. The reinsurer’s limit of liability is \$1,000,000 on an aggregate basis over the term of the agreement. The Company paid a flat fee of \$115,000 annually to the reinsurer. In relation to the agreement, Superior Warranties and Preferred Warranties provided a \$1,000,000 letter of credit in favor of Imagine.

The Company has never made a claim with or had a recovery from the reinsurer under this agreement, and the Company has not taken reinsurance credit for this agreement in its Annual Statements or its audited financial statements. In addition, the agreement was not recognized as reinsurance in the Company’s independent actuary’s analysis of loss reserves. On May 5, 2008 the Department approved the Company’s request to commute the reinsurance agreement effective September 1, 2008.

ACCOUNTS AND RECORDS

The primary locations of the Company's accounting and corporate records are at the office of its captive manager, Risk Services, LLC in Sarasota, Florida, and at the offices of its program manager/majority member, Preferred Warranties, Inc., in Orwigsburg, Pennsylvania. We performed our examination fieldwork at the aforementioned offices.

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers. Our examination did not disclose any significant deficiencies with these records. However, during the examination, we noted two potential issues regarding a cash account maintained by the Company. See the "Comments and Recommendations" section of this Report, under the caption "Cash Management Sweep Account" for further comments regarding these issues.

FINANCIAL STATEMENTS

The following financial statements, prepared in accordance with accounting practices generally accepted in the United States (“GAAP”), except for the condition described in **NOTE 1**, reflect the financial condition of the Company as of December 31, 2007, as determined by this examination:

<u>STATEMENT</u>	<u>PAGE</u>
Balance Sheet:	10
Assets	10
Liabilities, Surplus and Other Funds	11
Statement of Income	12
Capital and Surplus Account	13
Analysis of Examination Changes to Surplus	13
Comparative Financial Position of the Company	14

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

BALANCE SHEET

ASSETS

	<i>Assets</i> <i>December 31, 2007</i>
Cash (\$409,640), cash equivalents (\$0) and short-term investments (\$0)	\$ 409,640
Subtotals, cash and invested assets	\$ 409,640
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	35,869
Net deferred tax asset	36,472
Aggregate write-ins for other than invested assets	
Prepaid expenses	8,056
Letter of credit (NOTE 1)	1,000,000
Deferred reinsurance	76,667
Subtotal	\$ 1,084,723
Total	\$ <u>1,566,704</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<i>December 31, 2007</i>
Losses (NOTE 2)	\$ 551,904
Loss adjustment expenses (NOTE 2)	0
Other expenses (excluding taxes, licenses and fees)	23,205
Taxes, licenses and fees (excluding federal and foreign income taxes)	22,394
Ceded reinsurance premiums payable (net of ceding commissions)	<u>40,000</u>
Total liabilities	\$ 637,503
Common capital stock	250,000
Gross paid in and contributed surplus	750,000
Unassigned funds (surplus)	<u>(70,799)</u>
Surplus as regards policyholders	\$ 929,201
Total	<u>\$ 1,566,704</u>

STATEMENT OF INCOME

	<i>2007</i>
UNDERWRITING INCOME	
Premiums earned	\$ 425,917
DEDUCTIONS	
Losses incurred	\$ 193,607
Loss expenses incurred	0
Other underwriting expenses incurred	167,540
Total underwriting deductions	<u>\$ 361,147</u>
Net underwriting gain (loss)	\$ 64,770
INVESTMENT INCOME	
Net investment income earned	<u>\$ 5,797</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 70,567
Federal and foreign income taxes incurred	23,994
Net income	<u><u>\$ 46,573</u></u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2004	\$ <u>0</u>
Initial paid in capital	\$ 250,000
Surplus adjustments: Paid in	750,000
Net loss, 2005	<u>(125,808)</u>
Net change in surplus as regards policyholders, 2005	874,192
Surplus as regards policyholders, December 31, 2005	\$ <u>874,192</u>
Net income, 2006	\$ 8,436
Net change in surplus as regards policyholders, 2006	<u>8,436</u>
Surplus as regards policyholders, December 31, 2006	\$ <u>882,628</u>
Net income, 2007	\$ 46,573
Net change in surplus as regards policyholders, 2007	<u>46,573</u>
Surplus as regards policyholders, December 31, 2007	\$ <u>929,201</u>

