BEFORE THE INSURANCE COMMISSIONER OF THE DISTRICT OF COLUMBIA

Re: Report on Examination – Preferra Insurance Company Risk Retention Group as of December 31, 2021

ORDER

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **Preferra Insurance Company Risk Retention Group**, (the "Company"), as of December 31, 2021 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 14th day of June 2023, 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.

Dana Sheppard

Dana Sheppard
Associate Commissioner
Risk Finance Bureau

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

DISB

DC DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

REPORT ON EXAMINATION

PREFERRA INSURANCE COMPANY RISK RETENTION GROUP (formerly NASW Risk Retention Group, Inc.)

AS OF

DECEMBER 31, 2021

NAIC NUMBER 14366

TABLE OF CONTENTS

Washington, D.C.
May 19, 2023

Honorable Karima M. Woods
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 Woods:

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

Preferra Insurance Company Risk Retention Group

hereinafter referred to as the "Company" or "Preferra RRG".

SCOPE OF EXAMINATION

This full-scope examination, covering the period from January 1, 2017 through December 31, 2021, including any material transactions and/or events noted occurring subsequent to December 31, 2021, 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, ("GAAP"). 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 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 other regulators and/or the Company.

The Company was audited by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2017 through 2021. We placed substantial reliance on the audited financial statements for calendar years 2017 through 2020, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2021. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2021. 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 findings of non-compliance, or material changes in financial statements.

STATUS OF PRIOR EXAMINATION FINDINGS

A full scope examination was conducted by the Department as of December 31, 2016, which covered the period of June 15, 2012 through December 31, 2016. There were no material adverse findings, significant findings of non-compliance, or material changes in the financial statements.

HISTORY

General:

Preferra Insurance Company Risk Retention Group (formerly NASW Risk Retention Group, Inc.) 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").

Preferra RRG writes professional, general, and cyber liability coverage for social workers, social service agencies, and allied health professionals that are members and non-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, Preferra RRG does not issue stock or other certificates of ownership. Each insured is automatically a member of Preferra RRG.

Dividends and Distributions:

The Company did not declare or pay any dividends during the period under examination. During 2020, with the approval of the Department, the Company paid $796,343 for interest and $5 million for principal to NASW ASI for a surplus note issued to NASW ASI. See the "Affiliated Parties and Transactions" section of this Report for more information regarding surplus notes.

MANAGEMENT AND CONTROL

Board of Directors and Officers:

The Company's directors serving as of December 31, 2021 were as follows:

Name and State of Residence	Principal Occupation
Joseph T. Monahan, J.D. Illinois	Partner Monahan Law Group, LLC
Deborah A. Reyes Florida	President Capital American Mortgage Company
Ahmed Shaher Connecticut	Vice President and Senior Actuary Symetra Life Insurance Company
Angelo McClain, M.D. District of Columbia	Chief Executive Officer National Association of Social Workers, Inc.
Anthony A. Benedetto Maryland	Chief Executive Officer NASW Assurance Services Inc.
Jeffrey C. Miller Illinois	Retired University Vice Dean and Chief Operating Officer
Richard L. Jones Ohio	Retired Executive
David H. McCarty Minnesota	Retired Insurance Executive

A. Elizabeth Cauble Kansas	Retired University Department Head and Associate Professor
David A. Campbell New York	Professor Binghamton University, New York

The following persons were serving as the Company's officers as of December 31, 2021:

Name	Position
Richard L. Jones	President
Anthony A. Benedetto	Chief Executive Officer
Jeffrey C. Miller	Secretary
Deborah A. Reyes	Treasurer

Committees:

As of December 31, 2021, the Company's board of directors had established the following committees:

Audit Committee

Richard L. Jones, Chair
Deborah A. Reyes
Jeffrey C. Miller
Anthony A. Benedetto

Executive Committee

Richard L. Jones, Chair
Joseph T. Monahan, J.D.
Deborah A. Reyes
Jeffrey C. Miller
Anthony A. Benedetto

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

Corporate Records:

We reviewed the minutes of the meetings of the 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:

Preferra RRG 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 and NASW Insurance Company, ("NASWIC") are lenders to the Company of three subordinated surplus notes totaling $10,296,343, as described below.

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

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 interest rate was three and one-half percent (3.5%) per annum. The interest rate was changed to four and one-half percent (4.5%) per annum effective July 1, 2015 and changed to two and one-half percent (2.5%) on April 1, 2021. The Department approved a second surplus note, with NASW ASI, dated October 1, 2015 in the amount of $3.5 million which matures on December 1, 2040. The initial interest rate was four and one-half percent (4.5%) per annum and changed to two and one-half percent (2.5%) on April 1, 2021. A third surplus note was issued on December 15, 2016, with the approval of the Department, in the amount of $5 million with an interest rate of four and one-half percent (4.5%) per annum and matures on December 1, 2026.

During 2019, with the approval of the Department, the $500,000 Letter of Credit provided by NASW ASI was cancelled.

