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

AMENDED ORDER

An Examination of **Ocean 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 22nd day of July, 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, with the following exception:

> The final Report recommended the Company reduce the pedestrian personal injury protection (PIP) coverage limits on all policies issued in New Jersey to $100,000 or less. Pursuant to this amended Order, the Company is not required to reduce the pedestrian PIP coverage limits on policies issued in New Jersey, and is allowed to continue to write pedestrian PIP coverage limits of up to $250,000 on policies issued in New Jersey.

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

Thomas E. Hampton
Commissioner

BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA

Re: Report on Examination - **Ocean Risk Retention Group Inc.,** as of December 31, 2007

ORDER

An Examination of **Ocean 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 7th day of July, 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

OCEAN RISK RETENTION GROUP INC.

AS OF

DECEMBER 31, 2007

NAIC NUMBER 10158

TABLE OF CONTENTS

Washington, D.C.
February 18, 2009

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

Ocean Risk Retention Group Inc.

hereinafter referred to as the "Company" or "Ocean RRG", at the office of the Company's managing general underwriter (MGU) located at 837 Kearny Avenue, Kearny, New Jersey 07032.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from March 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 was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the years 2005 through 2007. We placed substantial reliance on the audited financial statements for the years 2005 and

2006, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the results for the year ended December 31, 2007**.** We obtained and reviewed the working papers prepared by the independent public accounting firm related to its audit for the year ended December 31, 2007. We placed substantial reliance on the work of the independent auditor and directed our efforts, to the extent practical, to those areas not covered by the firm's workpapers.

STATUS OF PRIOR EXAMINATION FINDINGS

A limited-scope examination was conducted by the Department for the period March 22, 2005 to May 31, 2005. This limited-scope examination primarily focused on a review of the Company's underwriting and rating practices. Our current examination included a review to determine the current status of the four exception conditions commented upon in the limited-scope examination report dated August 19, 2005. We determined that the Company had satisfactorily addressed three of these exception conditions. The fourth exception, regarding certain aspects of the Company's underwriting and rating practices, is repeated in the "Comments and Recommendations" section of this Report under the caption "Underwriting and Rating Practices."

HISTORY

General:

The Company was incorporated as an association captive insurance company operating as a risk retention group under the captive insurance laws of the District of Columbia on March 10, 2005 and began operations on March 22, 2005. The Company provides commercial automobile liability insurance to taxicabs in New Jersey and Pennsylvania.

Membership:

The Company is owned by its policyholders, who during each of the first three years of membership must provide capital contributions of 10 percent of the policy premium. The Company's articles of incorporation authorize the issuance of 5,000,000 shares of common stock with par value $.25 per share. As of December 31, 2007, the Company had 2,530,411 of its common stock shares issued and outstanding.

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:

Name and State of Residence	Principal Occupation
Jeanette Frankenberg New Jersey	Managing Member, Stern, Lavinthal, Frankenberg & Norgaard, LLC
Glenn Battschinger* New Jersey	Operations Manager, Renaissance Retention Group, Inc.
Amet Songun New Jersey	Manhattan Limousine, Owner and Operator

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

Name	Title
Jeanette Frankenberg	President
Glenn Battschinger*	Treasurer and Secretary
John Guignion*	Assistant Treasurer and Assistant Secretary

*Glenn Battschinger and John Guignion resigned from their respective positions in 2008. During 2008, Mary Claire Goff replaced Glenn Battschinger as Treasurer and Secretary.

Committees:

As of December 31, 2007, the Company's Board of Directors had not established any committees. However, during 2008, the Company's board of directors formed an audit committee consisting of Jeanette Frankenberg, Mary Claire Goff and John Weitzel.

Conflicts of Interest:

Our review of the conflict of interest statements signed by the Company's directors for the period under examination disclosed that there were no conflicts of interest reported that would adversely impact the Company. However, we noted a potential conflict of interest related to approval by the board of directors for the payment of $40,000 in fees as compensation to the President for guaranteeing the Company's letters of credit see the "Comments and Recommendations" section of this Report under the caption "Letters of Credit" for further comments regarding this condition.

Corporate Records:

We reviewed the minutes of the meetings of the 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

W. A. Taft & Company (DC), LLC ("Taft") is the Company's captive manager providing management services, including accounting, regulatory services, and records retention services to the Company. In addition, Taft is responsible for overseeing the Company's underwriting operations, which are performed by Renaissance Retention Group, Inc. (Renaissance), the Company's MGU.

AFFILIATED PARTIES AND TRANSACTIONS

The Company has no affiliates. However, the Company receives underwriting and policy maintenance services from Renaissance. Ocean RRG's President, who is also a member of Ocean RRG's board of directors, is married to the President of Renaissance. Further, prior to the resignation of Mr. Battschinger in 2008 from his positions as Ocean RRG director, treasurer and secretary, Mr. Battschinger also served as a director and officer of Renaissance. According to management of Ocean RRG, the President of Ocean RRG has no ownership interest in Renaissance and Renaissance has no ownership interests in Ocean RRG.

FIDELITY BOND AND OTHER INSURANCE

The Company has no employees and its daily business operations are managed by various service providers. Although the Company itself has no fidelity bond coverage, its service providers maintain various forms of coverage. Specifically, the Company's MGU maintains a $1,000,000 E&O policy. Its current claims administrator maintains $500,000 in fidelity bond coverage and $5,000,000 in professional liability coverage. The Company's captive manager is covered under a $5,000,000 professional liability policy, and $1,000,000 fidelity policy. Coverage maintained by the current service providers is deemed adequate based on NAIC guidelines.

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 any statutory deposits in the District of Columbia and was not required to maintain any such deposits. 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 the states of New Jersey and Pennsylvania. During 2007, Ocean RRG reported direct premiums totaling $8,877,221*, with 79 percent ($6,997,829) of the premiums written in New Jersey and 21 percent ($1,879,392) written in Pennsylvania.

> *During our examination, we noted this reported amount was overstated by approximately $192,000. See NOTE 1(a) in the "Notes to Financial Statements" section of this report for further comment.

The Company provides commercial automobile liability insurance to taxicabs in New Jersey and Pennsylvania with basic occurrence limits of $35,000, $50,000, $100,000 and $300,000. The Company's original business plan called for writing policies with limits up to $100,000. In January 2007, subsequent to the approval of the original business plan, the Company received approval from the Department to write policies with limits up to $300,000. These increased limits could be written on a limited number of policies, provided the Company maintained capital and surplus at or above $3 million. In November 2007, as a result of the Company's reported capital and surplus falling below $3 million, the Department informed the Company it could no longer write the increased limits. The Company agreed to no longer write or renew policies with limits in excess of $100,000.