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 annual financial position of the Company for the periods since July 22, 2005 is as follows:

	2007	2006	2005
Assets	\$ 1,566,704	\$ 1,352,647	\$ 1,121,412
Liabilities	637,503	470,019	247,220
Capital and surplus	929,201	882,628	874,192
Gross written premium	540,917	473,994	121,300
Net earned premium	425,917	358,994	82,967
Net investment income	5,797	(598)	24
Net income / (loss)	\$ 46,573	\$ 8,436	\$ (125,808)

Note: Amounts in the preceding financial statements for the years ended December 31, 2005, through December 31, 2006 were taken from the Company's Annual Statements as filed with the Department. Amounts for the year ended December 31, 2007 are per examination.

NOTES TO FINANCIAL STATEMENTS

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

At December 31, 2007, the Company reported, as part of “Aggregate write-ins for other than invested assets”, a \$1,000,000 letter of credit which is in the 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 Expense Reserves:

The Company reported “Losses” and “Loss adjustment expenses” reserves totaling \$551,904 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 but are still unpaid as of December 31, 2007.

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. The Company’s aggregate excess of loss policies insure the administrator obligors 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’ self insured retentions, which are equal to the amount of the underlying loss reserve funds maintained by the insureds. 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, 2007, 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, 2007, were reasonable and adequate.

In addition, the Company reported “Losses incurred” and “Loss expenses incurred” for 2007 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 the insureds, of an independent actuary, who concluded that as of December 31, 2007, the insured's estimated future contractual liabilities including losses and refunds on the vehicle service contracts insured by Atlas totaled \$4,270,786. As of December 31, 2007, the loss reserve fund had a balance of \$6,355,001 which is in a custodial account for benefit of Atlas. The Company's independent actuary therefore concluded that the loss reserve fund of \$6,255,001 is adequate to cover the estimated future liabilities with a margin of \$1,984,215 or 31.7 percent of the loss reserve fund. The independent actuary engaged as part of our examination reviewed the methods employed, assumptions relied upon, and conclusions reached by the independent actuary regarding the loss reserve fund. The independent actuary utilized in our examination concluded that the methodologies and assumptions utilized to compute the estimate of the ultimate losses to be incurred by the insureds were reasonable and adequate.

During the examination, we performed procedures to verify the existence of the assets totaling \$6,355,001 backing the loss reserve fund. These assets, consisting of cash & cash equivalents, and bonds (U.S. Treasury Notes, municipal and U.S. Government Agency bonds), are held in custodial account for benefit of Atlas.

COMMENTS AND RECOMMENDATIONS

Contractual Liability Aggregate Excess of Loss Policy:

As previously noted in this report, the Company's excess of loss contractual liability insurance policy ("policy") provides insurance for amounts in excess of the loss reserve fund (LRF) held by the insureds. The LRF is established and maintained by the insureds, in a custodial account which the Company is a party to, pursuant to the specific formulas and provisions written in the policy. During our examination, we noted the following:

1. Contributions to Loss Reserve Fund:

Based on the policy, the LRF balance should equal scheduled contributions for each vehicle service contract insured by Atlas, less claims paid on those contracts (and less any return of loss reserves from cancelled contracts), plus investment income earned on the balance of the LRF. However, we noted that the LRF balance as of December 31, 2007 (\$6,355,001) did not include investment income that should have been credited to the balance. The amount of investment income not credited to the LRF balance was \$254,044. As noted previously in **NOTE 2** in the "Notes to Financial Statements" section of this Report, the LRF was over funded, in an amount greater than the amount of investment income (\$254,044), as of December 31, 2007. Therefore, there is no impact on the financial condition of the LRF, or on the financial condition of the Company as a result of this condition. However, **we recommend that the Company ensure the LRF is funded in accordance with the terms of the excess of loss contractual liability insurance policy. In addition, we recommend that the Company obtain prior written approval from the Department for any withdrawals from the LRF other than for the payment of claims.**

