



**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 – **Equitable Liability Insurance Company** as of December 31, 2015

**ORDER**

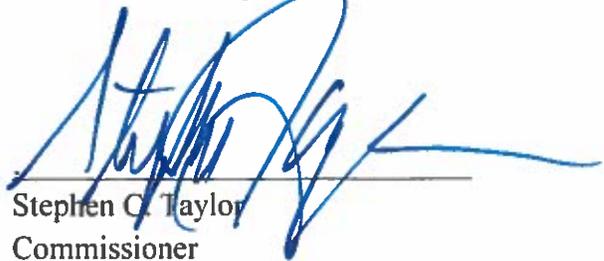
An Examination of **Equitable Liability Insurance Company** as of December 31, 2015 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 29<sup>th</sup> day of June, 2017, 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 31-1404(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

EQUITABLE LIABILITY INSURANCE COMPANY

AS OF

DECEMBER 31, 2015

NAIC COMPANY CODE 10183

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Washington, D.C.  
January 24, 2017

Honorable Stephen C. Taylor  
Commissioner  
Department of Insurance, Securities and Banking  
Government of the District of Columbia  
810 First Street, NE, Suite 701  
Washington, D.C. 20002

Dear Commissioner:

In accordance with Section 31-1402 of the District of Columbia Official Code, we have examined the financial condition and activities of

**Equitable Liability Insurance Company**

Hereinafter referred to as “ELIC” or the “Company”. The examination was conducted at the administrative office of the Company located at 3399 Benning Road, N.E., Washington, DC 20019, and the following Report of Examination thereon is respectfully submitted.

**SCOPE OF EXAMINATION**

The examination, covering the period from January 1, 2011 to December 31, 2015, and including any material transactions and/or events noted occurring subsequent to December 31, 2015, was conducted by examiners of the District of Columbia Department of Insurance, Securities and Banking (the “Department”). The last examination of the Company was a full scope examination, covering the period from January 1, 2006 to December 31, 2010.

Concurrent with this examination, we have also conducted an examination of the Company’s affiliate, First Washington Insurance Company (“FWIC”). The Examination Report for the aforementioned company is being issued under separate cover.

We conducted our examination in accordance with examination policies and standards established by the Department and in accordance with the *Financial Condition Examiners Handbook* (the “Handbook”) published by the National Association of Insurance Commissioners (the “NAIC”). 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. Our examination did not cover market conduct related areas.

## **Equitable Liability Insurance Company**

### **Report on Examination**

Examination as of December 31, 2015

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 Statutory 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 was identified and considered material, the impact of such adjustment was documented separately in this Report following the Company's financial statements. 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 annually by an independent public accounting firm. The firm expressed unqualified opinions on a statutory basis for the Company's financial statements for calendar years 2011 through 2015. We placed substantial reliance on the audited financial statements for calendar years 2011 through 2014, and consequently performed only minimal testing for those periods. We concentrated the examination efforts on the year ended December 31, 2015, and directed our efforts to the extent practical to those areas not covered by the firm's audit.

### **SUMMARY OF SIGNIFICANT FINDINGS**

The examination included a review to determine the current status of the comments and recommendations in the preceding Examination Report, dated June 6, 2012, which covered the period from January 1, 2006 to December 31, 2010. We determined that the Company had satisfactorily addressed two (2) of these conditions. The remaining exception conditions, regarding the Lack of Independent Directors and Lack of Independent Committees of the Board, are repeated in the "Comments and Recommendations" section of this Report, under the captions, "Lack of Independent Directors" and "Lack of Independent Committees of the Board".

The Examination did not disclose any material adverse findings or adjustments that impact the Company's reported capital and surplus.

### **SUBSEQUENT EVENTS**

Pursuant to a Shareholder and Board of Directors annual meeting minutes consent dated May 12, 2017, the Company's Board and Shareholder unanimously elected and approved Alisa S. Halle as an independent director of the Board. Furthermore, during the same annual meeting of the Shareholder and Directors, the Board unanimously voted to form an independent Audit Committee and unanimously approved the appointment of Alisa S. Halle to the Audit Committee.