In addition, beginning in August 2007, the Company began providing $250,000 of pedestrian personal injury protection (PIP) coverage on all policies issued in New Jersey. We were informed by management that the State of New Jersey informed the Company this coverage was mandatory and must be included on all policies written in New Jersey. Management did not agree that the Company was required to provide this coverage, but management agreed to provide the coverage as directed by New Jersey regulators. During our examination we noted a number of issues related to the PIP coverage. See the "Comments and Recommendations" section of this Report, under the caption "Changes in Business Plan" for further comments regarding these issues.

The Company has no employees and its daily business operations are managed by its captive manager and various service providers.

INSURANCE PRODUCTS AND RELATED MARKET PRACTICES

This examination was a financial examination, and generally 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's approved business plan does not require the Company to maintain reinsurance coverage. The Company has not ceded or assumed any business since inception. However, during our examination we noted the Company was writing policies with limits greater than those approved in the Company's business plan, and we discussed with the Company the resulting need to obtain reinsurance coverage. See the "Comments and Recommendations" section of this report, under the caption "Changes in Business Plan" for further comments regarding this condition.

ACCOUNTS AND RECORDS

The primary locations of the Company's books and records are at the offices of its captive manager, in Towson, Maryland and at the office of its MGU, in Kearny, New Jersey.

The Company's general accounting records are maintained by its captive manager. The MGU maintains a cash basis premium bordereau, which is reported to the manager monthly. Claim payment and case reserve data is maintained by the Company's claims administrator, who reports the claims data to the manager monthly. Several deficiencies relating to the accounting records were noted during our examination. See the "Comments and Recommendations" section of this Report, under the captions "Premium Accounting" and "Claims Processing" for further comments regarding these conditions.

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 2**, reflect the financial condition of the Company as of December 31, 2007, as determined by this examination:

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

BALANCE SHEET

ASSETS

	December 31, 2007
Cash ($6,259,058), cash equivalents ($1,043), and short-term investments ($3,000,000)	$ 9,260,101
Subtotals, cash and invested assets	$ 9,260,101
Investment income due and accrued	$ 6,184
Uncollected premiums and agents' balance in course of collection (net of allowance for doubtful accounts of $280,000) **(NOTE 1(a))**	1,557,685
Current federal and foreign income tax recoverable and interest thereon	285,633
Net deferred tax asset **(NOTE 1(b))**	1,306,813
Aggregate write-ins for other than invested assets:	
Deferred acquisition costs (net of premium deficiency reserve of $189,581)	1,196,989
Letters of credit **(NOTE 2)**	1,400,000
Salvage and subrogation receivable	9,012
Total assets	$ 15,022,417

LIABILITIES, SURPLUS AND OTHER FUNDS

	December 31, 2007
Losses **(NOTES 1(c) and 3)**	$ 7,549,069
Loss adjustment expenses **(NOTES 1(c) and 3)**	489,393
Other expenses (excluding taxes, licenses and fees)	129,897
Taxes, licenses and fees (excluding federal and foreign income taxes)	207,514
Unearned premiums **(NOTE 1(d))**	5,039,816
Total liabilities	$ 13,415,689
Common capital stock **(NOTE 1(e))**	632,603
Gross paid-in and contributed capital **(NOTE 1(e))**	1,897,808
Letters of Credit **(NOTE 2)**	1,400,000
Surplus notes **(NOTE 2)**	200,000
Unassigned funds (surplus) **(NOTE 1)**	(2,523,683)
Surplus as regards policyholders **(NOTE 1)**	$ 1,606,728
Total liabilities and surplus as regards policyholders	$ 15,022,417

STATEMENT OF INCOME

		2007
UNDERWRITING INCOME		
Premiums earned **(NOTES 1(a) and 1(d))**	$	8,855,613
DEDUCTIONS		
Losses incurred **(NOTE 1(c))**	$	7,944,279
Loss expenses incurred **(NOTE 1(c))**		1,242,900
Other underwriting expenses incurred **(NOTE 1(a))**		4,104,179
Total underwriting deductions	$	13,291,358
Net underwriting loss		(4,435,745)
NET INVESTMENT INCOME		
Net investment income	$	207,716
Net loss before federal income taxes	$	(4,228,029)
Federal income tax benefit **(NOTE 1(b))**		(1,438,384)
Net loss	$	(2,789,645)

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, March 10, 2005	$	0
Net income, 2005		163,318
Issuance of common stock		585,740
Issuance of surplus note		200,000
Letters of credit received		1,000,000
Net change in surplus as regards policyholders, 2005		1,949,058
Surplus as regards policyholders, December 31, 2005	$	1,949,058
Net income, 2006		102,644
Issuance of common stock		924,200
Net change in surplus as regards policyholders, 2006		1,026,844
Surplus as regards policyholders, December 31, 2006	$	2,975,902
Net loss, 2007		(2,789,645)
Issuance of common stock		1,020,471
Letters of credit received		400,000
Net change in surplus as regards policyholders, 2007		(1,369,174)
Surplus as regards policyholders, December 31, 2007	$	1,606,728

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

The following changes to the Company's surplus have been recorded as a result of our examination (please refer to Note 1 in the "Notes to Financial Statements" section of this report for detailed explanations).

Surplus as regards policyholders, December 31, 2007 per Annual Statement	$	1,484,082
Uncollected premiums and agents' balance in course of collection		(143,959)
Allowance for doubtful accounts		(280,000)
Net deferred tax asset		(57,318)
Losses (reserves)		632,677
Loss adjustment expenses (reserves)		59,021
Unearned premiums		(87,775)
Net increase in Surplus as regards policyholders	$	122,646
Surplus as regards policyholders, December 31, 2007 per examination	$	1,606,728

COMPARATIVE FINANCIAL POSITION OF THE COMPANY

The comparative financial position of the Company for the periods since inception is as follows:

	2007	2006	2005
Assets	$ 15,022,417	$ 12,169,398	$ 6,871,766
Liabilities	13,415,689	9,193,496	4,922,708
Surplus as regards policyholders	1,606,728	2,975,902	1,949,058
Premiums written	8,685,275	7,790,966	5,783,416
Premiums earned	8,855,613	6,305,402	2,058,817
Net investment income (loss)	207,715	107,484	(19,064)
Net income (loss)	$ (2,789,645)	$ 102,644	$ 163,318

