



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

Stephen C. Taylor
Commissioner

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

Re: Report on Examination – **Columbia Federal Insurance Company** as of December 31, 2017

ORDER

An Examination of the **Columbia Federal Insurance Company** (the “Company”) as of December 31, 2017, 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 March 2019, that the attached financial condition examination report be adopted and filed as an official record of this Department.

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

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the 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.



Stephen C. Taylor
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

COLUMBIA FEDERAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

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**Columbia Federal Insurance Company
Report on Examination as of December 31, 2017**

Washington, D.C.
December 12, 2018

The Honorable Stephen C. Taylor
Commissioner of Insurance
Department of Insurance, Securities and Banking
Government of the District of Columbia
1050 First Street, NE, Suite 801
Washington, DC 20002

Dear Commissioner Taylor:

In accordance with Section 31-1402 of the DC Official Code, we have examined the financial condition and affairs of

COLUMBIA FEDERAL INSURANCE COMPANY

hereinafter referred to as the Company. The Company was incorporated under the laws of the District of Columbia with its registered principal place of business located at 1801 Bladensburg Road, NE, Washington, DC 20002. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The examination covers the period from January 1, 2013, through December 31, 2017, including any material transactions and/or events occurring subsequent to the examination date, and was conducted by examiners of the District of Columbia Department of Insurance, Securities and Banking (Department). The last examination of the Company by the Department covered the period of January 1, 2008, through December 31, 2012.

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the insurance laws and regulations of the District of Columbia. The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include consideration of areas of primary risk and materiality throughout the examination, assessing significant estimates made by management and evaluating management's compliance with prescribed accounting principles, applicable laws, rules and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements. The examination report includes significant findings of fact, as mentioned in Section 31-1404 of

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the DC Official Code and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to the Company.

For all years under examination, the Certified Public Accounting firm of Burdette Smith & Bish LLC, provided an unqualified opinion on the Company's financial statements. During the course of this examination, consideration was given to work performed by this firm, in their audit of the Company's accounts and records. Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in understanding of controls.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

A review was performed to verify corrective action has been taken with regard to a comment and recommendation made in the Department's prior Examination Report, dated February 24, 2014. This exception from prior examination report comments and recommendations, regarding a Lack of Independent Committee(s) of the Board, is repeated in the "Summary of Recommendations" section of this Report, under the caption, "Committees of the Board of Directors."

SUMMARY OF SIGNIFICANT FINDINGS

There were no findings of a material nature as a result of this examination.

HISTORY

General

The Company was incorporated on September 4, 1996, under the provisions of the DC Insurance Code. On November 12, 1996, the Company was granted a Certificate of Authority by the Department to transact insurance business as set forth under Section 31-2502.02 of the DC Official Code. The Company is licensed to write Private Passenger Auto Liability, Commercial Auto Liability, Auto No Fault, Private Passenger Auto Physical Damage, and Commercial Auto Physical Damage. There have been no new market lines added since the Company's formation.

The Company writes commercial automobile liability and physical damage policies for the taxicab and limousine industry in the District of Columbia. The Company commenced writing Commercial Auto Liability on January 2, 1997 and Commercial Auto Physical Damage on December 18, 1998.

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Capitalization

The Company is required to maintain a minimum capital and surplus of \$600,000 pursuant to the provisions of Section 31-2502.13 of the DC Official Code. At year-end 2017, the Company reported \$2,468,241 in policyholder surplus.

The Certificate of Incorporation provides for authorized capital in the amount of \$2,000,000, consisting of 100,000 shares of Class A common stock with a par value of \$10.00 and 100,000 shares of non-voting Class B common stock with a par value of \$10.00. As of December 31, 2017, there were 30,000 common shares issued and outstanding representing \$300,000 in common capital stock. The number of shares and the par value per share were unchanged during the examination period. The amount of the gross paid in and contributed surplus remains unchanged at \$400,000.

All shares outstanding as of December 31, 2017 were owned by Mr. Andrew Schaeffer.

Dividends

During the period covered by this examination there were no stockholder dividends declared or paid by the Company.