Pursuant to a Shareholder and Board of Directors monthly meeting minutes consent dated June 19, 2017, Mrs. Edith F. Schaeffer, Vice President and a member of the Board of Directors of the Company, rendered her resignation from the Board and the Board

## **Equitable Liability Insurance Company**

### Report on Examination

Examination as of December 31, 2015

unanimously accepted her resignation, with further clarification that Mrs. Schaeffer would still remain an officer of the Company in her vice president capacity. It was further indicated that this action was taken in an effort to become compliant with District of Columbia statutory requirements applicable to board structure and makeup, pursuant to DC Official Code § 31-706(c)(3).

### **HISTORY**

#### **General:**

The Company was incorporated in the District of Columbia on October 27, 1992 and commenced business on December 18, 1994. The purpose of the Company, as stated in the Articles of Incorporation is to, “insure taxicabs against loss from collision, theft and against liability of owner or user for injury to person or property caused by taxicab, as well as all and every risk or peril to which the subject of insurance may be exposed against, which is not contrary to public policy to insure, including every insurable interest therein, or legal liability thereof or profit or income there from or liability thereon defined in the general laws of the District of Columbia Code”.

On March 8, 2001 the stockholders of record for the Company transferred all of the issued and outstanding shares of the Company to Anacostia Holdings Company, Inc., a Maryland corporation, owned by Mr. Gerald Schaeffer, in exchange for consideration of \$800,000.

Currently the Company is only licensed to write insurance policies in the District of Columbia.

#### **Capital Stock:**

The Company’s Article of Incorporation authorized the Company to issue 1,000 shares of common stock with each share having no par value. As of December 31, 2015 the number of shares outstanding was 1,000. These shares had an aggregate par value totaling \$300,000, and were all issued to the Company’s parent, Anacostia Holding Company, Inc. 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. However, our review disclosed that the Company’s Article of Incorporation was not updated to reflect subject changes made to the Company’s stock par value as well as the total number of shares issued and outstanding was incorrectly reported in the 2015 Annual Statement. See additional comments regarding these conditions in the “Comments and Recommendations” section of this Report, under the captions “Annual Statement Preparation” and “Common Stock Par Value”.

#### **Surplus Note:**

The Company had issued no surplus notes during the examination period.

## **Equitable Liability Insurance Company**

### Report on Examination

Examination as of December 31, 2015

#### Dividends to Stockholders:

The Company did not declare a dividend to stockholders during the period under examination.

#### Management:

##### Board of Directors

The By-Laws state that the governing body of the Company shall be the Board of Directors, which shall conduct the business and affairs of the Company. All board members are elected at the annual meeting of shareholders. The By-Laws currently call for at least three (3) members.

The following individuals were serving on the Company's Board of Directors as of December 31, 2015:

<u>Name and Address</u>	<u>Principal Occupation</u>
Gerald H. Schaeffer - Chairman Washington, DC	CEO, President and Treasurer First Washington Insurance Company Equitable Liability Insurance Company
Jeffery M. Schaeffer Bethesda, Maryland.	Vice President and Secretary First Washington Insurance Company Equitable Liability Insurance Company
Edith F. Schaeffer Washington, DC	Vice President First Washington Insurance Company Equitable Liability Insurance Company

The composition of the board of directors at December 31, 2015 was not in compliance with DC Official Code § 31-706(c)(3) and § 31-405, which requires that not less than 1/3 of the directors of the Company 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 (i.e., the directors must be "independent"). For further discussion see the Comments and Recommendations section of this report under the caption "Lack of Independent Directors."

#### Officers

The By-Laws provide that the officers of the Company shall consist of a President, a Secretary/Treasurer, and such other officers, including one or more Vice-Presidents. The Board elects these officers of the Company and other officer positions at its annual meeting. Each officer serves until a successor is elected or until removed by the Board. The following persons were serving as the Company's officers as of December 31, 2015.

## **Equitable Liability Insurance Company**

### Report on Examination

Examination as of December 31, 2015

<u>Name</u>	<u>Title</u>
Gerald H. Schaeffer	CEO, President and Treasurer
Jeffery M. Schaeffer	Vice President and Secretary
Edith F. Schaeffer	Vice President

#### Committees:

As of December 31, 2015, the Company did not have any committees. Therefore, the Company was not in compliance with DC Official Code § 31-706(c)(4) and § 31-405, which requires that the board establish one 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. For further discussion see the “Comments and Recommendations” section of this report under the caption “Lack of Independent Committees of Board of Directors.”