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Examination Reclassifications and Adjustments to Surplus:

Description	Per Company	Examination Adjustments	Note	Per Examination	Surplus Increase (Decrease)
Assets					
Uncollected premiums and agents' balance in course of collection	$1,981,644	$ (143,959)	(a)	$1,837,685	$ (143,959)
Allowance for doubtful accounts	0	280,000	(a)	280,000	(280,000)
Net Uncollected premiums and agents' balance in course of collection	1,981,644	(423,959)		1,557,685	(423,959)
Net deferred tax asset	1,364,131	(57,318)	(b)	1,306,813	(57,318)
Liabilities					
Losses	8,181,746	(632,677)	(c)	7,549,069	632,677
Loss adjustment expenses	548,414	(59,021)	(c)	489,393	59,021
Unearned premiums	4,952,041	87,775	(d)	5,039,816	(87,775)
Surplus as regards policyholders					
Common capital stock	2,530,411	(1,897,808)	(e)	632,603	(1,897,808)
Gross paid-in and contributed surplus	0	1,897,808	(e)	1,897,808	1,897,808
Surplus as regards policyholders, December 31, 2007, Per Company					$1,484,082
Net effect of adjustments on surplus					122,646
Surplus as regards policyholders, December 31, 2007, Per Examination					$1,606,728

a) "Uncollected premiums and agents' balance in course of collection" were overstated due to returned premium totaling $191,945 that was inadvertently not deducted from premiums written and earned in the monthly bordereau and financial statements. This adjustment reduced "Uncollected premiums and agents' balance in course of collection" by $143,959. This adjustment also impacted the income statement by reducing "Premiums earned" by $191,945 and reducing commission expense by $47,986, which was recorded through "Other underwriting expenses incurred".

Additionally, an allowance for doubtful accounts of $280,000 was recorded related to past due receivables due from the Company's MGU. This adjustment reduced "Uncollected premiums and agents' balance in course of collection" by $280,000. The statement of income effect was recorded through an increase in "Other underwriting expenses incurred". Management indicated it believes these past due receivables are fully collectible. See the "Comments and recommendations" section of this report, under the caption "Premium Accounting", for further comments regarding the past due receivables.

The total impact on "Other underwriting expenses incurred" from the above two adjustments is an increase of $232,014 ($280,000 less $47,986).

b) "Net deferred tax asset" was adjusted for the tax impact of the examination adjustments. The statement of income impact was reflected in "Federal income tax benefit".

c) The Company's "Losses" and "Loss adjustment expenses" reserves were revised after issuance of the 2007 Annual Statement, based on a reassessment by the Company's actuary. The independent auditor and the examination actuary concurred with this reassessment. Thus, "Losses" and "Loss adjustment expenses" were reduced by $632,677 and $59,021, respectively. The statement of income impact was reflected in "Losses" incurred and "Loss expenses incurred".

d) "Unearned premiums" have been adjusted to correct errors in the calculation of unearned premiums. The statement of income impact is reflected as a decrease to "Premiums earned".

e) The Company reported "Common capital stock" totaling $2,530,411. However, $1,897,808 of this amount represented "Gross paid-in and contributed capital". Accordingly, this amount was reclassified from "Common capital stock" to "Gross paid-in and contributed capital". We discussed this misclassification with the Company during the examination and the Company agreed to correct this misclassification in future filings.

NOTE 2 - Letters of Credit and Surplus Note:

At December 31, 2007, the Company's surplus as regards policyholders included $1,400,000 in letters of credit in the possession of the District of Columbia Insurance Commissioner. In addition, at December 31, 2007, the Company's surplus as regards policyholders included a $200,000 surplus note held by the Company's President. The surplus note and related interest may not be paid without approval of the Department. Under the Laws of the District of Columbia, letters of credit and surplus notes approved by the Department are allowed as admitted assets and surplus as regards policyholders. Inclusion of the letters of credit and the surplus notes as assets and surplus as regards policyholders is not in accordance with GAAP.

NOTE 3 - Losses and Loss Adjustment Expense Reserves:

The Company reported “Losses” and ”Loss adjustment expenses” reserves in the 2007 annual statement totaling $8,181,746 and $548,414, respectively. Subsequent to the filing of the annual statement and during the completion of the annual independent audit, based on a reassessment by the Company’s actuary based on loss development, and with concurrence by the independent auditor, “Losses” and ”Loss adjustment expenses” were reduced by $632,677 and $59,021, respectively. (See the “Comments and Recommendations” section of this Report, under the caption “Loss Reserves” for further comments regarding the reason for the decrease in reserves.) Thus, the audited financial statements reported “Loss and loss adjustment expenses” reserves of $7,549,069 and $489,393, 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. The Company does not discount its reserves.

The methodologies utilized by the Company to compute reserves, and the adequacy of the losses and loss adjustment expenses reserves as of December 31, 2007, were reviewed as part of the 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 examination of the Company’s reserves, we engaged an examination actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company’s independent actuary. The independent actuary utilized in the examination concluded that the methods employed, assumptions relied upon, and conclusions reached by the Company’s independent actuary, as reflected in the audited financial statements, appeared sufficient and that reserves as reported in the Company’s audited financial statements are reasonable and adequate. Thus, we have recorded the adjustments to “Losses” and ”Loss adjustment expenses” reserves of $632,677 and $59,021, respectively, as part of our examination.

However, during our examination, we noted two recommendations related to the Company’s loss reserves. See the “Comments and Recommendations” section of this Report, under the caption “Loss Reserves” for further comments regarding these recommendations.

COMMENTS AND RECOMMENDATIONS

Letters of Credit:

As noted above in NOTE 2 in the "NOTES TO FINANCIAL STATEMENTS" section of this report, as of December 31, 2007, the Company's surplus as regards policyholders included $1,400,000 in letters of credit (LOCs), which are in the possession of the District of Columbia Insurance Commissioner. During 2006 and 2007, the Company paid fees totaling $40,000 annually to its President as compensation for an encumbrance on personal property that is securing the LOCs. Management indicated its belief that the payment of these fees had been approved by the Department. However, the payment of these fees has never been approved by the Department as part of the Company's business plan. In addition, the Company's President, who is also a board member, approved the payment of the fees; in a board resolution which was also approved by the Company's two other directors. Because these fees are not part of the Company's approved business plan and have never been approved by the Department, **we recommend that the Company immediately cease paying these fees to its President. We also recommend that the Company's board of directors ensure that in the future, any board member with a personal interest in a matter before the board abstain from voting on such matter.**

Changes in Business Plan:

The Company's original business plan called for writing policies with limits up to $100,000. In addition, the Company's business plan allowed the Company to operate without reinsurance, primarily due to the low limit policies offered by the Company. In January 2007, subsequent to the approval of the original business plan, the Company received approval from the Department to write policies with limits up to $300,000. These increased limits could be written on a limited number of policies, provided the Company maintained capital and surplus at or above $3 million. In November 2007, as a result of the Company's reported capital and surplus falling below $3 million, the Department informed the Company it could no longer write the increased limits. The Company agreed to no longer write policy limits in excess of $100,000 until further notice.