MANAGEMENT AND CONTROL

As provided in the Certificate of Incorporation and the by-laws, the corporate powers of the Company are exercised by, and its business and affairs are under the control of, a Board of Directors who are elected for a one-year term at the annual meeting of the sole shareholder. Shareholders and individuals serving at December 31, 2017, as reflected on the 2017 annual statement, were as follows:

Shareholder

The sole shareholder of the Company was Andrew Schaeffer.

Board of Directors

The Board was comprised of three (3) directors, all of whom were elected at the annual meeting of the shareholder.

Director and Residence

Andrew Schaeffer, Chair
Potomac, MD

Susan K. Helm
Millsboro, DE

Nancy L. Futrell
Fulton, MD

Principal Occupation

President and Treasurer
Columbia Federal Insurance Company

Warranty/Rental Associate
Baker's Powers and Turf

Corporate Secretary and Controller
Columbia Federal Insurance Company

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Officers:

In accordance with the By-laws, the principal officers of the Company shall consist of a President, a Secretary, a Treasurer, and such other officers, including one or more Vice Presidents, as the Board of Directors may from time to time deem advisable. Officers appointed and serving on December 31, 2017, were:

<u>Name of Officer</u>	<u>Title</u>
Andrew Schaeffer	President and Treasurer
Nancy L. Futrell	Secretary and Controller

Committees of the Board of Directors:

The Bylaws of the Company state that the Board of Directors may create one or more committees and appoint members to serve on them. As of December 31, 2017, the Company had established the following standing committees of the Board of Directors:

<u>Audit Committee</u>	<u>Investment Committee</u>
Susan K. Helm, Chair	Andrew Schaeffer, Chair
Andrew Schaeffer	Nancy Futrell
Nancy Futrell	Leroy Brown ¹

DC Official Code § 31-706(c)(3) requires 1/3 of the members of each committee of the board of directors of any domestic insurer to be persons who are not officers or employees of the Company, or of any entity controlling, controlled by or under common control with the Company. Additionally, Section 31-706(c)(4) of the DC Official Code, requires a formation of 1 or more committees comprised of individuals who are not officers or employees of the Company, or of any entity controlling, controlled by or under common control with the Company. These committees customarily have the duties and functions including recommending the selection of independent certified public accountants, reviewing the Company's financial condition, nominating candidates for directors, evaluating the performance of officers of the Company, and recommending to the Board the selection and compensation of principal officers.

The lack of an independent committee is not in compliance with the aforementioned DC Code section. For further discussion, see the "Summary of Recommendations" section of this report under the caption "Committees of the Board of Directors."

Conflicts of Interest

The Company has adopted a conflict of interest policy that requires all officers and directors to annually complete a questionnaire disclosing any potential conflicts. A review was made of the Company's procedure for disclosure to its Board of Directors of any material potential conflict of

¹ Subsequent to the examination period, Mr. Brown was replaced by an independent member director, please refer to "Subsequent Events" section for further detail.

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interest on the party of any of its officers, directors or key employees. No conflicts were disclosed by any of the directors or officers from the responses to the disclosure forms completed for calendar year 2017.

Corporate Records

The recorded minutes and written resolution of the Company's shareholder and Board of Directors were reviewed for the period under examination. Based on our review, it appeared that the minutes documented the Company's significant transactions and events, and that the Directors approved those transactions and events.

HOLDING COMPANY SYSTEM

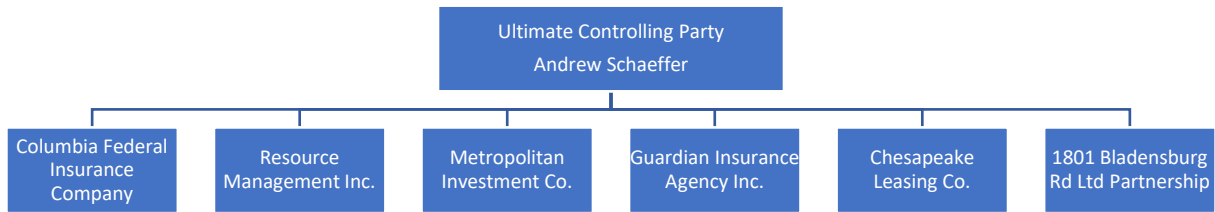
The Company is wholly-owned and controlled by Mr. Andrew Schaeffer. By virtue of this ownership, the Company is a member of an insurance holding company system pursuant to Section 31-701 of the DC Official Code. Mr. Schaeffer also owns Guardian Insurance Agency (Guardian), an affiliated agency that produces business for the Company.