#### Conflicts of Interest:

Directors and officers of the Company regularly responded to conflict of interest questionnaires. Our review of the responses to the questionnaires completed for 2015 disclosed no conflicts that would adversely affect the Company. Furthermore, no additional conflicts of interest were identified during the course of our examination.

#### Corporate Records:

We reviewed the minutes of the meetings of the stockholders and board of directors 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. However, we made recommendations to the Company with regard to suggested improvements to record keeping and other procedures relating to its operations. For further discussion see the “Comments and Recommendations” section of this Report.

### **AFFILIATED COMPANIES**

The Company is a wholly owned subsidiary of Anacostia Holding Company, Inc., (AHC) a non- insurance holding company incorporated in the State of Maryland. AHC is wholly owned by Gerald H. Schaeffer, who owns 100 percent of the outstanding common stock of the Company and its affiliate, First Washington Insurance Company, the only insurance companies within the holding company structure. Mr. Gerald H. Schaeffer also owns Diversified Insurance Management, Inc. (DIMI), an affiliated agency, which produces business for the Company. As a result, Gerald H. Schaeffer became a controlling producer, subject to the requirement of Title 31, Chapter 4 of the DC Official Code.

## **Equitable Liability Insurance Company**

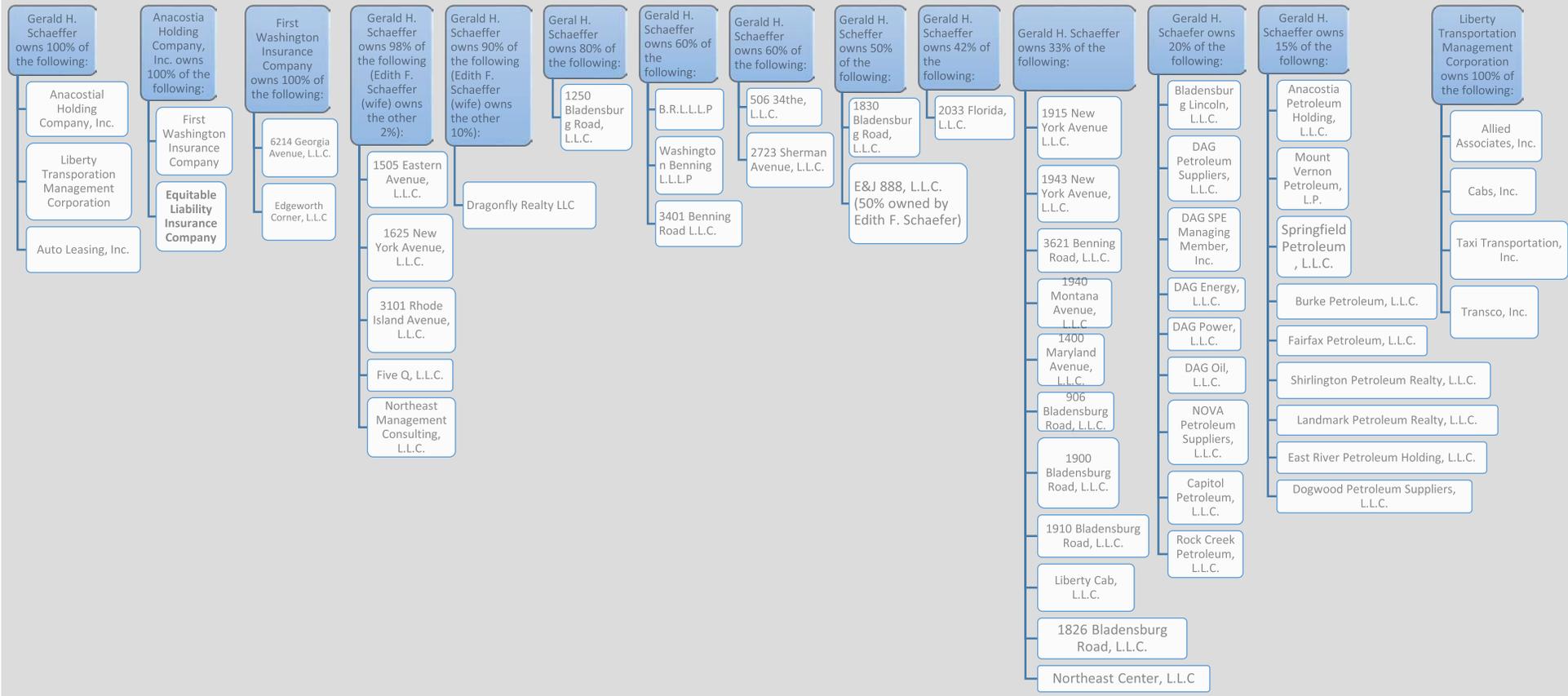
### Report on Examination

Examination as of December 31, 2015

In accordance with this law, 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 DC Official Code Section 31-405 which requires that the controlled insurer has 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 "Comments and Recommendations" section of this report under the caption "Broker Controlled Entity."

As of December 31, 2015 Gerald H. Schaeffer and Edith F. Schaeffer wholly owned or controlled, as well as partially owned the affiliated companies depicted in the following chart:

# ORGANIZATIONAL CHART



## **INTERCOMPANY AGREEMENTS**

The Company has entered into numerous agreements and cost sharing arrangements (collectively referred to as “agreements”) with affiliated companies. We reviewed these agreements and the significant ones are described below.

### ***Tax Allocation Agreement***

Effective May 13, 2001, the Company entered into a tax allocation agreement with AHC and FWIC. In accordance with the agreement, the Company’s federal income tax returns were consolidated with those of the affiliated tax allocation group and the amount of federal income taxes allocable to the subsidiary shall be determined using the method described in section 1.1502-32(b)(3)(iv)(D) of the Treasury regulations. Allocation of federal income taxes with affiliates, subject to the tax sharing agreement, was based upon individual income tax return calculations of each company subject to the agreement.