In August 2007, the Company began providing $250,000 of pedestrian personal injury protection (PIP) coverage on all policies issued in New Jersey, which is where the majority of the Company's policies are written. The Department was not made aware of the addition of the PIP coverage to the Company's New Jersey policies, and did not become aware of this coverage until it was noted during this financial examination, in 2008. (In addition, the Company was not properly charging for this added coverage. See below, under "Underwriting and Rating Practices", for further comments regarding this condition.) The Company continues to write this coverage through the date of this examination report. We were informed by management that the State of New Jersey informed the Company this coverage was mandatory and must be included on all policies written in New Jersey. Management did not agree that the Company was required to provide this coverage, but management agreed to provide the coverage as directed by New Jersey regulators. Regardless of the reason for offering this coverage, the Department considers the writing of this coverage at limits greater than those approved in the Company's business plan ($100,000) a material change in business plan that requires pre-approval by the Department.

We recommend the following:

1. **All future substantive or material changes to the Company's business plan be submitted to the Department for review and approval prior to implementation. Any questions regarding what may or may not constitute a change in business plan should be clarified with the Department prior to implementation.**

2. **If the Company continues to offer this coverage, the Company should obtain reinsurance coverage for policy limits offered in excess of $100,000.**

<u>Managing General Underwriter:</u>

The Company utilized a managing general underwriter (MGU) for underwriting, policy issuance, invoicing and collection. During our examination, we noted certain issues and concerns regarding the functions performed by the MGU:

<u>Underwriting and Rating Practices:</u>

1. As previously noted, in August 2007 the Company began providing $250,000 of pedestrian personal injury protection (PIP) coverage on all policies issued in New Jersey. However, we noted that the Company's MGU was not charging policyholders for this coverage. According to Company management, this omission resulted from a misunderstanding on the part of the MGU that the PIP premiums were being added to the total premium charged to policyholders, when in fact the premiums related to the PIP coverage were not included in the total premiums charged.

   According to rates developed by the Company's own actuary, the premium per vehicle per year should be $317. Management indicated the Company immediately began charging for this coverage as soon as we brought this to their attention, in November 2008. According to the Company, the PIP coverage was written, but not charged, on 1,733 new or renewal policies, resulting in undercharging of premiums totaling $549,361. After considering the impact of MGU commissions, this resulted in approximately $412,000 not remitted to the Company by the MGU. During our examination, we discussed with the Company the Department's concern regarding the impact of this situation on the financial condition of the Company, and possible steps that could be taken to replace the omitted premiums. As a result, management presented to the Department a plan to improve the financial condition of the Company, including increasing the Company's surplus. This plan included a reduction in the base commission paid to the MGU, from 25 percent to 20 percent, retroactive to January 1, 2009. In addition, the plan included a commitment to provide an additional letter of credit to the Commissioner in the amount of $600,000. During the second quarter of 2009, the

Department continues to work with the Company regarding the implementation of this plan.

We also noted that premium charges for uninsured motorist ("UM") coverage were not properly charged for at least the same period (August 2007 to November 2008). According to Company management, this omission also resulted from a misunderstanding on the part of the MGU. This condition was also noted in the limited-scope examination report conducted by the Department for the period March 22, 2005 to May 31, 2005.

According to rates developed by the Company's own actuary, the premium per vehicle per year for UM coverage should be $24. Management indicated the Company immediately began charging for this coverage as soon as we brought this to their attention, in November 2008. According to the Company, the UM coverage was written, but not charged, on 1,733 new or renewal policies, resulting in undercharging of premiums totaling $41,592. After considering the impact of MGU commissions, this resulted in approximately $31,200 not remitted to the Company by the MGU.

We recommend the following:

A. The Company monitor its MGU to ensure that the appropriate premiums are charged for PIP and UM coverage, as well as all other coverages, and that the MGU remits the appropriate premium to the Company. Premiums for PIP and UM coverage shall not be discounted. The Company shall report quarterly to the Department regarding its monitoring of the MGU.

B. The Company shall have its actuary, on a bi-annual basis until required otherwise by the Department, perform a premium deficiency reserve (PDR) analysis. This analysis shall be submitted to the Department in conjunction with the Company's Annual and second Quarter Statement filings, and any PDR identified by the actuary shall be recorded by the Company in the Annual and second Quarter Statement filings.

2. The Company's business plan as filed with the Department includes specific base rates and allowable discounts to be charged by the Company through its MGU. As part of our examination, we reviewed the policy files at the offices of the MGU to ensure the rates and discounts being used were consistent with the Company's business plan. However, for a number of policies reviewed, there was a lack of documentation in the files regarding the discounts applied, justification for discounts, and other information such as applicable deductibles.

We recommend the following:

A. The Company develop and implement procedures to ensure rating and underwriting guidelines are followed, and to ensure underwriting, policy rating and premium calculations are fully justified and documented in the

underwriting files for each policy. The underwriting files should clearly document the rationale for discounts granted.

B. **The Company monitor its MGU to ensure that rating and underwriting guidelines are followed, and the appropriate documentation is maintained in the policy files.**

Premium Accounting:

1. The MGU prepares and submits to the Company a monthly bordereau, which is on a cash basis. The bordereau and related premiums are due to the Company within 45 days of the month end. As a result of the use of a cash basis bordereau, as opposed to an accrual basis, we noted numerous timing differences between the actual date of certain transactions and the reporting of the transactions to the Company. Some of these differences were caused by the MGU's practice of allowing the policyholder to defer a portion of the initial premium payment. We noted several instances of the initial premium being deferred up to several months. In such cases, the MGU does not report the transaction (e.g., new or renewal policy, endorsement, etc.) in the bordereau until the full amount of the initial premium payment has been collected from the policyholder by the MGU. As a result, the Company may not learn of a transaction, including a new policy, until several months after execution by the MGU. In addition, the MGU also tracks non-cash transactions (e.g., policy cancellations, recordation of deferred premiums, etc.) by preparing a separate non-automated listing.