During 2017, Guardian produced 100% or \$822,025 of written premiums for the Company, which represented approximately 24% of the Company's reported admitted assets of \$3,392,187 as of September 30, 2016. Based on the amount of premiums produced for the Company by Guardian, the Company is a producer-controlled insurer pursuant to Title 31, Chapter 4 of the DC Official Code, which states that the provisions of this section shall apply if, in any calendar year, the aggregate amount of gross written premium on insurance business placed with a controlled insurer by a controlling producer is equal to or greater than five percent of the admitted assets of the controlled insurer, as reported in the controlled insurer's quarterly statement filed as of September 30 of the prior year.

In accordance with this statute, the Company filed an actuarial opinion attesting that loss reserves are adequate for losses incurred on insurance produced by the controlling insurance producer, and filed a report demonstrating that commissions paid to the controlling producer were fair and reasonable. However, the Company was not in compliance with the Section 31-405 of the DC Official Code which requires that the controlled insurer have an audit committee of the board of directors composed of independent directors and that this audit committee meet to review the adequacy of the controlled insurer's loss reserves with management, the controlled insurer's independent certified public accountant, and another independent loss reserve specialist acceptable to the Commissioner or an independent casualty actuary, prior to the approval of the annual financial statements. For further discussion see the "Summary of Recommendations" section of this report under the caption "Broker Controlled Entity."

The following is a chart of the holding company system at December 31, 2017:

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Report on Examination as of December 31, 2017**



All affiliates are 100% owned by Andrew Schaeffer except for **1801 Bladensburg Road LTD Partnership** which is 99% owned by Andrew Schaeffer.

INTERCOMPANY SERVICES AGREEMENTS

As of December 31, 2017, the Company was a party to the following agreements with other members of its holding company system:

Brokerage Agreement

Effective December 20, 2016, the Company entered into an agreement with its controlling producer, Guardian, to place business for the Company. Guardian's responsibilities include the identification and addition of new insureds as well as the delivery and explanation of renewal proposals to established insureds. Guardian will collect and promptly remit to the Company, any premiums it receives.

Employee Lease Agreement

Effective October 10, 1996, the Company entered into an employee lease agreement with its affiliate company, Resource Management Inc. (RMI), wherein, RMI is to make available to the Company such personnel as may be necessary to assist the Company in performing the day-to-day operation of its insurance business, including without limitations, personnel necessary to perform executive, administrative and support, underwriting, and claims services. Under the terms of the agreement, RMI will bill to the Company on a regular basis, the salary, taxes and other costs associated with services provided under this agreement.

Leasing Agreement

Effective September 20, 2011, the Company entered into a lease agreement with 1801 Bladensburg Road Ltd Partnership which is owned by the president of the Company. Under the terms of this agreement, the Company agreed to lease work office space in consideration for a monthly fee. The Company is responsible for its portion of the cost of utilities and services incurred in connection with the premises. The lease has a 24-month term and most recently renewed on December 29, 2017.

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Effective October 1, 2013, the Company entered into a lease agreement with Chesapeake Leasing Company which is owned by the president of the Company. Under this agreement, the Company leases computer equipment and office furniture from Chesapeake for a monthly fee. Upon the lease's term ending on September 30, 2015, the Company elected to exercise an option in the agreement allowing the lease to continue on a month-to-month basis.

These agreements were filed with this Department pursuant to Section 31-706(a)2(D) of the DC Official Code.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2017, the Company had fidelity bond coverage with an aggregate limit of \$75,000 and a single loss deductible amount of \$5,000. The fidelity bond complies with the minimum coverage required by District of Columbia Municipal Regulation (DCMR) 26A-803.1.

In addition, the Company maintained insurance policies for other risks (e.g. general liability, property and building, etc.).

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not have employees of its own and therefore does not have employee pension, stock ownership and insurance plans.