Effective April 1, 2020, the Company entered into a surplus note agreement, with NASWIC, for $5,796,343. The surplus note initially matured on December 1, 2030 with an interest rate of two and one-half percent (2.5%). Effective July 1, 2022, with the approval of the Department, the maturity date was changed to December 1, 2040. No interest or principal shall be paid on any of the surplus notes without prior approval of the Department.

Upon issuance of the surplus note to NASWIC and with approval of the Department, the outstanding $5 million surplus note dated December 15, 2016 with NASW ASI, was paid in full resulting in a remaining surplus note total of $10,296,343. In addition, surplus note interest of $796,343 was paid to NASW ASI representing accrued interest on the repaid surplus note. The interest payment of $796,343 was approved by the Department.

Through an Administrative and Management Services Agreement effective September 1, 2012, including several amendments, with NASW ASI, the Company's daily operations, underwriting, claims administration, marketing, administrative, and treasury services are managed by NASW ASI. Compensation for the services provided is ten percent (10%) of gross written premium, payable on a quarterly basis.

Effective July 1, 2018, the Company and NASWIC entered into an administrative services agreement. Pursuant to the agreement, the Company will provide NASWIC with administrative staff, support facilities and management and operational oversight. Under this agreement, NASWIC will reimburse the Company for its share of costs related to the Company's services in the amount of $175,000 annually. The Company received $175,000 as reduction to underwriting expenses on its statement of operations for the year ended December 31, 2021.

Effective August 1, 2021, the Company, NASW ASI, and NASWIC (collectively referred to as the “Parties”) entered into a split dollar sharing agreement to provide a life insurance policy to its shared CEO, Anthony Benedetto, and his spouse, to be issued by a commercial insurance company. Pursuant to the agreement, the initial required investment of $3 million will be equally funded by each of the Parties. On August 12, 2021, the parties each paid $1 million as initial investment under this agreement. The Company, acting as agent, made the payment to Minnesota Life Insurance Company in the form of a single payment. The Company’s participation in this agreement was approved by the Department.

In addition, the Company is a party to a reinsurance agreement with NASWIC. See further details in the “Reinsurance” section of this Report.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, 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 2021, the Company wrote premiums of approximately $14.4 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 on a claims made basis, with limits up to $25,000 per occurrence and $25,000 in the aggregate, as well as general liability coverage, on a claims made basis, 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.

REINSURANCE

Assumed:

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

Ceded:

During 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, NASWIC assumed a forty percent (40%) proportionate share of the premium and net losses on policies written by the Company. As of July 1, 2018, the ceding commission the Company receives increased from twenty-one and one-half percent (21.5%) to thirty-six and one-half percent (36.5%), of ceded written premiums. The agreement is automatically renewed until terminated by either party upon written notice subject to certain provisions in the contract.

In addition, the Company was party to a casualty excess of loss reinsurance agreement with Swiss Reinsurance America Corporation ("Swiss Re"). Pursuant to the original agreement effective November 1, 2015, Swiss Re assumed losses of up to $2.25 million in excess of $750,000. The agreement was amended effective November 1, 2017 whereby Swiss Re assumed losses of up to $2.025 million (or 90% of $2.25 million) per occurrence in excess of $750,000 and $4.05 million (or 90% of $4.5 million) in the aggregate. Effective November 1, 2019 the agreement was amended whereby Swiss Re assumed $1.8 million (or 80% of $2.25 million) per occurrence and $3.6 million (or 80% of $4.5 million) in the aggregate. Effective November 1, 2019, NASWIC reinsures the remaining 20% of the excess layer.

Effective May 1, 2019, Allied Health professional and general liability risks were added to the reinsurance program. The Company cedes 50% of Allied Health claims to Swiss Re, with a maximum limit of $375,000.

Both reinsurance agreements were renewed and the limits remained unchanged effective November 1, 2021.

During 2021, the Company ceded premiums of approximately $6.3 million. As of December 31, 2021, the Company reported as assets "Amount recoverable from reinsurers" totaling approximately $235,000 which represents amounts receivable from reinsurers on paid losses. In addition, the Company reported ceded loss reserves of approximately $2.4 million and ceded unearned premiums of approximately $2.9 million. 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, 2021. The financial statements were prepared in accordance with 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.

BALANCE SHEET

ASSETS

	December 31, 2021
Bonds	$ 18,388,613
Stocks	1,605,419
Cash, cash equivalents, and short-term investments	4,088,492
Subtotals, cash and invested assets	$ 24,082,524
Investment income due and accrued	98,927
Uncollected premiums and agents' balances in the course of collections	509,817
Amounts recoverable from reinsurers	235,496
Receivables from parent, subsidiaries and affiliates	23,787
Deferred acquisition costs	1,733,080
Split Dollar Plan	1,000,000
Deposits	30,000
Aggregate write-ins for other than invested assets	556,511
Total	$ 28,270,142

