



**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 – **NASW Risk Retention Group, Inc.**, as of December 31, 2016

ORDER

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **NASW Risk Retention Group, Inc.** (the “Company”), as of December 31, 2016 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“Department”). The Department reported on the financial condition of the Company in the attached Report on Examination (“Financial Condition Examination Report”).

In accord with the provisions of D.C. Official Code § 31-1404(c), it is hereby ordered, on this 28th day of May, 2018, that the attached Financial Condition Examination Report be adopted and filed as an official record of the Department.

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

Pursuant to D.C. Official Code § 31-1404(d)(1), the Company shall, within 30 days of the issuance of the adopted Financial Condition Examination Report, file affidavits executed by each of the Directors of the Company wherein each of the Directors shall state under oath that they have received a copy of the adopted Financial Condition Examination Report and this order.

Pursuant to D.C. Official Code § 31-1404(e)(1), the Department will continue to hold the content of the above-referenced 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

NASW RISK RETENTION GROUP, INC.

AS OF

DECEMBER 31, 2016

NAIC NUMBER 14366

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Washington, D.C.
April 3, 2018

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

Dear Commissioner Taylor:

In accordance with Section 31-3931.14 of the District of Columbia Official Code (“Code”), and with Chapter 14 of Title 31 of the Code, we have examined the financial condition and activities of

NASW Risk Retention Group, Inc.

hereinafter referred to as the “Company” or “NASW RRG”.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from June 15, 2012 through December 31, 2016, including any material transactions and/or events noted occurring subsequent to December 31, 2016, was conducted by the District of Columbia Department of Insurance, Securities and Banking (the “Department”).

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (“Handbook”) and the policies and standards established by the Department. The Handbook requires that we 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 assessing significant estimates made by management and evaluating management’s compliance with Generally Accepted Accounting Principles. 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.

This examination report includes significant findings of fact, pursuant to Section 31-1404(a) of the District of Columbia 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 are separately communicated to other regulators and/or the company.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2013 through 2016. For the year 2012, the Company received an exemption from the Department for an annual audit due to a low volume of written premiums. We placed substantial reliance on the audited financial statements for calendar years 2013 through 2015, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2016. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2016. We placed reliance on the work of the auditor and directed our efforts, to the extent practical, to those areas not covered by the firm's work papers.

SUMMARY OF SIGNIFICANT FINDINGS

The results of this examination disclosed no material adverse findings, significant non-compliance findings, or material changes in financial statements.

STATUS OF PRIOR EXAMINATION FINDINGS

This is the first-full scope financial examination of the Company.

HISTORY

General:

NASW RRG 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 June 15, 2012 and commenced operations on September 14, 2012. The Company is a mutual insurance company and was initially funded by NASW Assurance Services, Inc. ("NASW ASI"), a for-profit subsidiary of the National Association of Social Workers, Inc. (the "Association"). NASW RRG writes professional, general, and cyber liability coverage for social workers and social service agencies that are members of the Association.

Membership:

As a risk retention group, the Company is owned by its member insureds, consisting of social workers, individual social work students, schools of social work and social service agencies. As a mutual insurer, NASW RRG does not issue stock or other certificates of ownership. Each insured is automatically a member of NASW RRG.

Dividends and Distributions:

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

MANAGEMENT AND CONTROL

Board of Directors and Officers:

The Company's directors serving as of December 31, 2016 were as follows:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Joseph T. Monahan, JD Illinois	Partner Monahan Law Group, LLC
Deborah A. Reyes Florida	President Capital American Mortgage Company
Diana R. Stroud Illinois	Assistant Dean University of Illinois
Anthony A. Benedetto Maryland	Chief Executive Officer NASW Assurance Services, Inc.
Dr. Yvonne M. Chase Alaska	Chief Executive Officer Denali Family Services
Dr. Angelo McClain Washington, DC	Chief Executive Officer National Association of Social Workers, Inc.
James H. Townsend California	President and Chief Executive Officer The Townsend Group, LLC
Jeffrey C. Miller Illinois	Retired

The following persons were serving as the NASW RRG's officers as of December 31, 2016:

<u>Name</u>	<u>Position</u>
Joseph T. Monahan, JD	President
Anthony A. Benedetto	Chief Executive Officer
Deborah A. Reyes	Treasurer
Diana R. Stroud	Secretary

Helen Maleady
Stacy Hammond

Assistant Secretary
Assistant Secretary

Committees:

As of December 31, 2016, the Company's board of directors had not established any committees. During 2017, the Company notified the Department of the formation of its audit committee, consisting of Joseph T. Monahan, JD, Jeffrey C. Miller and James H. Townsend.