STATUTORY DEPOSITS

The District of Columbia Department of Insurance, Securities and Banking does not require the Company to maintain a statutory deposit.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, the Company was licensed to transact business only in the District of Columbia. The Company writes Auto Commercial Personal Injury and Property Damage liability coverage for taxicabs and limos in the District of Columbia. The Commercial liability is a six-month policy which renews January 1st and July 1st regardless of effective date per the mandates of DCMR 26A-801. The Company began offering commercial physical damage insurance in November 2017 as a complimentary line of business. The auto physical damage coverage is a three-month policy which renews three months from the actual effective date.

The Company provides the minimum auto liability insurance coverages required by DC Official Code Section 50-301.14 with limits of \$10,000 per accident for property damage liability,

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and \$25,000 per person and \$50,000 per accident for personal injury. The coverage limit offered for the commercial physical damage insurance is \$18,000. The largest net aggregate amount insured by the Company in any one risk was \$60,000, as of December 31, 2017.

The Company generates all of its business through Guardian, an affiliated agency currently contracted to produce all lines of insurance offered by the Company. All management and operational services for the Company are performed by an affiliate, RMI under an Employee Lease Agreement that was filed with the Department. All of the functions of the Company including administrative, underwriting, premium collection, claims settlements, and investment activities are conducted from the Company's main administrative office in Washington, DC.

REINSURANCE

The Company does not assume or cede reinsurance and was not a party to any reinsurance agreement during the examination period.

ACCOUNTS AND RECORDS

The Company's general accounting records consist of an automated general ledger and various subsidiary ledgers (e.g., cash receipts, cash disbursements). Our review did not disclose any significant deficiencies in these records.

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FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. The financial condition and results of operations based on the statutory financial statements, as reported and filed by the Company with the Department for the year ended December 31, 2017, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus
Statement of Revenues and Expenses
Statement of Changes in the Capital and Surplus Account
Analysis of Changes in Financial Statements Resulting from the Examination
Comparative Financial Position and Results of the Company

Financial statements are the responsibility of the Company's management. The accompanying "Comments on Financial Statement Items" should be considered an integral part of the financial statements.

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Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2017

Assets

Common Stocks (NOTE 1)	\$ 3,051,140
Cash, cash equivalents and short-term investments	258,786
Subtotals, cash and invested assets	<u>3,309,926</u>

Premiums and considerations:

Uncollected premiums and agents' balances in the course of collection	122,230
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Total Assets	\$ <u><u>3,432,156</u></u>
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Liabilities, Capital and Surplus

Losses (NOTE 2)	\$ 628,044
Loss adjustment expenses (NOTE 2)	247,665
Commissions payable, contingent commissions and other similar charges	6,459
Other expense (excluding taxes, licenses and fees)	3,285
Taxes, licenses and fees (excluding federal and foreign income taxes)	7,055
Current federal and foreign income taxes	11,570
Net deferred tax liability	44,356
Unearned premiums	<u>15,481</u>
Total Liabilities	<u>963,915</u>

Common capital stock	300,000
Gross paid in and contributed surplus	400,000
Unassigned funds (surplus)	<u>1,768,241</u>

Surplus as regards to policyholders (NOTE 3)	<u>2,468,241</u>
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Total Liabilities, Capital, and Surplus	\$ <u><u>3,432,156</u></u>
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Columbia Federal Insurance Company
Report on Examination as of December 31, 2017

Statement of Revenues and Expenses
For the year ended December 31, 2017

Revenues

Premiums earned	\$ 806,544
Net investment income	173,301
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Total revenues	979,845
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Expenses

Losses incurred	543,675
Loss adjustment expenses incurred	194,548
Other underwriting expenses incurred	157,919
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Total expenses	896,142
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Net income before federal income taxes	83,703
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Federal and foreign income tax incurred	(1,213)
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Net income	\$ 82,490
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Statement of Changes in the Capital and Surplus Account
For the years ended December 31, 2017, 2016, 2015, 2014, and 2013

	2017	2016	2015	2014	2013
Capital and surplus, prior year-end	\$2,189,958	\$2,149,461	\$2,208,114	\$2,106,901	\$1,768,632
Net Income	82,490	69,217	114,784	75,462	151,398
Change in unrealized capital gain (loss)	184,804	(54,093)	(225,257)	57,863	209,180
Change in net deferred income tax	10,989	25,373	51,820	(32,112)	(22,309)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net Change in capital and surplus	278,283	40,497	(58,653)	101,213	338,269
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Capital and surplus, current year-end	\$2,468,241	\$2,189,958	\$2,149,461	\$2,208,114	\$2,106,901

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Analysis of Changes in Financial Statements Resulting from the Examination

There have been no changes made to the financial statements as a result of the examination.