LIABILITIES, SURPLUS AND OTHER FUND

		December 31, 2021
Losses **(NOTE 1)**	$	423,633
Loss adjustment expenses (**NOTE 1**)		3,125,696
Other expenses (excluding taxes, licenses, and fees)		244,548
Taxes, licenses, and fees (excluding federal and foreign income taxes)		231,968
Current federal income taxes		185,258
Net deferred tax liability		40,402
Unearned premium (after deducting unearned premiums for ceded reinsurance of $2,920,539)		3,874,248
Advance premium		276,002
Ceded reinsurance premiums payable		315,505
Amounts due to affiliates		161,085
Deferred ceding commissions		1,016,794
Policyholder refunds payable		786
Total liabilities	$	9,895,925
Surplus notes	$	10,296,343
Unassigned funds (surplus)		8,077,874
Surplus as regards policyholders	$	18,374,217
Total	$	28,270,142

STATEMENT OF INCOME

		December 31, 2021
UNDERWRITING INCOME		
Net premiums earned	$	7,438,755
DEDUCTIONS		
Losses incurred		442,144
Loss adjustment expenses incurred		1,410,515
Other underwriting expenses incurred		2,865,052
Total underwriting expenses	$	4,717,711
Net underwriting gain	$	2,721,044
INVESTMENT INCOME		
Net investment income earned		(1,260)
Net realized capital gain		301,729
OTHER INCOME		
Aggregate write-ins for miscellaneous income	$	7,208
Income before dividends and taxes	$	3,028,721
Federal income taxes incurred		629,239
Net income	$	2,399,482

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016	$ 10,089,815
Net income, 2017	1,024,888
Net change in surplus as regards policyholders, 2017	1,024,888
Surplus as regards policyholders, December 31, 2017	$ 11,114,703
Net income, 2018	1,374,132
Net change in surplus as regards policyholders, 2018	1,374,132
Surplus as regards policyholders, December 31, 2018	$ 12,488,835
Net income, 2019	1,843,196
Letter of credit cancellation	(500,000)
Net change in surplus as regards policyholders, 2019	1,343,196
Surplus as regards policyholders, December 31, 2019	$ 13,832,031
Net income, 2020	1,346,361
Change in surplus notes	796,343
Net change in surplus as regards policyholders, 2020	2,142,704
Surplus as regards policyholders, December 31, 2020	$ 15,974,735
Net income, 2021	2,399,482
Net change in surplus as regards policyholders, 2021	2,399,482
Surplus as regards policyholders, December 31, 2021	$ 18,374,217

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 Expenses Reserves:

The Company reported “Losses” and “Loss adjustment expenses” reserves net of reinsurance totaling $423,633 and $3,125,696, 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, 2021.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2021 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, 2021 were reasonable.

SUBSEQUENT EVENTS

Change of Company Name:

Effective January 1, 2023, the Company changed its name from NASW Risk Retention Group, Inc. to Preferra Insurance Company Risk Retention Group. This change was approved by the Department.

SUMMARY OF RECOMMENDATIONS

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

SIGNATURES

In addition to the undersigned, David Palmer, CFE, and Lindsey Pittman, CFE, CISA, AES, from Lewis & Ellis, Inc., representing the Department, and David A. Christhilf, ACAS, MAAA, from the Department participated in this examination as members of the examination team.

Respectfully submitted,

Omar Akel, 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

Via E-mail

June 7, 2023

Anthony A. Benedetto, Chief Executive Officer
Preferra Insurance Company Risk Retention Group
1401 Eye Street N.W., Suite 600
Washington, D.C. 20005

RE: Examination of Preferra Insurance Company Risk Retention Group as of December 31, 2021

Dear Mr. Benedetto:

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 Preferra Insurance Company Risk Retention Group, (the "Company"), as of December 31, 2021.

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 14, 2023. The signed response should be on the 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

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

Preferra
Insurance Company RRG

Via Email

June 13, 2023

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: Preferra Insurance Company Risk Retention Group (License #RR128)
Response & Acceptance of Examination Report

Dear Sean:

Preferra Insurance Company Risk Retention Group (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, 2021 (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,

Tony Benedetto

Tony Benedetto
Chief Executive Officer
Preferra Insurance Company Risk Retention Group

Via E-mail

June 14, 2023

Anthony A. Benedetto, Chief Executive Officer
Preferra Insurance Company Risk Retention Group
1401 Eye Street N.W., Suite 600
Washington, D.C. 20005

RE: Examination of Preferra Insurance Company Risk Retention Group, as of December 31, 2021

Dear Mr. Benedetto:

We are in receipt of your response, dated June 13, 2023, regarding the Report on Examination of Preferra Insurance Company Risk Retention Group, (the "Company"), as of December 31, 2021. 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 mail the originals of these affidavits to my attention at the Department, or, alternatively, PDFs may be emailed to my attention and submission of the originals is not required.

Please contact me at 202-442-8153 if you have any questions.

Sincerely,

Sean O'Donnell

Sean O'Donnell
Director of Financial Examination,
Risk Finance Bureau
sean.odonnell@dc.gov

Enclosure