   Although the Department has approved the current agreement between the Company and its MGU, and that agreement requires the bordereau and premiums to be remitted to the Company within 45 days of the month end, upon further evaluation during this examination, to improve the timeliness of the premium submissions to the Company, **we recommend that the Company consider amending the MGU agreement to require that the bordereau and premiums be remitted to the Company within 30 days after the month end in which the transaction took place. In addition, we recommend that the MGU agreement be amended to require the MGU report all transactions to the Company for the period in which the transaction occurred, including non-cash transactions, and to remit to the Company the full amount of premium due from policyholders, regardless of any deferral granted by the MGU.**

2. During 2007, it was determined by the Company and its MGU that return commissions due to the Company from the MGU, resulting from cancelled policies, were not being properly accounted for. In addition, some refunds to policyholders were paid by the Company on the MGU's behalf, but the Company was not reimbursed by the MGU. As a result, as of December 31, 2007, the Company's MGU owed $506,194 to the Company. The Company and its MGU agreed upon a repayment plan, under which the amount due would be repaid to the Company in monthly installments over an eighteen month period. During 2008, the MGU became delinquent on the repayment of this amount, but as of June 30, 2008 had repaid past due amounts and was once again current. During our

examination, management indicated procedures had been implemented to ensure that a similar situation does not occur in the future.

According to the Company, as of December 31, 2008 the amount due from the MGU related to the outstanding balance as of December 31, 2007 totaled approximately $399,000. The outstanding balance is scheduled to be repaid by December 31, 2009. Management believes that these receivables are fully collectible. **We recommend the following:**

1. **The Company execute, and submit a copy to the Department, by June 30, 2009, a note payable from the MGU to the Company for the outstanding balance of the past due amount. The note shall contain provisions regarding the timely payment of the past due amounts, as well as a reasonable rate of interest, acceptable to the Commissioner, to be collected by the Company on the outstanding balance.**
2. **The Company shall calculate the amount of interest that would have been due from the MGU had the interest rate included in the note payable from the MGU been applied to the outstanding balance since it was first identified in July 2007. The amount of "retroactive" interest shall be added to the outstanding balance of the note to be executed by the MGU.**
3. **The Company report to the Department quarterly, until this balance is fully paid off, regarding the status of the amount due. If at any time prior to final payment a scheduled payment is not made within five days from the due date, the Company shall report this immediately to the Department.**

Loss Reserves:

As previously indicated in NOTE 3 in the "Notes to Financial Statements" section of this Report, the Company reported "Losses" and "Loss adjustment expense" reserves in its 2007 Annual Statement totaling $8,181,746 and $548,414, respectively. However, subsequent to the filing of the 2007 Annual Statement, based on a reassessment of the reserves as of December 31, 2007 by the Company's actuary, Management indicated it was revising its estimate of the "Losses" and "Loss adjustment expense" reserves as of December 31, 2007 to $7,549,069 and $489,393, respectively. The reassessment and reduction ($632,677 reduction in loss reserves and $59,021 reduction in loss adjustment expense reserves) was in part due to changes in estimates of case reserves as a result of a review of all open claims by the new claims administrator engaged by the Company in February 2008. The Company's auditor agreed with this revised estimate and the revised loss and loss adjustment expense reserves of $7,549,069 and $489,393, respectively, were reported in the Company's audited financial statements as of December 31, 2007.

However, given the recent fluctuations in the Company's reserve estimates, the relatively short period of time the Company has been in existence and writing commercial auto liability coverage, and due to other factors, such as the change in the claims administrator, **we recommend the following:**

A. **On a quarterly basis, management develop and record in its financial filings its best estimate of the Company's loss and loss adjustment expense reserves. Documentation explaining how management selected its best estimate shall be maintained by management.**

B. **The Company shall submit to the Department, in addition to the annual year end actuarial opinion, an actuarial opinion as of June 30 of each year, performed by its independent actuary. This June 30 opinion shall be required until further notice by the Department. The opinion shall include the independent actuary's best estimate of the Company's loss and loss adjustment expense reserves as of June 30, and shall be prepared in accordance with the NAIC Annual Statement Instructions. This opinion shall be submitted to the Department in conjunction with the Company's second Quarter Statement filing.**

C. **Management shall document an explanation of any difference between management's best estimate as recorded in the annual and second quarter statements and the actuary's best estimate. This explanation, if applicable, shall be submitted to the Department in conjunction with the Company's Annual and Quarterly Statement filings.**

CONCLUSION

Our examination determined that as of December 31, 2007 the Company's financial statements include the following:

Assets	$	15,022,417
Liabilities		13,415,689
Common capital stock		632,603
Gross paid-in and contributed surplus		1,897,808
Letters of credit		1,400,000
Surplus note		200,000
Unassigned funds (surplus)		(2,523,683)
Surplus as regards policyholders		1,606,728
Total liabilities and surplus as regards policyholders	$	15,022,417

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 year 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 examiner representing the District of Columbia Department of Insurance, Securities and Banking participated in this examination:

Dana W. Rudmose, CPA, CIE, AIR, Rudmose & Noller Advisors, LLC

The actuarial portion of this examination was completed by Glenn Tobleman, FCAS, FSA, MAAA, Managing Principal, Lewis & Ellis, Inc.

Respectfully submitted,

Mark G. Noller
Examiner-In-Charge
Rudmose & Noller Advisor, LLC

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 13, 2009

Jeanette Frankenberg
President
Ocean Risk Retention Group Inc.
C/o The Taft Companies
901 Dulaney Valley Road, Suite 610
Towson, Maryland 21204

Dear Ms. Frankenberg:

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 **Ocean 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 (June 12, 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,

P. Sean O'Donell

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

Enclosure

O'Donnell, Sean (DISB)

From: O'Donnell, Sean (DISB)
Sent: Wednesday, June 10, 2009 10:41 AM
To: 'Mary Claire Goff'
Cc: Sheppard, Dana (DISB); Li, Jessie (DISB)
Subject: RE: Ocean Final Draft Report

Mary Claire – an extension is granted to June 24.

Regarding the Taft name – just include the same comment you have below in the response letter.

Regards,

Sean.

P. Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau
D. C. Department of Insurance, Securities and Banking
1400 L Street, NW, Suite 400
Washington, DC 20005
Phone 202-535-1169
Fax 202-727-1588

From: Mary Claire Goff [mailto:MCG@taftcos.com]
Sent: Tuesday, June 09, 2009 1:52 PM
To: O'Donnell, Sean (DISB)
Subject: RE: Ocean Final Draft Report

Sean would it be possible to obtain a 15 day extension for Ocean to respond to the final exam report? There are quite a few people to review this and with travel schedules we seem to be a little behind.

One factual item. You refer to the captive manager as The Taft Companies which is the parent company but not the company Ocean has the agreement with it is actually W. A. Taft & Company (DC), Inc. should I just change this on the report when we respond?

Thank you,

Mary Claire Goff, CIC
Senior Vice President
The Taft Companies, LLC
901 Dulaney Valley Road, Ste 610
Towson, MD 21204
(P) 877-587-1763
(F) 877-224-0876
mcg@taftcos.com

Ocean
Risk Retention Group, Inc
Statutory Address:
1250 H Street, N.W., Suite 901
Washington, DC 20005

Main Administrative Office:
839 Kearny Avenue
Kearny, NJ 07032
Telephone: (201) 246-1059
Facsimile: (210) 246-1093

Mailing Address:
901 Dulaney Valley Road, Suite 610
Towson, MD 21204
Telephone: (877) 587-1763
Facsimile: (877) 224-0876

June 24, 2009

Mr. P. Sean O'Donnell
Director of Financial Examination, Risk Finance Bureau
810 First Street, NE, Suite 701
Washington, DC 20002

RE: Report of Examination as of December 31, 2007 Response Letter

Dear Sean:

In review of the December 31, 2007 report of examination Ocean's response in accordance with the report by section is as follows.

Scope of Examination: As indicated in the report the examination was for the period of time March 22, 2005 to December 31, 2007. Yes, this was the time period reviewed, the exam however went beyond the scope by (1) looking into items that related to 2008 and beyond, (2) Not utilizing the work papers of appointed Actuarial firm and CPA firm as suggested and (3) the price of the exam excluding service provider fees ($134,901) was exorbitant.

Management – Conflicts of Interest: Management feels that payment of interest on Letters of Credit obtained by Jeanette Frankenberg to bolster surplus and collateralized by property not owned by Ocean does not constitute a conflict of interest. Further, management in an attempt to avoid any appearance of impropriety notified the DISB prior to any payment in excess of 3 years ago and received no comment until this exam.

Captive Manager: Correct legal name for the captive manager is W. A. Taft & Company (DC), LLC.

Affiliated Parties and Transactions: Per the District of Columbia insurance holdings company act it is clear that Louis Campisano and Jeanette Frankenberg are not defined affiliated parties pursuant thereto and management takes exception to the reference as husband/wife which is clearly outside the parameters of the law and is to be deleted.

Territory and Plan of Operation: As indicated in the exam report, management did not agree that the Company was required to provide this coverage due to the fact that New Jersey does not require non alternative risk transfer carriers to provide Pedestrian Personal Injury coverage in their policies. Notwithstanding the foregoing, the Company has agreed to provide this coverage for now.

Reinsurance: Section dealing with the Company writing policies with limits greater than that approved in the Company's business plan Management disagrees. Original business plan which included the feasibility study outlined the premiums for all coverages including pedestrian personal injury protection. Ocean choose not to provide this coverage until New Jersey informed Ocean in late 2007 that this coverage was mandatory for RRG's but not for traditional carriers. At that time, management then started to provide this coverage, however management still takes issue with the disparate treatment by New Jersey with RRG's and traditional insurance companies as it relates to pedestrian personal injury requirement.

Ocean
Risk Retention Group, Inc

Comments and Recommendations:

Letter of Credit: Managements indicated its belief that payment of the fees had been approved by the Department based upon notification to the Department prior to any payment with no response from the Department. Also as part of a Business Plan change meeting on March 13, 2009, The Company has discontinued effective immediately, the payment of letter of credit fees. Payments will not be resumed until DISB approves such payments in writing. Board members having potential conflicts of interest on matters being voted upon by the Board will recluse themselves from such a vote when appropriate to do so.

Change in Business Plan: Management disagrees for the same reason as listed under Reinsurance above.

Change in Business Plan Recommendations: All substantive or material changes to the Company's business plan will be submitted to DISB for approval prior to implementation based upon information provided by the Department. The Company has previously explored reinsurance coverage for this coverage on a stand-alone basis, and found such coverage to not to be commercially feasible. The Company did at the request of DISB in 2009 explored reinsurance and as of today management was informed by its reinsurance broker that due to the tough class of business and market conditions reinsurance is not available at this time. Notwithstanding the lack of reinsurance, the Company's projections without reinsurance reflect that, by the end of 2010, the premium to surplus ratio will drop to 3:1 and the capital and surplus will be 8.5 times the $250,000 net retention for the portion of business that represents a small percentage of the company's risks.

Managing General Underwriter:

Underwriting and Rating practices Item 1 Recommendations:

A. Agreed

B. The Company's actuary currently reviews a premium deficiency reserve analysis more frequently than bi-annually. The Company will disclose to the Department on a quarterly basis the amount of any premium deficiency reserve required by such analysis.

Ocean Risk Retention Group, Inc

Managing General Underwriter Continued:

Underwriting and Rating practices Item 2 Recommendations:

A. Worksheet has been developed and is in use. Copy was supplied to the Department.
B. The Company's Captive Manager has implemented a periodic review of policy rating to review compliance with approved rates.

Premium Accounting #1:

The Company's MGU Agreement, approved by the Department and recently amended and approved, reflects a payment period 45 days after the month in which the transactions are processed as is normal industry practice. Transactions that are processed in a period other than during the month in which they occur are very immaterial, and have never had a significant impact on reported financial results or cash flow. The Company is unwilling to compensate the MGU for accelerated payment terms, and can better monitor the accuracy and completeness of monthly bordereau with business reported in the month in which the MGU collects premium from the payor. The Captive Manager will monitor these situations, and if either the payment period or reporting period has a material adverse impact on the Company, will make the necessary adjustments.

Premium Accounting #2: This is not consistent with Note 1a of the Notes to Financial Statements and should be as the company inadvertently did not deduct from premiums written and earned.

Ocean Risk Retention Group, Inc

Managing General Underwriter Continued:

Premium Accounting #2 Recommendations: In response to previous discussions with the Department, the Company renegotiated a reduction to the commission rate paid to the MGU and is securing additional capital to be secured by the MGU. These negotiated changes in the business plan, as presented to the Department on March 13, 2009, are considerably more favorable to the Company, than the above-mentioned recommendation. In fact, the Company has implemented the reduced commission retroactive to January 1, 2009 pending formal approval by Department. In light of the consistent and reliable monthly payments that have been made faithfully by the MGU each month, the Company feels this is a superior action plan to the interest- bearing note recommended by the Department. When approved, the Company will report quarterly to the Department the status of the amount remaining due.

Loss Reserve Recommendations: Following discussions with the Department on this topic, the Company began the practice of delaying the financial statements until a point estimate was available from the actuary, and booking to this point as mandated by DISB vs. following the NAIC model. While the actuary provides informal signoff on the quarterly amounts, the cost of a formal opinion more often than annually cannot be justified. NAIC Annual Statement Instructions specifically apply to data for an entire accident year, and can best be applied as of December 31 of each year. Should the Company elect to record an amount that varies from the actuary's point estimate, we will provide a written explanation of the reasons for such variation.

Sincerely,

Jeanette F. Frankenberg
President

cc: W. A. Taft & Company (DC), LLC.

Ocean
Risk Retention Group, Inc

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

Thomas E. Hampton
Commissioner

July 7, 2009

Jeanette Frankenberg
President
Ocean Risk Retention Group Inc.
C/o The Taft Companies
901 Dulaney Valley Road, Suite 610
Towson, Maryland 21204

Dear Ms. Frankenberg:

We are in receipt of your response for **Ocean Risk Retention Group Inc.** ("Ocean" or "Company"), which addresses the corrective actions taken or to be taken by Ocean 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:

Changes in Business Plan:

2. **We recommended that if the Company continues to offer PIP coverage, the Company should obtain reinsurance coverage for policy limits offered in excess of \$100,000.**

   Company Response:

   The Company has previously explored reinsurance coverage for this coverage on a stand-alone basis, and found such coverage to not to be commercially feasible. The Company did at the request of DISB in 2009 explore reinsurance and as of today management was informed by its reinsurance broker that due to the tough class of business and market conditions reinsurance is not available at this time. Notwithstanding the lack of reinsurance, the Company's projections without reinsurance reflect that, by the end of 2010, the premium to surplus ratio will drop to 3:1 and the capital and surplus will be 8.5 times the \$250,000 net retention for the portion of business that represents a small percentage of the company's risks.

Department Response:

The Company is approved to write policy limits up to $100,000 without reinsurance. By July 31, 2009, the Company shall submit a plan to the Department outlining the Company's plans to come in to compliance with the Company's approved business plan. If reinsurance is unavailable or unaffordable, the Company shall reduce the PIP coverage limits to $100,000 or less, which is the maximum policy limit per the Company's approved business plan.

Managing General Underwriter:

Underwriting and Rating Practices:

1. B. **We recommended that The Company have its actuary, on a bi-annual basis until required otherwise by the Department, perform a premium deficiency reserve (PDR) analysis. This analysis shall be submitted to the Department in conjunction with the Company's Annual and second Quarter Statement filings, and any PDR identified by the actuary shall be recorded by the Company in the Annual and second Quarter Statement filings.**

Company Response:

The Company's actuary currently reviews a premium deficiency reserve analysis more frequently than bi-annually. The Company will disclose to the Department on a quarterly basis the amount of any premium deficiency reserve required by such analysis.

Department Response:

In addition to disclosing to the Department the amount of any premium deficiency reserve required by the premium deficiency reserve analysis, the Company shall also submit to the Department the premium deficiency reserve analysis performed by the Company's actuary.

Managing General Underwriter:

Premium Accounting:

2. **We recommended the following:**

   1. **The Company execute, and submit a copy to the Department, by June 30, 2009, a note payable from the MGU to the Company for the outstanding balance of the past due amount. The note shall contain provisions regarding the timely payment of the past due amounts, as well as a reasonable rate of interest, acceptable to the Commissioner, to be collected by the Company on the outstanding balance.**

2. **The Company shall calculate the amount of interest that would have been due from the MGU had the interest rate included in the note payable from the MGU been applied to the outstanding balance since it was first identified in July 2007. The amount of "retroactive" interest shall be added to the outstanding balance of the note to be executed by the MGU.**

3. **The Company report to the Department quarterly, until this balance is fully paid off, regarding the status of the amount due. If at any time prior to final payment a scheduled payment is not made within five days from the due date, the Company shall report this immediately to the Department.**

Company Response:

In response to previous discussions with the Department, the Company renegotiated a reduction to the commission rate paid to the MGU and is securing additional capital to be secured by the MGU. These negotiated changes in the business plan, as presented to the Department on March 13, 2009, are considerably more favorable to the Company, than the above-mentioned recommendation. In fact, the Company has implemented the reduced commission retroactive to January 1, 2009 pending formal approval by Department. In light of the consistent and reliable monthly payments that have been made faithfully by the MGU each month, the Company feels this is a superior action plan to the interest- bearing note recommended by the Department. When approved, the Company will report quarterly to the Department the status of the amount remaining due.

Department Response:

Regardless of the reduction to the commission rate paid to the MGU, and any future capital to be secured by the MGU, the MGU owes an outstanding balance to the Company, and this outstanding balance shall be secured by a note receivable. In addition, as recommended in the Report, the Company shall calculate the amount of interest that would have been due from the MGU had the interest rate included in the note payable from the MGU been applied to the outstanding balance since it was first identified in July 2007. The amount of "retroactive" interest shall be added to the outstanding balance of the note to be executed by the MGU.

Given the significant issues and errors noted in the examination report regarding the MGU, and the resulting substantial negative financial impact on the Company, to better protect the interests of the Company and its policyholders, the Company should consider replacing its MGU. In the absence of replacing the MGU, the Company should at a minimum closely monitor all aspects of the MGU's operations to ensure similar issues and errors do not reoccur. These issues and errors include the MGU's failure to charge policyholders for PIP and UM coverage (failure to charge policyholders for UM coverage was also noted in the 2005 limited scope exam of the Company), failure of the MGU to include sufficient supporting documentation in the MGU's underwriting files for discounts and deductibles, and the significant balance of return commissions owed by the MGU to the Company. The quantifiable financial impact of these issues and errors, excluding any interest, is approximately $949,000 (PIP - $412,000; UM - $31,000; Return Commissions - $506,000).