Comparative Financial Position and Results of the Company

Selected financial information for the Company for the five-year period ended December 31, 2017,
was as follows:

	2017	2016	2015	2014	2013
Assets	\$ 3,432,156	\$ 3,214,972	\$ 3,241,103	\$ 3,311,100	\$ 3,325,917
Liabilities	963,915	1,025,014	1,091,642	1,102,986	1,219,016
Policyholders surplus	2,468,241	2,189,958	2,149,461	2,208,114	2,106,901
Premiums earned	806,544	814,027	826,974	871,270	942,772
Net underwriting gain (loss)	(89,598)	2,181	3,943	20,536	18,377
Net investment gain (loss)	173,301	72,237	115,030	94,701	132,987
Net income (loss)	82,490	69,217	114,784	75,462	151,398

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Comments on Financial Statement Items

1. Common Stocks:

At year-end 2017, the Company reported a total common stock investment holding of \$3,051,140 in its December 31, 2017 Statutory Annual Statement. Total admitted assets and policyholders' surplus for the same period were \$3,432,156 and \$2,468,241, respectively. The total common stocks of \$3,051,140 represented approximately 89% of the Company's reported admitted assets and 124% of its policyholders' surplus. Consequently, the total investment holdings in equity securities by the Company was not in compliance with DC Official Code §§ 31-1373.06 and 31-1373.12.

Specifically, DC Code § 31-1373.06 states that "An insurer shall not acquire an investment under this section if, as a result of and after giving effect to the investment, the aggregate amount of investments held by the insurer under this section would exceed the greater of 25% of its admitted assets or 100% of its surplus as regards policyholders." Furthermore, DC Code § 31-1373.12 states that "An insurer shall not acquire an investment...if, as a result of and after giving effect to the investment, the aggregate amount of the investments held by the insurer under this section would exceed the greater of: (1) Its unrestricted surplus; or (2) The lesser of: (A) Ten percent of its admitted assets; or (B) Fifty percent of its surplus as regards policyholders."

The Company is instructed to submit a plan to come into compliance with the DC Code sections described above within 30 days of the adoption date of this report that adjusts its investment holdings accordantly.

2. Losses and Loss Adjustment Expenses:

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling \$628,044 and \$247,665 respectively. These reserves represent management's best estimate of the amounts necessary to pay all claims and related expenses incurred but still unpaid as of December 31, 2017.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expense reserves as of December 31, 2017, were reviewed as part of our examination. As part of our review, we relied on the Company's independent actuary, who concluded that the methodologies and reserves appeared to be sufficient. An actuary from the Department also reviewed the Actuarial Report prepared by the Company's independent actuary and concurred with the actuary's conclusion that the Company's loss and loss adjustment expense reserves as of December 31, 2017 were reasonable and have been accepted for purposes of this examination.

3. Total Capital and Surplus:

The total capital and surplus of the Company at December 31, 2017, as determined by this examination, is the same as the amount reported by the Company on its 2017 Annual Statement.

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Report on Examination as of December 31, 2017**

SUBSEQUENT EVENTS

Pursuant to a special meeting minutes consent of the Board of Directors dated December 18, 2018, the Company's board nominated and appointed an independent director, Susan Helm to serve as the sole member director of the Audit Committee. Additionally, during same meeting, the board nominated and appointed Susan Helm to the Investment Committee of the board as a replacement of Leroy Brown. It was further indicated that these actions were taken and necessary to become compliant with District of Columbia statutory requirements applicable to board committees' structure and makeup, pursuant to DC Official Code §§ 31-706(c) and 31-405.