Conflicts of Interest:

The Company has an established procedure for the disclosure of any material interests or affiliations on the part of its directors and officers. Our review of the conflict of interest statements signed by the NASW RRG directors and officers for the period under examination disclosed no conflicts that would adversely affect the Company. Furthermore, no additional conflicts of interest were identified during our examination.

Corporate Records:

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

Captive Manager:

Beecher Carlson Insurance Services, LLC ("Beecher Carlson") has been the Company's captive manager since inception, and provides regulatory and annual statement preparatory services to the Company.

Affiliated Parties and Transactions:

The Company is not a member of a holding company group. NASW ASI has no ownership interest in the Company, however, NASW ASI has sponsored the Company's formation and has been managing the Company's daily business operations since inception under a management services agreement. In addition, NASW ASI is the lender to the Company of \$9.5 million pursuant to three subordinated surplus note agreements.

During the period under examination and up to the date of this Report, the Company had the following transactions with NASW ASI:

NASW ASI provided the initial capitalization of the Company with a \$500,000 Letter of Credit and a \$1 million surplus note dated August 16, 2012 which matures on December 1, 2037. The initial surplus note interest rate was three and a half percent (3.5%) per annum, however, it was changed to four and one-half percent (4.5%) per annum effective July 1, 2015. The Department approved a second surplus note dated October 1, 2015 in the amount of \$3.5 million that matures on December 1, 2040. The surplus note interest rate is four and a half percent (4.5%) per annum. A third surplus note was issued on December 15, 2016, with the approval of the Department, in

the amount of \$5 million, resulting in surplus note total of \$9.5 million. The surplus note interest rate of four and one-half percent (4.5%) per annum and repayment of the principal amount is due in full on December 1, 2026. No interest or principal shall be paid without prior approval of the Department. No interest payments have been made since inception. Unrecorded interest of \$394,019 has accumulated since inception.

Through an Administrative and Management Services Agreement effective September 1, 2012 with NASW ASI, the Company's daily operations, including underwriting, claims administration, marketing, administrative, and treasury services, are managed by NASW ASI. Compensation for the services provided is eight and one-half percent (8.5%) of gross written premium, payable on a quarterly basis.

In addition, the Company is a party to a reinsurance agreement with a subsidiary of NASW ASI, NASW Insurance Company ("NASWIC"). See further details in the "Reinsurance" section of this Report.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2016, the Company was licensed in the District of Columbia, and was registered and writing business as a risk retention group in all 50 states, Guam and the United States Virgin Islands. During 2016, NASW RRG wrote premiums of approximately \$7.28 million.

The Company offers professional liability insurance on a claims made basis to professional social workers, with limits of \$1 million per occurrence and \$1 million in the aggregate, and on an occurrence basis for social work students and schools of social work. Higher limits of \$1 million per occurrence and \$3 million in the aggregate, \$2 million per occurrence and \$4 million in the aggregate, \$1 million per occurrence and \$5 million in the aggregate, or \$3 million per occurrence and \$5 million in the aggregate can also be provided. Social Service agency professional liability coverage is also offered on an occurrence basis, with policy limits ranging from \$100,000 per occurrence and \$300,000 in the aggregate to \$2 million per occurrence and \$4 million in the aggregate. The Company also offers cyber liability coverage, with limits up to \$25,000 per occurrence and \$25,000 in the aggregate, as well as general liability coverage with a limit of \$1 million per occurrence and \$3 million in the aggregate. All coverages are reinsured through a quota-share reinsurance agreement with NASWIC. Certain of the coverages are also reinsured on an excess of loss basis with a commercial reinsurer.

The Company has no employees and its daily business operations are managed by NASW ASI in Frederick, Maryland. Its captive manager, Beecher Carlson, in Burlington, Vermont, provides accounting, regulatory, and annual statement preparatory services to the Company.

REINSURANCE

Assumed:

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

Ceded:

For the period under examination, the Company was party to a quota-share reinsurance agreement with NASWIC. Under the terms of the agreement and corresponding amendments, the Company ceded to NASWIC twenty four percent (24%) of premiums and losses from September 14, 2012 to March 31, 2014, fifty four percent (54%) from April 1, 2014 to October 31, 2015, eighty two percent (82%) from November 1, 2015 to December 31, 2015, and forty percent (40%) from January 1, 2016 to December 31, 2016. As of December 31, 2016, the Company receives a ceding commission of twenty-six and one-half percent (26.5%). The agreement is automatically renewed until terminated by either party upon written notice subject to certain provisions in the contract.