### ***Expense Sharing Agreement***

Effective April 25, 2003, the Company entered into a payroll expense sharing agreement with its parent, AHC and FWIC. The agreement was for an initial term of one (1) year and it automatically renews for a 12 month period at each renewal and continues indefinitely from the date thereof. AHC provided most of the management and operational services needed to operate the Company, including personnel, accounting, claims, underwriting, and information technology services. According to the agreement, common expenses incurred that benefit both parties will be apportioned based on reasonable methods determined under the best judgment of both parties that reflects the anticipated benefits expected to be derived by each party. This agreement replaced and supersedes any previous agreements between the parties.

Under this agreement, the Company reimburses AHC on a bi-weekly basis to cover expenses incurred on its behalf. During 2015, the Company incurred \$432,042 in total expenses under this agreement.

### ***Office Space Lease Agreements:***

Effective June 1, 2012 the Company entered into a leasing agreement with Transco, Inc. for leasing part of the office space located at 3399 Benning Road, N.E, Washington, DC. The agreement replaced a prior leasing arrangement the Company had with another affiliate, B.R. LLP that was terminated effective June 1, 2012.

Effective September 1, 2006 and April 1, 2006, the Company entered into leasing agreements, whereby its subleases office space to AHC and FWIC. These agreements were amended effective June 1, 2012 to reflect minor changes pertaining to the new premises address.

## **Equitable Liability Insurance Company**

### **Report on Examination**

Examination as of December 31, 2015

During 2015, the Company incurred \$60,000 in total expenses under the office space lease agreement with Transco, Inc., and received rental incomes of \$21,000 and \$6,000 from subleasing office space to AHC and FWIC respectively.

#### ***Office Equipment Rental Agreement:***

Effective July 1, 2001, the Company entered into an office equipment rental agreement with its affiliate, Anchor Leasing, Inc. The agreement was for an initial term of nine (9) month automatically renewed for a 12 month period at each renewal and continues indefinitely from the date thereof. The agreement can be terminated at the option of either party. The agreement was amended effective June 1, 2012 to reflect minor changes pertaining to a new home office address for the Company.

During 2015, the Company incurred \$12,000 in total expenses under the office equipment rental agreement with Anchor Leasing, Inc.

#### ***Agency Agreement:***

Effective January 1, 2006 the Company entered into an agency agreement with its affiliate, DIMI as its licensed resident producer in the District of Columbia for taxicab property and liability insurance. Pursuant to the agreement, DIMI will collect all premium income for the Company and shall remit all funds collected on at least a monthly basis to the Company in return for a fixed commission rate of 5.25%. The agreement is perpetual with no stated expiration date and can be terminated at the option of either party.