SUMMARY OF RECOMMENDATIONS

Committees of the Board of Directors:

Pursuant to DC Official Code Section 31-706(c)(3), not less than 1/3 of the members of each committee of the board of directors of any domestic insurer shall be persons who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with the insurer and who are not beneficial owners of a controlling interest in the voting stock of the insurer or such an entity.

In addition, Section 31-706(c)(4) requires that the board of directors of a domestic insurer shall establish 1 or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with the insurer, and who are not beneficial owners of a controlling interest in the voting stock of the insurer or any such entity. The committee or committees shall have responsibilities of nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer, and recommending to the board of directors the selection and compensation of the principal officers.

The Company was not in compliance with these provisions as of the date of the Examination and was instructed to come into compliance with DC Official Code §§ 31-706(c)(3) and 31-706(c)(4). It should be noted that during the next meeting of the Board of Directors and shareholder, the Company plans to effect necessary changes to its current standing committees' structure in conformity with the DC Code statutes.

The Company has subsequently addressed this recommendation. Refer to "Subsequent Events" section of this Report on page 14.

Broker Controlled Entity:

The Company's president and owner is a controlling producer who owns an affiliated insurance agency, Guardian that produces all of the premium income for the Company. Based on the common ownership and amount of premiums produced for the Company by Guardian, the Company is a producer-controlled insurer pursuant to the DC Official Code Title 31, Chapter 4 –

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which deals with Business Transacted with Producer Controlled Insurer. In this regard, DC Official Code § 31-405 requires that "Every controlled insurer shall have an audit committee of the board of directors composed of independent directors. The audit committee shall annually meet with management, the insurer's independent certified public accountants, and an independent casualty actuary, or other independent loss reserve specialist acceptable to the Mayor (Insurance Commissioner), to review the adequacy of the insurer's loss reserves."

Additionally, DC Official Code § 31-406 stipulates other reporting requirements for the company as follows:

- a) In addition to any other required loss reserve certification, the controlled insurer shall annually, on April 1 of each year, file with the Mayor (Insurance Commissioner) an opinion of an independent casualty actuary, or any other independent loss reserve specialist acceptable to the Mayor reporting loss reserve for each line of business written and attesting to the adequacy of loss reserves established for losses incurred and outstanding as of year-end, including that incurred, but not reported, on business placed by the producer.
- b) The controlled insurer shall annually report to the Mayor the amount of commissions paid to the producer, the percentage the amount represents of the net premiums written, and comparable amounts and percentage paid to no controlling producers for placements of the same kinds of insurance.

Furthermore, D.C. Official Code § 31-407 states that "The producer, prior to the effective date of the policy, shall deliver written notice to the prospective insured disclosing the relationship between the producer and the controlled insurer, except that, if the business is placed through a subproducer who is not a controlling producer, the controlling producer shall retain in his or her records a signed commitment from the subproducer that the subproducer is aware of the relationship between the insurer and the producer and that the subproducer has or will notify the insured."

As of the examination date, the Company had not established an audit committee of the board of directors independent from management or the controlling producer. The Company was instructed to come into compliance with DC Official Code §§ 31-405 - 31-407.

The Company has subsequently addressed these recommendations. Refer to "Subsequent Events" section of this Report on page 14. Furthermore, the Company had revised its standard policy form to properly disclose the relationship with its producer.

Additional Comments and Recommendations


In addition to the above Comments and Recommendations, we made a number of other suggestions and recommendations to the Company with regard to record keeping and other procedures relating to its operations. These additional suggestions and recommendations were not deemed significant for purposes of our Report on Examination, and were included in our Management Letter to the Board of Directors of the Company.


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ACKNOWLEDGEMENT

In addition to the undersigned, David A. Christhlf, ACAS, MAAA, P&C Actuary of the Department, also participated in the actuarial portions of this examination. The courteous cooperation extended by the officers and employees of the Company during the course of the examination was sincerely appreciated.

Respectfully submitted,


Yohannes Negash, CFE
Examiner-In-Charge (EIC)


Nathaniel Kevin Brown, CPA, CFE
Chief Examiner

District of Columbia, Department of
Insurance, Securities and Banking