2. Loss Reserve Fund Record-Keeping:

Although the policy permits the LRF for each policy year to be combined in a single custodial account, the policy requires the Company to maintain separate records of LRF transactions for each policy year. However, the Company was not maintaining separate records of LRF transactions for each policy year, and the Company indicated it was unable to do so because the policyholders were not reporting LRF contributions to the Company on a policy year basis. **We recommend that the Company ensure compliance with the terms of the policy and maintain separate records of LRF transactions for each policy year. The Company should require policyholders to provide the Company with sufficient data to enable the Company to maintain separate records of LRF transactions for each policy year.**

Company Financial Responsibility:

As previously indicated in the "Territory and Plan of Operation" section of this Report, the Company's aggregate excess of loss policy ("policy") insures policyholders for amounts in excess of policyholders' self insured retention, which is equal to the amount required to be

maintained in the LRF, regardless of the amount actually maintained in the LRF. If the LRF is not maintained at the required funding, the self-insured retention does not change, and is still calculated at the amount required to be maintained in the LRF. Once losses incurred by the insureds equal the self insured retention, the Company is then responsible for any further claims. However, we noted the following:

- A. The state of Virginia has required a special endorsement on the aggregate excess of loss policy between the policyholder and Atlas for automobile extended service contracts sold in Virginia. The endorsement states that Atlas will pay all losses and return of unearned premium if the policyholder is unable to fulfill its obligations for any reason, regardless of whether or not the self insured retention has been met.
- B. The standard vehicle service contract form issued by Preferred Warranties to buyers of vehicle service contracts indicates the service contract holder has the right to bring a claim directly against Atlas in the event Preferred Warranties fails to fulfill its obligations under the contract. However, as stated above, under terms of the Company's aggregate excess of loss policy, the Company has no responsibility until satisfaction of the self insured retention by the policyholder.

We recommend the following:

- A. Regarding the Virginia business, the Company shall have its actuary certify annually that the loss reserves on the Company's books are sufficient to fund dollar for dollar all estimated future losses related to all business written in Virginia.**
- B. The Company shall obtain written acknowledgement from its policyholders that they understand that under the terms of the Company's aggregate excess of loss policy, regardless of any direct claims brought directly against Atlas by vehicle service contract holders, Atlas does not have any obligation to pay a claim until satisfaction of the self insured retention by the policyholder.**

Cash Management Sweep Account:

As of December 31, 2007, Atlas reported cash totaling approximately \$400,000 maintained in a "Cash Management Sweep" account. This account is used by the Company as its cash operating account. Under terms of the account agreement, cash in the account is invested overnight, and returned the next business day. Atlas earns interest on the overnight investment of the funds. Cash in the account is insured up to \$250,000 by FDIC insurance, and cash swept out of the account is no longer covered by FDIC insurance, but is collateralized by securities issued by U.S. government-sponsored enterprises or U.S. government agencies. However, according to the sweep account agreement, Atlas does not have a perfected security interest in the collateral, and in the event of the bank's insolvency, Atlas would become an unsecured general creditor of the

bank. We recommend that the Company report to the Commissioner steps taken by management to mitigate the risk of loss from:

1. Concentration of these assets in one institution in an amount in excess of the FDIC limit, and
2. The lack of a perfected security interest in the collaterals for the funds swept out of the account.

CONCLUSION

Our examination disclosed that as of December 31, 2007 the Company had:

Admitted Assets	\$	1,566,704
Liabilities and Reserves		637,503
Common Capital Stock		250,000
Gross paid in and contributed surplus		750,000
Unassigned Funds (Surplus)		(70,799)
Total Surplus		929,201
Total Liabilities, Capital and Surplus	\$	1,566,704

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2007, 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.

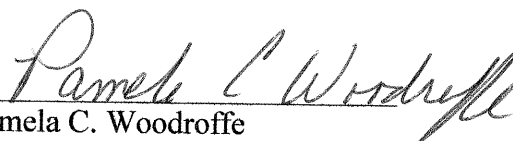
SIGNATURES

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, Collins Consulting, Inc.
Terry Corlett, CFE, CIE, FLMI, 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

March 31, 2009

Wayne Herring
President
Atlas Risk Retention Group, Inc.
C/o Risk Services, LLC
2233 Wisconsin Avenue, N.W., Suite 310
Washington, DC 20007

Dear Mr. Herring:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination ("Report") of the affairs and financial condition of **Atlas Risk Retention Group, Inc.**, as of December 31, 2007.