During 2015, the Company incurred \$59,834.51 in total expenses under the agency agreement with DIMI.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company had fidelity bond coverage of \$150,000 with a single loss deductible of \$25,000. The fidelity bond complies with the minimum coverage required by District of Columbia Municipal Regulation 26-803.1 and meets the minimum coverage recommended by the NAIC.

The Company appears to have adequate insurance coverage for property, building and contents and liability.

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

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

## **Equitable Liability Insurance Company**

Report on Examination

Examination as of December 31, 2015

### **STATUTORY DEPOSITS**

The Department does not require the Company to maintain a statutory deposit.

### **TERRITORY AND PLAN OF OPERATION**

The Company is one of five regulated entities writing taxicab liability insurance business in the District of Columbia. As of December 31, 2015, the Company was authorized to transact business only in the District of Columbia. During 2015, the Company reported written premiums totaling \$1,139,705 in the District of Columbia.

The Company provided automobile personal injury and property damage coverage of taxicabs licensed in the District of Columbia. The limits of coverage are \$10,000 each accident for property damage and \$25,000 each person and \$50,000 each accident for personal injury.

The Company's business is produced through an affiliate agency, DIMI which solicits with insured's located in the jurisdiction in which the Company is licensed. The business is billed through its agent, which is extended credit in the normal course of business.

Effective January 1, 2006 the Company was approved by the Department to write six month policies. The change was made by the Company to comply with the mandates of District of Columbia Municipal Regulation 26-801. The policy and rate filings were approved by the Department on December 23, 2005 and the new policies became effective January 1, 2006. The policies renew on January 1<sup>st</sup> and July 1<sup>st</sup> of each year.

### **REINSURANCE**

The Company was not a party to any reinsurance agreement and did not cede or assumed reinsurance business during the examination periods.

### **ACCOUNTS AND RECORDS**

The Company's general accounting records consisted 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. However, our review of the Company's electronic data processing system disclosed several areas in which the electronic data processing controls could be improved. These conditions are further discussed in a separate Management Letter to the Company's Board of Directors.

# Equitable Liability Insurance Company

Report on Examination

Examination as of December 31, 2015

## FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department. The accompanying Balance Sheet presents the statutory financial position of the Company as of December 31, 2015; the accompanying Statement of Income presents the results for the year then ended; and the accompanying Capital and Surplus Account present the results for each of the years covered by examination. The “Analysis of Examination Changes to Surplus” schedule and accompanying “Notes to Financial Statements” reflect any examination adjustments to the amounts reported in the statutory financial statements as filed and should be considered an integral part of the financial statements:

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**Equitable Liability Insurance Company**  
 Report on Examination  
 Examination as of December 31, 2015

**BALANCE SHEET**  
**As of December 31, 2015**  
**ASSETS**

	<b>Assets</b>	<b>Non-admitted Assets</b>		<b>Net Admitted Assets</b>
Cash (\$2,891,244), cash equivalents (\$0) and short-term investments (\$0)	\$ 2,891,244	\$		\$ 2,891,244
Subtotals, cash and invested assets	2,891,244			2,891,244
Investment income due and accrued	321			321
Net deferred tax asset	23,289			23,289
Total Assets	\$ 2,914,854	\$		\$ 2,914,854

**Equitable Liability Insurance Company**  
Report on Examination  
Examination as of December 31, 2015

**LIABILITIES, CAPITAL AND SURPLUS**

Losses ( <b>NOTE 1</b> )	\$ 1,142,597
Loss adjustment expenses ( <b>NOTE 1</b> )	623,715
Other expenses (excluding taxes, licenses and fees)	5,239
Taxes, licenses and fees (excluding federal and foreign income taxes)	12,394
Amounts withheld or retained by company for account of others	<u>3,776</u>
Total liabilities	<u>1,787,721</u>
Common capital stock ( <b>NOTE 2</b> )	300,000
Gross paid in and contributed surplus	400,000
Unassigned funds (surplus)	<u>427,133</u>
Surplus as regards policyholders	<u>1,127,133</u>
Total liabilities and surplus	<u>\$ 2,914,854</u>

**Equitable Liability Insurance Company**

Report on Examination

Examination as of December 31, 2015

**STATEMENT OF INCOME**  
**Year ended December 31, 2015**

Underwriting Income:

Premiums earned \$ 1,139,705

Underwriting deductions:

Losses incurred \$ 610,986

Loss adjustment expenses incurred 218,947

Other underwriting expenses incurred 379,765

Total underwriting deductions \$ 1,209,698

Net underwriting loss (69,993)

Investment Income:

Net investment income earned \$ (41,616)

Net investment gain \$ (41,616)

Other Income:

Aggregate write-ins for miscellaneous income \$ 27,000

Total other income \$ 27,000

Net income after dividends to policyholders and before  
federal and foreign income taxes \$ (84,609)

Net income (Loss) \$ (84,609)

**Equitable Liability Insurance Company**  
 Report on Examination  
 Examination as of December 31, 2015

**CAPITAL AND SURPLUS ACCOUNT**

Surplus as regards policyholders, December 31, 2010		\$ 1,307,356
<i>Gain and (losses) in surplus, 2011</i>		
Net income	\$ (23,266)	
Change in surplus as regards policyholders for the year		<u>(23,266)</u>
Surplus as regards policyholders, December 31, 2011		<u>\$ 1,284,090</u>
<i>Gain and (losses) in surplus, 2012</i>		
Net income	\$ (32,773)	
Change in surplus as regards policyholders for the year		<u>(32,773)</u>
Surplus as regards policyholders, December 31, 2012		<u>\$ 1,251,317</u>
<i>Gain and (losses) in surplus, 2013</i>		
Net income	\$ (14,601)	
Change in net deferred income tax	<u>(15,156)</u>	
Change in surplus as regards policyholders for the year		<u>(29,757)</u>
Surplus as regards policyholders, December 31, 2013		<u>\$ 1,221,560</u>
<i>Gain and (losses) in surplus, 2014</i>		
Net income	\$ 1,288	
Change in net deferred income tax	<u>(4,393)</u>	
Change in surplus as regards policyholders for the year		<u>(3,105)</u>
Surplus as regards policyholders, December 31, 2014		<u>\$ 1,218,455</u>
<i>Gain and (losses) in surplus, 2015</i>		
Net income	\$ (84,609)	
Change in net deferred income tax	<u>(6,713)</u>	
Change in surplus as regards policyholders for the year		<u>(91,322)</u>
Surplus as regards policyholders, December 31, 2015		<u>\$ 1,127,133</u>

**Equitable Liability Insurance Company**

Report on Examination  
Examination as of December 31, 2015

**ANALYSIS OF EXAMINATION CHANGES TO SURPLUS**

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

**Equitable Liability Insurance Company**

Report on Examination

Examination as of December 31, 2015

**COMPARATIVE FINANCIAL POSITION AND RESULTS OF THE COMPANY**

Selected financial information for the Company as of December 31, 2015, 2014, 2013, 2012, and 2011 and for the years then ended was as follows:

	2015	2014	2013	2012	2011
Assets	\$ 2,914,854	\$ 3,163,489	\$ 3,224,813	\$ 3,362,047	\$ 3,554,303
Liabilities	1,787,721	1,945,034	2,003,253	2,110,729	2,270,212
Policyholders surplus	1,127,133	1,218,455	1,221,560	1,251,318	1,284,091
Premiums earned	1,139,705	1,039,981	1,082,088	1,153,774	1,240,120
Net underwriting gain (loss)	(69,993)	12,751	(1,117)	28,314	(10,895)
Net investment gain (loss)	(41,616)	(38,463)	(40,534)	(39,263)	3,606
Net income (loss)	(84,609)	1,288	(14,601)	(32,773)	(23,266)

## **Equitable Liability Insurance Company**

Report on Examination

Examination as of December 31, 2015

### **NOTES TO FINANCIAL STATEMENTS**

#### 1. Losses and Loss Adjustment Expenses

The Company reported “Losses” and “Loss adjustment expenses” reserves totaling \$1,142,597 and \$623,715 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, 2015.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expense reserves as of December 31, 2015, 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. In addition, the methodologies utilized by the Company to compute these reserves, and the adequacy of the loss reserves and loss adjustment expense reserves were reviewed by our actuary engaged as part of the examination. Our actuary specifically reviewed the assumptions, methodologies, and conclusions reached by the Company’s independent actuarial firm in their report/opinion and the related financial statements as of December 31, 2015. Our actuary concluded that the methodologies and assumptions utilized in established the reserves are reasonable and consistent with all relevant actuarial guidelines and standards.