Effective November 1, 2015, the Company became party to an excess of loss reinsurance agreement with Swiss Reinsurance America Corporation (“Swiss Re”) whereby Swiss Re assumes losses of up to \$2.25 million in excess of \$750,000.

The Company was also party to quota share reinsurance agreements with several Lloyd’s of London Syndicates whereby the Company ceded seventy percent (70%) of premiums and losses from September 14, 2012 to March 31, 2014 and forty percent (40%) from April 1, 2014 to October 31, 2015.

During 2016, NASW RRG ceded premiums of approximately \$3.23 million. As of December 31, 2016, the Company reported as assets “Amount recoverable from reinsurers” totaling approximately \$30,000 which represents amounts receivable from reinsurers on paid losses. In addition, the Company reported ceded loss reserves of approximately \$2,984,000 and ceded unearned premiums of approximately \$1,442,000. These amounts are reported as deductions from the respective gross loss reserve and unearned premium reserve liabilities. If the reinsurers were not able to meet their obligations under the treaties, the Company would be liable for any defaulted amounts.

FINANCIAL STATEMENTS

The following financial statements are based on the Annual Statement filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2016. The financial statements were prepared in accordance with Generally Accepted Accounting Principles (“GAAP”) prescribed or permitted by the Department. Management is responsible for the preparation and fair presentation of these financial statements. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

<u>STATEMENT</u>	<u>PAGE</u>
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BALANCE SHEET

ASSETS

	<i>December 31, 2016</i>
Bonds	\$ 2,009,782
Cash and short-term investments	<u>9,768,019</u>
Subtotals, cash and invested assets	11,777,801
Investment income due and accrued	11,506
Uncollected premiums and agents' balances in the course of collection	223,869
Amounts recoverable from reinsurers	30,095
Net deferred tax asset	59,402
Receivables from parent, subsidiaries and affiliates	201,745
Aggregate write-ins for other-than-invested assets:	
Deferred acquisition costs	654,966
Letter of Credit	500,000
Deposits	30,000
Summary of remaining write-ins	448,570
Total	<u>\$ 13,937,954</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<i>December 31, 2016</i>
Losses (Note 1)	\$ 116,058
Loss adjustment expenses (Note 1)	827,215
Other expenses (excluding taxes, licenses and fees)	266,488
Taxes, licenses and fees (excluding federal and foreign income taxes)	137,930
Current federal and foreign income taxes	38,076
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$1,442,355)	1,879,777
Advance premiums	145,123
Ceded reinsurance premiums payable (net of ceding commission)	60,480
Payable to parent, subsidiaries and affiliates	24,846
Aggregate write-ins for liabilities – Deferred ceding commissions	<u>352,146</u>
Total liabilities	<u>3,848,139</u>
Aggregate write-ins for other-than-surplus funds	500,000
Surplus notes	9,500,000
Unassigned funds (surplus)	<u>89,815</u>
Surplus as regards policyholders	<u>10,089,815</u>
Total	<u>\$ 13,937,954</u>

STATEMENT OF INCOME

	<i>December 31, 2016</i>
UNDERWRITING INCOME	
Premiums earned	\$ 2,409,110
DEDUCTIONS	
Losses incurred	82,691
Loss expenses incurred	1,038,881
Other underwriting expenses incurred	918,457
Total underwriting deductions	2,040,029
Net underwriting gain (loss)	369,081
INVESTMENT INCOME	
Net investment income earned	(6,120)
Net realized capital losses	(930)
Net investment loss	(7,050)
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	362,031
Federal and foreign income taxes incurred	96,803
Net income	<u>\$ 265,228</u>

CAPITAL AND SURPLUS ACCOUNT

Initial capital:	
Surplus note	\$ 1,000,000
Letter of credit	500,000
Net loss, 2012	(85,384)
Change in net deferred income taxes	29,030
Net change in surplus as regards policyholders, 2012	<u>1,443,646</u>
 Surplus as regards policyholders, December 31, 2012	 <u>\$ 1,443,646</u>
 Net loss, 2013	 (227,767)
Change in net deferred income taxes	87,667
Net change in surplus as regards policyholders, 2013	<u>(140,100)</u>
 Surplus as regards policyholders, December 31, 2013	 <u>\$ 1,303,546</u>
 Net loss, 2014	 (98,444)
Change in net deferred income taxes	100,703
Net change in surplus as regards policyholders, 2014	<u>2,259</u>
 Surplus as regards policyholders, December 31, 2014	 <u>\$ 1,305,805</u>
 Net income, 2015	 118,052
Change in net deferred income taxes	(99,270)
Change in surplus notes	3,500,000
Net change in surplus as regards policyholders, 2015	<u>3,518,782</u>
 Surplus as regards policyholders, December 31, 2015	 <u>\$ 4,824,587</u>
 Net income, 2016	 265,228
Change in surplus notes	5,000,000
Net change in surplus as regards policyholders, 2016	<u>5,265,228</u>
 Surplus as regards policyholders, December 31, 2016	 <u>\$ 10,089,815</u>