Please submit, to my attention, a written response calling attention to any errors or omissions in the draft Report. In addition, the Company's response shall include responses to each of the recommendations included in the "Comments and Recommendations" section of this Report. These responses should indicate the Company's agreement or disagreement with each recommendation, as well as a summary of the corrective measures which will be taken by the Company for each recommendation. If the Company disagrees with any of these recommendations, the response shall indicate the reason(s) for the disagreement, as well as an explanation of alternative measures to be taken by the Company to address the condition which lead to the recommendation.

The response must be in writing and shall be furnished to this Department within **thirty (30) days from the date of this letter (April 30, 2009)**. In addition to a hard-copy response, please also furnish the response electronically via e-mail to me, in a Microsoft "Word" format, to sean.o'donnell@dc.gov.

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

April 29, 2009

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

Re: Atlas Risk Retention Group, Inc. ("Atlas")
NAIC Company Code: 11064; NAIC Group Code: 0000; FEIN: 20-3192610
D.C. License No. RRG-51-05-06

Dear Mr. O'Donnell:

In connection with your letter dated March 31, 2009, please let this letter serve as formal response to the 2007 Examination report. For ease of review I've included the original Comment and Recommendation with our responses tracked.

1. Contributions to Loss Reserve Fund:

Based on the policy, the LRF balance should equal scheduled contributions for each vehicle service contract insured by Atlas, less claims paid on those contracts (and less any return of loss reserves from cancelled contracts), plus investment income earned on the balance of the LRF. However, we noted that the LRF balance as of December 31, 2007 (\$6,355,001) did not include investment income that should have been credited to the balance. The amount of investment income not credited to the LRF balance was \$254,044. As noted previously in **NOTE 2** in the "Notes to Financial Statements" section of this Report, the LRF was over funded, in an amount greater than the amount of investment income (\$254,044), as of December 31, 2007. Therefore, there is no impact on the financial condition of the LRF, or on the financial condition of the Company as a result of this condition. However, **we recommend that the Company ensure the LRF is funded in accordance with the terms of the excess of loss contractual liability insurance policy. In addition, we recommend that the Company obtain prior written approval from the Department for any withdrawals from the LRF other than for the payment of claims.**

RESPONSE: The Company is now provided with a monthly report from Preferred Warranties, Inc. to ensure that the LRF is maintained in accordance to the excess of loss contractual liability insurance policy. The Company is providing the Department notice of all withdrawals from the LRF other than for the payment of claims and has agreed to get advance approval of any requests that are not in compliance with the distribution plan currently on file with the Department.

2. Loss Reserve Fund Record-Keeping:

Although the policy permits the LRF for each policy year to be combined in a single custodial account, the policy requires the Company to maintain separate records of LRF transactions for each policy year. However, the Company was not maintaining separate records of LRF transactions for each policy year, and the Company indicated it was unable to do so because the policyholders were not reporting LRF contributions to the Company on a policy year basis. **We recommend that the Company ensure compliance with the terms of the policy and maintain separate records of LRF transactions for each policy year. The Company should require policyholders to provide the Company with sufficient data to enable the Company to maintain separate records of LRF transactions for each policy year.**

RESPONSE : The Company will request from the policyholders to report LRF transactions by policy year.