#### 2. Common Stock par value

The Company's Articles of Incorporation, under Section Four (4) has authorized the Company to issue 1,000 common capital shares, all of one class, without subdivision, each share having no par value. However, our review of the Company's statutory annual statement for the year ending December 31, 2015 indicated that the Company had 1,000 shares of common stock authorized and issued with each share having a par value of \$300 for a total value of \$300,000. Furthermore, the Article of Incorporation, under section ten (10) still reflected the Company's old address as the address where the corporation conducts its principal business. DC Official Code § 29-302.02 sets forth the requirements for Articles of Incorporation. For further discussion see the “Comments and Recommendations” section of this report under the caption “Common Stock par value.”

**Equitable Liability Insurance Company**  
Report on Examination  
Examination as of December 31, 2015

**COMMENTS AND RECOMMENDATIONS**

**Lack of Independent Directors:**

The previous examination found that the Company was in violation of DC Code § 31-706(c)(3) which states that no less than 1/3 of the directors of a domestic insurer shall be persons who are not officers or employees of the insurer or any entity controlling, controlled by, or under common control with the insurer. The Company was not in compliance with this statute as of the date of the Examination.

**The Company was instructed to come into compliance with DC Code § 31-706(c)(3).**

**It should be noted that subsequently, pursuant to a shareholder and Board of Directors annual meeting minutes consent dated May 12, 2017, the Company's board and shareholder unanimously elected and approved the appointment of Alisa S. Halle as an independent director of the board. Pursuant to a Shareholder and Board of Directors monthly meeting minutes consent dated June 19, 2017, Mrs. Edith F. Schaeffer, Vice President and a member of the Board of Directors of the Company, rendered her resignation from the Board and the Board unanimously accepted her resignation. As a result, the Company was brought into compliance with DC Code § 31-706(c)(3).**

**Lack of Independent Committees of the Board:**

Pursuant to DC Code § 31-706(c)(4) and § 31-405 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 responsibility for recommending the selection of independent certified public accountants, reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, 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 had not established such a committee as of the date of the Examination.

**The Company was instructed to come into compliance with DC Code § 31-701 and § 31-405.**

**It should be noted that subsequently, pursuant to a Shareholder and Board of Directors annual meeting minutes consent dated May 12, 2017, the Company's Board and Shareholder unanimously voted to form an independent Audit Committee, and unanimously approved the appointment of Alisa S. Halle to the Audit Committee.**

**Broker Controlled Entity:**

The examination finds that the Company is a producer controlled insurance entity. The Company's ultimate owner is a controlling producer who also owns an affiliated insurance agency, Diversified Insurance Management, Inc. (DIMI) that produces all the premium income of the Company. Therefore, the Company is subject to the DC Official Code Title 31, Chapter 4 – which deals with

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Business Transacted with Producer Controlled Insurer. In this regard, specifically 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 companies 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 DC Official Code § 31-407 requires 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 noted in the Comment above, as of December 31, 2015 the Company had not established an audit committee of the board of directors composed of independent directors or independent from the controlling producer. The Company was instructed to come into compliance with this statute. It was also recommended that the Company clearly and effectively communicate to policyholders the relationship with its agency in accordance with DC Official Code § 31-407.**

**It should be noted that subsequently, pursuant to a shareholder and Board of Directors annual meeting minutes consent dated May 12, 2017, the Company's Board and Shareholder unanimously voted to form an independent Audit Committee. The management of the Company has indicated that this newly formed committee will hold meetings annually going forward and intended to be in compliance with the above mentioned DC Codes. Furthermore, the Company appears to have implemented adequate procedures, including written notice to current and prospective policyholders, disclosing the relationship between the Company and its affiliated producer.**

## **Equitable Liability Insurance Company**

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#### **Common Stock Par Value:**

The Company's Articles of Incorporation, Section Four (4) has authorized the Company to issue 1,000 common capital shares, all of one class, without subdivision, each share having no par value. However, our review of the Company's respective stock ledger and stock certificate records indicated that as of December 31, 2015, the Company had 1,000 shares of common stock authorized and issued with each share having a par value of \$300 for a total value of \$300,000. Furthermore, the Article of Incorporation, under section ten (10) still reflected the Company's old address as the address where the corporation conducts its principal business. DC Official Code § 29-302.02 sets forth the requirements for Articles of Incorporation.