Loss Reserves:

We recommended the following:

A. On a quarterly basis, management develop and record in its financial filings its best estimate of the Company's loss and loss adjustment expense reserves. Documentation explaining how management selected its best estimate shall be maintained by management.

B. The Company shall submit to the Department, in addition to the annual year end actuarial opinion, an actuarial opinion as of June 30 of each year, performed by its independent actuary. This June 30 opinion shall be required until further notice by the Department. The opinion shall include the independent actuary's best estimate of the Company's loss and loss adjustment expense reserves as of June 30, and shall be prepared in accordance with the NAIC Annual Statement Instructions. This opinion shall be submitted to the Department in conjunction with the Company's second Quarter Statement filing.

C. Management shall document an explanation of any difference between management's best estimate as recorded in the annual and second quarter statements and the actuary's best estimate. This explanation, if applicable, shall be submitted to the Department in conjunction with the Company's Annual and Quarterly Statement filings.

Company Response:

Following discussions with the Department on this topic, the Company began the practice of delaying the financial statements until a point estimate was available from the actuary, and booking to this point as mandated by DISB vs. following the NAIC model. While the actuary provides informal signoff on the quarterly amounts, the cost of a formal opinion more often than annually cannot be justified. NAIC Annual Statement Instructions specifically apply to data for an entire accident year, and can best be applied as of December 31 of each year. Should the Company elect to record an amount that varies from the actuary's point estimate, we will provide a written explanation of the reasons for such variation.

Department Response:

As discussed with the Company in the past, due to the significant fluctuations in and revisions to the Company's annual reserve estimates for calendar years 2007 and 2008, the Department believes semi-annual actuarial opinions are necessary to monitor the adequacy of the Company's loss reserves. If the Company chooses not to provide to the Department the recommended semi-annual opinions, the Department will have its actuary do so.

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 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,

P. Sean O'Donnell

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

Enclosures

Ocean Risk Retention Group, Inc

Statutory Address:
1250 H Street, N.W., Suite 901
Washington, DC 20005

Main Administrative Office:
839 Kearny Avenue
Kearny, NJ 07032
Telephone: (201) 246-1059
Facsimile: (210) 246-1093

Mailing Address:
901 Dulaney Valley Road, Suite 610
Towson, MD 21204
Telephone: (877) 587-1763
Facsimile: (877) 224-0876

July 20, 2009

Mr. Dana Sheppard
Associate Commissioner – Risk Finance Bureau
Department of Insurance, Securities & Banking
1400 L Street, NW, Ste 400
Washington, DC 20005

Dear Commissioner Sheppard:

Per our conference call on the 1st of July, 2009, Ocean Risk Retention Group is prepared to make the following commitments to the Department of Insurance Securities and Banking (DISB):

1. Ocean will provide letters of credit totaling $600,000 to be furnished in two weeks from the date of this letter;
2. Ocean further agrees to provide an additional $400,000 letter of credit or collateral acceptable to the Department to be furnished on or prior to September 30th, 2009;
3. Ocean further agrees to limit premium writings for 2009 to $5,000,000, with the understanding that Ocean may request an increase subject to review and approval from the Department;
4. Ocean also further requests that the Commissioners amend the July 7th, 2009 order to allow the company to continue to write Pedestrian Personal Injury Protection (PIP) as otherwise currently required by the jurisdictions in which Ocean provides coverage.

The above items are subject to the submission of the attached letter as part of the Report of Examination including the right to provide the mandated coverage in the respective jurisdictions.

Sincerely,

Jeanette F. Frankenberg
President

Ocean Risk Retention Group, Inc
Statutory Address:
1250 H Street, N.W., Suite 901
Washington, DC 20005

Main Administrative Office:
839 Kearny Avenue
Kearny, NJ 07032
Telephone: (201) 246-1059
Facsimile: (210) 246-1093

Mailing Address:
901 Dulaney Valley Road, Suite 610
Towson, MD 21204
Telephone: (877) 587-1763
Facsimile: (877) 224-0876

July 14, 2009

Mr. Dana Sheppard
Associate Commissioner – Risk Finance Bureau
Mr. P. Sean O'Donnell – Director of Financial Examination, Risk Finance Bureau
Department of Insurance, Securities & Banking
1400 L Street, NW, Ste 400
Washington, DC 20005

RE: Report on Examination

Gentlemen:

In accordance with the Order issued by the Commissioner of The Department of Insurance, Securities and Banking (the Order) and Section 31-1404 (e) (1) of the DC Official Code regarding the above captioned matter and restated in the July 7th letter, the report and the findings were not to be made public until the expiration of 10 days from the date of execution of such Order. Notwithstanding the foregoing, I understand that through perhaps an inadvertence, the report was prematurely made public to both New Jersey and Pennsylvania Departments of Insurance with new conclusions and recommendations that management had not been given the opportunity to formally respond to as otherwise required by law. Management requests in accordance with due process of the law that it be given the opportunity to respond to those new conclusions herein and that same shall be deemed as part of the original report forwarded as an addendum thereto.

CHANGES IN BUSINESS PLAN:

Notwithstanding the Departments comments restricting limits to $100,000, Management and The Department of Insurance, Securities and Banking have agreed to allow the Company to write the limits otherwise mandated by the respective jurisdictions on the condition that the Company continue to seek out avenues of reinsurance as soon as is commercially viable not to exceed year of 2010 thereof provided the Company is recapitalized with a total of 1 million dollars of additional capital in 2009.

MANAGING GENERAL UNDERWRITER:

Management disagrees with the Department's conclusions hereunder. Management believes that the MGU has proven to be an asset to the Company based on a number of criteria including but not limited to its significant knowledge of the taxi industry in the jurisdictions in which the Company writes business. Upon the MGU's discovery of errors in its policy system, which has previously been documented to the Department and the Company, the MGU implemented changes and safe guards in its system and in its office to avoid committing those errors going forward. Management has reviewed those changes and approved them and continues to randomly audit policies on a regular basis to ensure accuracies and is extremely satisfied with the results of those changes. The effect of previous errors in Management's opinion are negligible related to the amount of premium written during that same period and policy holders were provided with coverage as required by law. The commission which the MGU owes the Company represents less than 1% of the total amount of written premium since inception of the program. MGU is current on its commitment to pay the remaining commission by July 2010.

Sincerely,

Jeanette F. Frankenberg
President