Company Financial Responsibility:

As previously indicated in the “Territory and Plan of Operation” section of this Report, the Company’s aggregate excess of loss policy (“policy”) insures policyholders for amounts in excess of policyholders’ self insured retention, which is equal to the amount required to be maintained in the LRF, regardless of the amount actually maintained in the LRF. If the LRF is not maintained at the required funding, the self-insured retention does not change, and is still calculated at the amount required to be maintained in the LRF. Once losses incurred by the insureds equal the self insured retention, the Company is then responsible for any further claims. However, we noted the following:

- A. The state of Virginia has required a special endorsement on the aggregate excess of loss policy between the policyholder and Atlas for automobile extended service contracts sold in Virginia. The endorsement states that Atlas will pay all losses and return of unearned premium if the policyholder is unable to fulfill its obligations for any reason, regardless of whether or not the self insured retention has been met.
- B. The standard vehicle service contract form issued by Preferred Warranties to buyers of vehicle service contracts indicates the service contract holder has the right to bring a claim directly against Atlas in the event Preferred Warranties fails to fulfill its obligations under the contract. However, as stated above, under terms of the Company’s aggregate excess of loss policy, the Company has no responsibility until satisfaction of the self insured retention by the policyholder.

We recommend the following:

- A. Regarding the Virginia business, the Company shall have its actuary certify annually that the loss reserves on the Company's books are sufficient to fund dollar for dollar all estimated future losses related to all business written in Virginia.**

RESPONSE: In order to satisfy the Department's concerns with respect to the LRF potentially not being adequate to cover the Virginia business, the Company alternately proposes that the Company place Risk Services, LLC as signatory on the Trust Account. Risk Services would be required to sign in writing any and all withdrawals from the Trust Account requested by Preferred Warranties. Risk Services would also be provided with more extensive reporting for approving such withdrawals. This would establish an additional safeguard to the Trust Account due to an independent third party approving any withdrawals.

- B. The Company shall obtain written acknowledgement from its policyholders that they understand that under the terms of the Company's aggregate excess of loss policy, regardless of any direct claims brought directly against Atlas by vehicle service contract holders, Atlas does not have any obligation to pay a claim until satisfaction of the self insured retention by the policyholder.**

RESPONSE: See Attached.

Cash Management Sweep Account:

As of December 31, 2007, Atlas reported cash totaling approximately \$400,000 maintained in a "Cash Management Sweep" account. This account is used by the Company as its cash operating account. Under terms of the account agreement, cash in the account is invested overnight, and returned the next business day. Atlas earns interest on the overnight investment of the funds. Cash in the account is insured up to \$250,000 by FDIC insurance, and cash swept out of the account is no longer covered by FDIC insurance, but is collateralized by securities issued by U.S. government-sponsored enterprises or U.S. government agencies. However, according to the sweep account agreement, Atlas does not have a perfected security interest in the collateral, and in the event of the bank's insolvency, Atlas would become an unsecured general creditor of the bank. **We recommend that the Company report to the Commissioner steps taken by management to mitigate the risk of loss from:**

- 1. Concentration of these assets in one institution in an amount in excess of the FDIC limit, and**

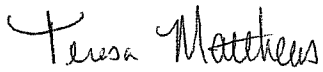
RESPONSE: Balances on deposit by NPITC with National Penn Bank for the benefit of the Company are fully insured up to the FDIC limits and are 100% collateralized with government securities above the level. The Company feels that this arrangement mitigates the risk of loss.

- 2. The lack of a perfected security interest in the collaterals for the funds swept out of the account.**

RESPONSE: Preferred Warranties has decided to stop all sweep activities and deposits are to be made directly into the trust account.

Thank you. Should the Department require anything further in connection with this matter, please don't hesitate to contact me by telephone at (941) 955-0793 or by e-mail at tmatthews@pboa.com.

Sincerely,

A handwritten signature in cursive script that reads "Teresa Matthews".

Teresa Matthews
Account Manager
Risk Services, LLC
As Managers for
Atlas Risk Retention Group, Inc.

ATLAS Risk Retention Group, Inc.

607 14th Street, NW
Suite 900
Washington, D.C., 20005

April 23, 2009

Mr. Wayne Herring
200 Pinebrook Place
PO Box 278
Orwigsburg, PA 17961

RE: Atlas Risk Retention Group, Inc. Aggregate Excess of Loss Insurance Policy

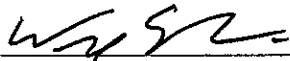
Dear Mr. Herring,

The purpose of this letter is to provide documentation of your acknowledgement on the terms of the Excess of Loss Insurance Policy purchased by both Preferred Warranties, Inc. and Superior Warranties, Inc. from Atlas Risk Retention Group, Inc.

The terms of the policy state "This policy does not apply to any claim or loss at any time unless the SELF INSURED RETENTION has been satisfied." Please note that any claim includes those claims brought directly or indirectly from Vehicle Service Contract Holders.

Please sign below as to confirm your understanding of this matter. Thank you.

I, Wayne Herring, representative of Preferred Warranties, Inc. and Superior Warranties, Inc. hereby acknowledge that Atlas Risk Retention Group, Inc. does not have any obligation to pay a claim brought by a Vehicle Service Contract Holder until such time as the Self Insured Retention has been satisfied, and any claim paid for any reason before the Self Insured Retention may be subrogated and recovered in full from the appropriate insured, be it Preferred Warranties, Inc. or Superior Warranties, Inc. .



Wayne Herring
PREFERRED WARRANTIES, INC
SUPERIOR WARRANTIES, INC.

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



Thomas E. Hampton
Commissioner

June 29, 2009

Wayne Herring
President
Atlas Risk Retention Group, Inc.
C/o Risk Services, LLC
2233 Wisconsin Avenue, N.W., Suite 310
Washington, DC 20007

Dear Mr. Herring:

We are in receipt of a response dated April 29, 2009, from Teresa Matthews, Account Manager, Risk Services, LLC, as Managers for **Atlas Risk Retention Group, Inc.** (“Atlas” or “Company”), which addresses the corrective actions taken or to be taken by Atlas to comply with the recommendations made in the Report on Examination as of December 31, 2007. The response adequately addresses the recommendations made in the Report, except for the following:

Company Financial Responsibility:

- A. **We recommended that, regarding the Virginia business, the Company shall have its actuary certify annually that the loss reserves on the Company’s books are sufficient to fund dollar for dollar all estimated future losses related to all business written in Virginia.**

Company Response:

The response indicates that in order to satisfy the Department’s concerns with respect to the LRF potentially not being adequate to cover the Virginia business, the Company alternately proposes that the Company place Risk Services, LLC as signatory on the Trust Account. Risk Services would be required to sign in writing any and all withdrawals from the Trust Account requested by Preferred Warranties. Risk Services would also be provided with more extensive reporting for approving such withdrawals. This would establish an additional safeguard to the Trust Account due to an independent third party approving any withdrawals.

Department Response:

The issue addressed by this recommendation is the actuarial adequacy of the Atlas loss reserves as relates to the Virginia business for which the RRG is directly liable, and not the controls over LRF withdrawals, which are addressed separately in this Report. As recommended in the Report, regarding the Virginia business, the Company shall have its actuary certify annually that the loss reserves on the Company's books are sufficient to fund dollar for dollar all estimated future losses related to all business written in Virginia.

Cash Management Sweep Account:

We recommended that the Company report to the Commissioner steps taken by management to mitigate the risk of loss from:

- 1. Concentration of assets in one institution in an amount in excess of the FDIC limit, and**
- 2. The lack of a perfected security interest in the collateral for the funds swept out of the Atlas account.**

Company Response:

1. The response indicates that Balances on deposit by NPITC with National Penn Bank for the benefit of the Company are fully insured up to the FDIC limits and are 100% collateralized with government securities above the level. The Company feels that this arrangement mitigates the risk of loss, and
2. Preferred Warranties has decided to stop all sweep activities and deposits are to be made directly into the trust account.

Department Response:

Please note that the recommendations in the Report relate to the Company's cash management sweep account, and not to any sweep arrangement of Preferred Warranties. As recommended in the Report, the Company shall report to the Commissioner steps taken by management to mitigate the Company's risk of loss from:

1. Concentration of the Company's assets in one institution in an amount in excess of the FDIC limit, and
2. The lack of a perfected security interest in the collateral for the funds swept out of the Company's account.

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

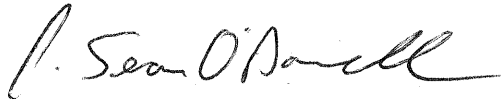
Wayne Herring
Atlas Risk Retention Group, Inc.
June 29, 2009
Page 3 of 3

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 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, sweeping tail on the letter "l".

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

Enclosures