**We recommend that the Company's Articles of Incorporation be updated to reflect the correct par value as authorized by its shareholder and board of directors. Furthermore, we recommend that all of the records of the Company reflect its current principal business address.**

**It should be noted that subsequently, on May 22, 2017, the Company amended and updated its Articles of Incorporation reflecting the current Company principal business address and the correct common stock authorized par value.**

#### **Annual Statement Preparation**

DC Code § 31-204 requires each insurer authorized to transact business in the District to annually file with the Commissioner a true statement of its financial condition, transactions and affairs as of the end of the preceding calendar year. Furthermore, DC Municipal Regulations, §26-A25 further provides that the annual statements must be in such form and content as is approved or adopted for current use by the NAIC. The NAIC's *Annual Statement Instructions and Accounting Practices and Procedures Manual* specify the procedures to be followed in completing the Annual Statement. However, our examination disclosed certain instances where the Company did not complete its Annual Statement in accordance with the Instructions. For example:

- In the Company's filed 2015 Statutory Annual Statements, Notes To Financial Statements No. 1.A "Accounting Practices", the Company made a reference to the March 2012 provisions of the NAIC's *Accounting Practices and Procedures Manual* as being the last updated and adopted date as a component of prescribed or permitted practices by the District of Columbia. However, since 2012, there has been recent updates to the Manual as latest as March 2016.
- In the "Notes to Financial Statements" of the 2015 Annual Statement, the Company erroneously stated in Note 13 that it had 1,000 shares of capital stock authorized and 857.136 shares outstanding. However, our review of the Company's stock ledger and stock certificate records disclosed that it had 1,000 shares issued and outstanding with a par value of \$300 per share, all to its parent, AHC. All the other Annual Statements during the period under examination also contained this error.
- The Company did not properly compile and report Schedule P claim count data so that loss adjustment expenses can be estimated using more modern methods.

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We determined that the above conditions had no material impact on the Company's financial statements, and no adjustments to the Company's financial statements were necessary as a result of these conditions.

**We recommend that the Company complete its Annual Statements in accordance with the provisions of the aforementioned DC Official Code and Municipal Regulations as well as the NAIC's *Annual Statement Instructions and Accounting Practices and Procedures Manual*.**

**It should be noted that subsequently, the Company appears to have corrected the above aforementioned reporting errors in its subsequent statutory financial statement filings.**

### **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.

**Equitable Liability Insurance Company**

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**CONCLUSION**

Our examination disclosed that as of December 31, 2015, the Company had:

Admitted assets	\$ <u>2,914,854</u>
Liabilities	\$ <u>1,787,721</u>
Common capital stock	\$ 300,000
Gross paid in and contributed surplus	400,000
Unassigned funds (surplus)	<u>427,133</u>
Surplus as regards policyholders	\$ <u>1,127,133</u>
Total liabilities, capital and surplus	\$ <u>2,914,854</u>

Based on our examination, the accompanying balance sheet properly presents the statutory financial position of the Company as of December 31, 2015, and the accompanying statement of income properly presents the statutory results of operations for the period then ended. The supporting financial statements properly present the information prescribed by the District of Columbia Official Code and the National Association of Insurance Commissioners.

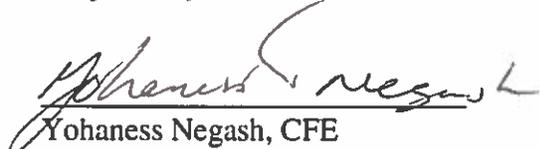
Chapters 20 (“RISK-BASED CAPITAL”) and 25 (“FIRE, CASUALTY AND MARINE INSURANCE”) of Title 31 (“Insurance and Securities”) of the District of Columbia Official Code specify the level of capital and surplus required for the Company. We concluded that the Company’s capital and surplus funds exceeded the minimum requirements during the period under examination.

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**SIGNATURES**

The actuarial portions to this examination was conducted by David A. Christhif, ACAS, MAAA of the District of Columbia, Department of Insurance, Securities, and banking.

Respectfully submitted,

  
Yohannes Negash, CFE  
Examiner-In-Charge

  
Nathaniel Kevin Brown, CPA, CFE  
Chief Examiner

District of Columbia Department of  
Insurance, Securities and Banking