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Loss and Loss Adjustment Expense Reserves:

The Company reported “Losses” and “Loss adjustment expenses” reserves net of reinsurance totaling \$116,058 and \$827,215, 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, 2016.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expense reserves as of December 31, 2016 were reviewed as part of our examination. As part of our review, we relied on the Company’s actuary, who concluded that the reserves on the Company’s books appeared to be sufficient. In addition, as part of our review, the Department utilized an examination actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company’s actuary. The examination actuary concluded that the methodologies and assumptions utilized by the Company’s independent actuary to compute the reserves, and the amount of the loss reserves reported by the Company as of December 31, 2016, were reasonable and adequate.

SUBSEQUENT EVENTS

We noted no significant subsequent events as of the date of this report.

SUMMARY OF RECOMMENDATIONS

During the examination, no issues warranting recommendations in this examination report were noted.

SIGNATURES

In addition to the undersigned, the following personnel from Lewis & Ellis, Inc., representing the Department, participated in this examination as members of the examination team: Amy L. Carter, CFE and David Palmer, CFE.

The actuarial portion of this examination was completed by David A. Christhlf, ACAS, MAAA, of the Department.

Respectfully submitted,

Lindsey Pittman

Lindsey Pittman, CFE
Examiner-In-Charge
Lewis & Ellis, Inc.

Under the Supervision of,

Christine Afolabi

Christine Afolabi
Supervising Examiner
District of Columbia Department of Insurance,
Securities and Banking



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

Stephen C. Taylor
Commissioner

May 8, 2018

Joseph T. Monahan
President
NASW Risk Retention Group, Inc.
C/o Beecher Carlson Insurance Services, LLC
156 College Street, Suite 301
Burlington, VT 05401

RE: Examination of NASW Risk Retention Group, Inc. as of December 31, 2016

Dear Mr. Monahan:

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 NASW Risk Retention Group, Inc., (the “Company”), as of December 31, 2016.

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

If there are no errors or omissions to be brought to our attention, and there is no “Summary of Recommendations” requiring a response, please submit a statement that the Company accepts the Report.

The response must be in writing and shall be furnished to this Department by June 5, 2018. The signed response should be on company’s letterhead and sent electronically via e-mail to me, in an adobe “pdf” format, to sean.odonnell@dc.gov.

Sincerely,

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

Enclosure

NASW Risk Retention Group, Inc.

May 16, 2018

Mr. Sean O'Donnell
Director of Financial Examination
D. C. Department of Insurance, Securities and Banking
1050 First Street, NE, Suite 801
Washington, DC 20002

**RE: NASW Risk Retention Group, Inc. (License #RR128)
Response & Acceptance of Examination Report**

Dear Sean:

The NASW Risk Retention Group, Inc. (the "Company") has received and reviewed the draft copy of the Report on Examination of the affairs and financial condition of the Company as of December 31, 2016 (the "Report"). In accordance with your request, I provide the following:

After careful review, we find no errors or omissions that need to be identified within the Report.

There are no issues identified under the section entitled Summary of Recommendation that require a response.

The Company hereby accepts the Report as presented regarding the affairs and financial condition of the Company.

Respectfully,



Joseph T. Monahan
President and Director
NASW Risk Retention Group, Inc.



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

Stephen C. Taylor
Commissioner

May 22, 2018

Joseph T. Monahan
President
NASW Risk Retention Group, Inc.
C/o Beecher Carlson Insurance Services, LLC
156 College Street, Suite 301
Burlington, VT 05401

RE: Examination of **NASW Risk Retention Group, Inc.**, as of December 31, 2016

Dear Mr. Monahan:

We are in receipt of your response dated May 16, 2018, regarding the Report on Examination of NASW Risk Retention Group, Inc. (the "Company") as of December 31, 2016. The response is deemed adequate.

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 District of Columbia 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.

Pursuant to Section 31-1404(d)(1) of the District of Columbia Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each of the Company's directors 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 202-442-8153 if you have any questions.

Sincerely,

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures