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

**Gennet Purcell**
**Commissioner**

# BEFORE THE INSURANCE COMMISSIONER OF THE DISTRICT OF COLUMBIA

Re: Report on Examination - **United Contractors' Insurance Company, Inc., A Risk Retention Group**, as of December 31, 2008

## ORDER

An Examination of **United Contractors' Insurance Company, Inc., A Risk Retention Group** ("Company"), as of December 31, 2008 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("Department").

It is hereby ordered on this 14th day of May, 2010, that the attached financial condition examination report be adopted and filed as an official record of this Department.

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

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.

Gennet Purcell
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

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

REPORT ON EXAMINATION

# UNITED CONTRACTORS' INSURANCE COMPANY, INC., A RISK RETENTION GROUP

AS OF

DECEMBER 31, 2008

**NAIC NUMBER 12280**

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Washington, D.C.
January 20, 2010

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

Dear Madam:

In accordance with Section 31-3931.14 of the District of Columbia Official Code, we have examined the financial condition and activities of

**United Contractors' Insurance Company, Inc., A Risk Retention Group**

hereinafter referred to as the "Company" or "UCIC".

## SCOPE OF EXAMINATION

This full-scope examination, covering the period from October 19, 2004 through December 31, 2008, including any material transactions and/or events noted occurring subsequent to December 31, 2008, was conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

Our examination was conducted in accordance with examination procedures established by the Department and procedures recommended by the National Association of Insurance Commissioners ("NAIC") and, accordingly, included such tests of the accounting records and such other examination procedures as we considered necessary in the circumstances.

Our examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2005 through 2008. The Company's requested and was granted a waiver by the Department from filing 2004 audited financial statements. We placed substantial reliance on the audited financial statements for calendar years 2005 through 2007, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December

31, 2008. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2008. 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.

## STATUS OF PRIOR EXAMINATION FINDINGS

This is the first examination of the Company.

## HISTORY

General:

UCIC was incorporated and licensed on October 19, 2004 as an association captive stock insurance company under the captive insurance laws of the District of Columbia, operating as a risk retention group.

The Company commenced business in January 2005, providing general liability coverage to small artisans, subcontractors, and remodeling contractors. As of December 31, 2008, the Company is writing business in California, Arizona and Nevada.

UCIC was initially funded in January 2005 by a surplus note of $600,000 with six (6) percent interest. The surplus note, which was issued by the Company's reinsurance broker, was retired on November 1, 2007 and was replaced with a $1,000,000 letter of credit payable to the District of Columbia Insurance Commissioner.

Membership:

As a risk retention group, all policyholders of UCIC are members/shareholders of the Company. Under terms of the Company's Subscription and Shareholders Agreement ("Agreement"), all policyholders are required to pay a capital contribution of 10 percent of policy premiums. Under terms of the Agreement, if certain conditions are met, shareholders may receive back a portion of their capital contributions subsequent to the policy expiration. As of December 31, 2008, the Company has never paid any shareholder redemptions and has not recorded any liabilities for redemptions.

In January 2010, with approval of the Department, the Company charges the capital contribution only on first-year policy premiums, and has reduced the capital contribution from 10 percent to 1 percent. In conjunction with this change, the Company executed a ten for one stock split whereby all existing shareholders received ten shares for each share held.

The Company's articles of incorporation authorize the issuance of 5,000,000 shares of common stock with a par value of $1 per share. As of December 31, 2008, 63,739 shares of common stock, with an issue price of $10 per share, were issued and outstanding.

Dividends and Distributions:

Except for the afore-mentioned stock split, the Company did not declare or pay any dividends or other distributions during the period under examination.

## **MANAGEMENT**

The following persons were serving as the Company's directors as of December 31, 2008:

| Name and State of Residence | Principal Occupation |
|---|---|
| Douglas R. Holmes (Chairman)<br>California | Vice President<br>United Contractors' Insurance Agency |
| Robert J. Anderson, Jr.<br>California | Vice President<br>United Contractors' Insurance Agency |
| Mary Annette Singer<br>California | President<br>United Contractors' Insurance Agency |

The Company's by-laws require the Company to have a minimum of four directors. However, as indicated above, the Company has three directors as of December 31, 2008. During our examination, we discussed this condition with management of the Company and management indicated a fourth director would be added to the board, and that going forward, management would ensure continuing compliance with the Company by-laws.

The following persons were elected and serving as officers as of December 31, 2008:

| Name | Title |
|---|---|
| Douglas R. Holmes | President, Secretary, Treasurer |
| Mary Annette Singer | Vice President |
| Robert J. Anderson | Vice President |

Committees:

The Company's board of directors has established no committees during the examination period.

Conflicts of Interest:

Our review of the conflict of interest statements signed by the Company's directors and officers for the period under examination disclosed that there were no conflicts of interest reported that would adversely impact 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 for the period under examination. Based on our review, it appears that the minutes documented the board's review and approval of the Company's significant transactions and events. In addition, annual board meetings were held in Washington D.C. for each year under examination.

## CAPTIVE MANAGER

Pursuant to a management agreement, W.A. Taft & Company, Ltd. acted as the captive manager on behalf of the company from inception to April 2007. After April 2007, USA Risk Group of South Carolina, Inc. began providing the captive management services including accounting, regulatory services, and records retention to the Company.

## AFFILIATED PARTIES AND TRANSACTIONS

United Contractors Insurance Agency (UCIA), a California corporation, has been providing the Company daily business management services since inception under a Managing General Underwriter Agreement. As was noted previously under the "Management" section of this report, the Company's directors and officers also serve as officers of UCIA. The Company and UCIA are therefore affiliated via common control. Under the terms of the agreement, UCIA provides the services under the supervision of the Company and its captive manager. These services include marketing, underwriting, premium billing and collection, accounting record-keeping, investment monitoring and information systems support services, and coordinating the Company's business activities with the claims administrator and captive manager. The compensation to UCIA is 25 percent of the Company's earned and collected premiums plus 33 1/3 percent of the Company's statutory profit calculated and paid on a quarterly basis. In addition, UCIA may at its discretion charge a service fee of up to five percent (5 percent) of premiums to policyholders.

## FIDELITY BOND AND OTHER INSURANCE

The Company maintains directors and officers liability, employment practices liability, and fiduciary liability insurance coverages in the amount of $1,000,000 with a company retention of $25,000. In addition, the Company's third party claims administrator carries errors and omissions insurance of $1,000,000. These policies provide adequate coverage for the Company based on NAIC guidelines.

## PENSION AND INSURANCE PLANS

The Company has no employees and therefore has no employee pension or insurance plans.

## STATUTORY DEPOSITS

As of December 31, 2008, the Company did not have any statutory deposits in the District of Columbia and was not required to maintain any such deposits. In addition, the Company was not required to maintain statutory deposits with any other jurisdictions.

## TERRITORY AND PLAN OF OPERATION

As of December 31, 2008, the Company was licensed in the District of Columbia and was registered and writing business in the states of California, Arizona and Nevada. The Company was also registered in Louisiana, but did not write business in that state. During 2009, the Company received approval from the Department to register in and write business in the state of Texas.

In 2008, the following premium amounts were reported:

| | Written Premium | Earned Premium |
|---|---|---|
| Arizona | $ 1,212,442 | $ 1,565,287 |
| California | 9,341,358 | 11,480,159 |
| Nevada | 127,850 | 182,147 |
| TOTALS | $ 10,681,650 | $ 13,227,593 |

The Company offers occurrence basis general liability insurance policies to small artisans, subcontractors, and remodeling contractors. These policies have varying limits ranging from $100,000 up to $1 million with deductibles of up to $2,500. The Company retains $250,000 per occurrence and per policy aggregate.

The Company has no employees and its daily business operations are managed by United Contractors Insurance Agency. Its claim handling services are contracted to a third-party claims administrator and the company's accounting and regulatory services are provided by its captive manager.

## INSURANCE PRODUCTS AND RELATED PRACTICES

This examination was a financial examination, and generally did not include market conduct procedures. An examination of the market conduct affairs of the Company has never been conducted. A market conduct examination would include detailed reviews of the Company's sales and advertising, agent licensing, timeliness of claims processing, and complaint handling practices and procedures.

The scope of our examination did not include market conduct procedures, including, but not limited to, market conduct procedures in the following areas:

- Policy Forms
- Fair Underwriting Practices
- Advertising and Sales Materials
- Treatment of Policyholders:
    - Claims Processing (Timeliness)
    - Complaints

## REINSURANCE

At inception, UCIC entered in to a quota share reinsurance agreement with the Reinsurance Company of America (RCA). Under this agreement, UCIC retained 20 percent of the premiums and risk and ceded the remaining 80 percent to RCA. As a result of UCIC's concerns over regulatory issues RCA was experiencing with RCA's domiciliary regulator, UCIC unilaterally cancelled this agreement effective March 1, 2006 on a run off basis. In 2007, with the approval of the Department, UCIC entered into a "Commutation and Release Agreement" with RCA.

From March 1, 2006, to July 31, 2006, UCIC did not have reinsurance coverage. Effective August 1, 2006, UCIC entered into an excess of loss reinsurance treaty with several unaffiliated reinsurers (Aspen Insurance UK Limited, Lloyds, Max Re Limited). The agreement provided limits of $750,000 in excess of $250,000 per occurrence and per insured/policy, subject to an aggregate limit of 200 percent of the total premium ceded under the contract. This contract is a 36 month swing rated treaty with a premium deposit equal to 25 percent of the Company's written premium. The contract provides for minimum and maximum premium rates that vary by contract period and based on the amount of ceded losses:

| Contract period | Minimum Premium | Maximum Premium |
|---|---|---|
| 8/1/06 to 7/31/07 | 17.5 percent | 52.5 percent |
| 8/1/07 to 7/31/08 | 16.5 percent | 50.0 percent |
| 8/1/08 to 7/31/09 | 15.0 percent | 47.5 percent |

Deposit premiums are paid monthly. Any return premiums due back to UCIC based on favorable loss experience are not payable by the reinsurer until August 1, 2011. If any losses are ceded under the contract, UCIC is obligated to pay additional premiums of 110 percent of the ceded losses up to the maximum premium rates shown above.

The Company's independent auditors determined that this treaty does not transfer risk in accordance with applicable guidance. Accordingly, for purposes of our examination, we recorded the transactions related to this treaty using the deposit method of accounting. The resulting reclassifications do not have any impact on the Company's surplus. See NOTE 2 in the "Notes to Financial Statements" section of this Report for the details of these reclassifications. During the examination, we also discussed these reclassifications with management and management agreed to use deposit accounting to record reinsurance transactions under this treaty in future financial filings.

In 2008 the Company paid premiums under its excess of loss treaty totaling $1,158,900. As of December 31, 2008, the Company did not report any amounts recoverable from reinsurers related to losses paid or loss reserves. The Company reported “Prepaid reinsurance” totaling $579,376 (i.e., ceded unearned premiums), and a negative liability for “Ceded reinsurance premiums payable” totaling $2,528,334 (representing estimated premiums due back from the reinsurers). See NOTE 2 in the “Notes to Financial Statements” section of this Report for further comments regarding these amounts.

In November 2009, the Department approved the Company’s request for commutation of the excess of loss treaty.

## ACCOUNTS AND RECORDS

The primary location of the Company’s books and records is the office of its captive manager, USA Risk Group, in Charleston, South Carolina.

The Company’s general accounting records consisted of an automated general ledger and various subsidiary ledgers. Our examination did not disclose any significant deficiencies with these records.

## FINANCIAL STATEMENTS

The following financial statements, prepared in accordance with generally accepted accounting principles in the United States ("GAAP"), reflect the financial condition of the Company as of December 31, 2008, as determined by this examination:



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

**BALANCE SHEET**

**<u>ASSETS</u>**

| | | December 31, 2008 |
|---|---|---|
| Bonds | $ | 14,317,941 |
| Common stocks | | 7,993,213 |
| Cash ($128,101), cash equivalents ($399,979) and short-term investments ($0) | $ | 528,080 |
| Subtotals, cash and invested assets **(Note 1)** | $ | 22,839,234 |
| Investment income due and accrued | | 195,062 |
| Premiums and considerations: | | |
| Uncollected premiums | | 410,607 |
| Reinsurance: | | |
| Reinsurance deposit asset **(Note 2)** | | 3,107,710 |
| Current federal income taxes recoverable | | 553,325 |
| Net deferred tax asset | | 1,199,225 |
| Aggregate write-ins for other than invested assets: | | |
| Premium tax recoverable **(Note 2)** | | 98,433 |
| Deferred acquisition costs | | 965,626 |
| Prepaids and other assets | | 51,116 |
| TPA advance – loss escrow fund | | 120,217 |
| Prepaid reinsurance **(Note 2)** | | 0 |
| Total | $ | 29,540,555 |

## LIABILITIES, SURPLUS AND OTHER FUNDS

| | | December 31, 2008 |
|---|---|---|
| Losses **(Notes 2 and 3)** | $ | 11,598,257 |
| Loss adjustment expenses **(Notes 2 and 3)** | | 2,802,886 |
| Commissions payable | | 442,714 |
| Unearned premiums | | 3,862,505 |
| Provision for reinsurance | | 145,000 |
| Total liabilities | $ | 18,851,362 |
| Common capital stock **(Note 4)** | | 6,373,848 |
| Unassigned funds (surplus) **(Note 2)** | | 4,315,345 |
| Surplus as regards policyholders | $ | 10,689,193 |
| Total | $ | 29,540,555 |

## STATEMENT OF INCOME

| | | *December 31, 2008* |
|---|---|---|
| UNDERWRITING INCOME | | |
| Premiums earned | $ | 11,649,835 |
| | | |
| DEDUCTIONS | | |
| Losses incurred **(Note 2)** | $ | 4,698,009 |
| Loss adjustment expenses incurred | | 1,774,708 |
| Other underwriting expenses incurred | | 5,436,088 |
| Total underwriting deductions | $ | 11,908,805 |
| | | |
| Net underwriting loss | $ | (258,970) |
| | | |
| INVESTMENT INCOME | | |
| Net investment income earned | $ | 811,266 |
| Net realized capital losses | | (2,565,283) |
| Net investment loss | $ | (1,754,017) |
| | | |
| Net income before federal income taxes | $ | (2,012,987) |
| Federal income taxes incurred | | 408,354 |
| | | |
| Net loss | $ | (2,421,341) |

## CAPITAL AND SURPLUS ACCOUNT

| | | |
|---|---|---|
| Surplus note, January 2005 | $ | 600,000 |
| Net income, 2005 | | 436,251 |
| Capital changes: Paid in | | 1,496,370 |
| Net change in surplus as regards policyholders, 2005 | | 2,532,621 |
| Surplus as regards policyholders, December 31, 2005 | $ | 2,532,621 |
| Net income, 2006 | | 2,358,270 |
| Change in net unrealized capital gains | | 56,112 |
| Capital changes: Paid in | | 2,116,850 |
| Net change in surplus as regards policyholders, 2006 | | 4,531,232 |
| Surplus as regards policyholders, December 31, 2006 | $ | 7,063,853 |
| Net income, 2007 | | 3,233,260 |
| Change in net unrealized capital gains | | 87,067 |
| Change in provision for reinsurance | | (266,000) |
| Retirement of Surplus note | | (600,000) |
| Capital changes: Paid in | | 1,591,157 |
| Net change in surplus as regards policyholders, 2007 | | 4,045,484 |
| Surplus as regards policyholders, December 31, 2007 | $ | 11,109,337 |
| Net loss, 2008 | | (2,421,341) |
| Change in provision for reinsurance | | 121,000 |
| Capital changes: Paid in | | 1,169,470 |
| Prior year audit adjustment | | 710,727 |
| Net change in surplus as regards policyholders, 2008 | | (420,144) |
| Surplus as regards policyholders, December 31, 2008 | $ | 10,689,193 |

## ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

The following change to the Company's surplus has been recorded as a result of our examination (see Note 2 in the "Notes to Financial Statements" section of this report for further explanation of this adjustment):

| | | |
|---|---|---|
| Surplus as regards policyholders, December 31, 2008 per Annual Statement | $ | 14,019,193 |
| Increase to Losses (reserves) | $ | 3,330,000 |
| Surplus as regards policyholders, December 31, 2008 per examination | $ | 10,689,193 |

## COMPARATIVE FINANCIAL POSITION OF THE COMPANY

The comparative financial position of the Company for the periods 2005 to 2008 is as follows:

| | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| Assets | $ 29,540,555 | $ 30,623,420 | $ 27,681,537 | $ 14,534,610 |
| Liabilities | 18,851,362 | 19,514,083 | 20,617,684 | 12,001,989 |
| Capital and surplus | 10,689,193 | 11,109,337 | 7,063,853 | 2,532,621 |
| Gross written premium | 10,681,650 | 16,348,053 | 18,374,455 | 14,591,040 |
| Net earned premium | 9,522,750 | 14,799,506 | 14,204,524 | 2,918,208 |
| Net investment income (loss) | (1,754,017) | 823,828 | 314,770 | 43,661 |
| Net income (loss) | $ (2,421,341) | $ 3,233,260 | $ 2,358,270 | $ 436,251 |

NOTE: Amounts in the preceding financial statements for the years ended December 31, 2005 through 2007 were taken from the Company's Annual Statements as filed with the Department. Amounts for the year ended December 31, 2008 are amounts per examination.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 – Cash and Invested Assets:

As of December 31, 2008, the Company has a $1,000,000 irrevocable letter of credit (LOC) issued to the Insurance Commissioner of the District of Columbia on behalf of the Company. The Company has pledged certain assets in its investment portfolio as collateral for this LOC. Because the LOC is secured by assets of the Company, the LOC is not separately recorded as an asset of the Company.

### NOTE 2 – Examination Adjustments and Reclassifications:

| DESCRIPTION | Per Company | Examination Adjustment | Note | Per Examination | Surplus (Increase) Decrease |
|---|---|---|---|---|---|
| Assets | | | | | |
| Reinsurance: Reinsurance deposit asset | $ 0 | $ 3,107,710 | (a) | $ 3,107,710 | $ 0 |
| Aggregate write-ins for other than invested assets: | | | | | |
| Prepaid Reinsurance | 579,376 | (579,376) | (a) | 0 | 0 |
| Premium Tax Recoverable | 0 | 98,433 | (b) | 98,433 | 0 |
| Liabilities | | | | | |
| Losses | 8,268,257 | 3,330,000 | (c) | 11,598,257 | 3,330,000 |
| Taxes, Licenses and Fees | (98,433) | (98,433) | (b) | 0 | 0 |
| Ceded Reinsurance Premiums Payable | (2,528,334) | (2,528,334) | (a) | 0 | 0 |
| Surplus | | | | | |
| Surplus as regards policyholders, December 31, 2008 | $ 14,019,193 | $ (3,330,000) | | $ 10,689,193 | $ 3,330,000 |

a) The Company reported “Aggregate write-ins for other than invested assets: Prepaid reinsurance” totaling $579,376, representing premiums paid to the reinsurer but not yet earned (i.e., ceded unearned premiums). In addition, the Company reported a liability for “Ceded reinsurance premiums payable” totaling negative $2,528,334. This amount represented reinsurance deposit premiums estimated by management to be due back from the reinsurer as a result of anticipated favorable loss experience under the reinsurance agreement. As indicated in the “Reinsurance” section of this Report, the Company’s independent auditors determined that this treaty does not transfer risk in accordance with applicable guidance, and accordingly, for purposes of our examination, we recorded the transactions related to this treaty using the deposit method of accounting. As a result, the

"Prepaid reinsurance" and "Ceded reinsurance premiums payable balances reported by the Company have been reclassified to "Reinsurance deposit asset", totaling $3,107,710. This adjustment had no impact on the Company's surplus.

b) The Company reported a liability for "Taxes, licenses and fees" totaling negative $98,433, representing estimated overpayments of premium taxes. For purposes of our examination, we reclassified this amount to "Aggregate write-ins for other than invested assets: Premium tax recoverable". This adjustment had no impact on the Company's surplus.

c) Increase in "Losses" reserves and decrease in "Surplus as regards policyholders" by $3,330,000. This amount represents the total increase in loss reserves based on the examination actuarial review of the Company's loss reserves. See Note 3 – "Loss Reserves" below for detailed explanation. In addition, this adjustment increased the Company's "Losses incurred" by $3,330,000, from $1,368,009 to $4,698,009.

**NOTE 3– Loss Reserves:**

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling $8,268,257 and $2,802,886 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, 2008. As of December 31, 2008, the Company did not report any amounts recoverable from reinsurers related to losses paid or loss reserves. The Company does not discount its reserves.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2008, were reviewed as part of our examination. As part of our review, we relied on the Company's independent actuary, who concluded that the Company's reserves appeared to be sufficient. In addition, as part of our review of the Company's reserves, we engaged an independent actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary.

The independent actuary utilized in the examination concluded that the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary did not always appear sufficient and that reserves as reported in the Company's December 31, 2008 annual statement as filed with the Department were not reasonable and adequate. Specifically, the examination actuary noted that the Company's independent actuary relied on industry data to project the Company's ultimate losses, and did not use any of the Company's own historical data. As a result of the examination actuary's review of the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary, and as a result of additional analysis of the Company's losses by the examination actuary, the examination actuary concluded the loss reserves estimated by the Company's independent actuary were understated by $3,330,000 as of December 31, 2008. For purposes of our examination, as indicated above in NOTE 2. c), this amount was recorded in the Company's "Losses" reserves.

During our examination, we discussed with management the results of the examination actuary's review of the Company's loss reserves and the rational for the conclusions reached as a result of the examination actuary's review. Although management expressed its opinion that the Company's reserves were not understated by the full amount of $3,330,000 as of December 31, 2008, management did indicate its belief that the Company's reserves were possibly understated by an amount between $1.4 million and $2.3 million. In addition, management agreed, going forward, to address the issues raised by the examination actuary, including the exclusive use of industry data in estimating the Company's loss reserves. Based on discussions with management, and based on reviews of Company loss data through September 30, 2009, the examination conclusions reached regarding the Company's loss reserves did not change, and the amount of the examination adjustment to increase the Company's loss reserves by $3,330,000 was not changed.

As indicated in this Report, after increasing the Company's loss reserves by the amount of $3,330,000, the Company's "Surplus as regards policyholders" is $10,689,193. The Department does not believe, as a result of this examination adjustment, or as the result of any other known conditions, that the Company's "Surplus as regards policyholders" is inadequate. In its 2009 Annual Statement, filed with the Department in March 2010, the Company reported "Surplus as regards policyholders" totaling $16,183,856. The Company reported in its 2009 Annual Statement that its estimate of ultimate incurred loss and loss adjustment expenses attributable to insured events of prior years was increased by approximately $1.6 million. In addition, management reported the Company's own historical loss experience was considered in developing estimates of incurred losses and loss reserves, as opposed to solely relying on industry loss data. Going forward, the Department will continue to monitor the Company's loss reserves to ensure the adequacy and reasonableness of the Company's reserves, and to ensure the issues raised by the examination actuary, including the exclusive use of industry data in estimating the Company's loss reserves, are addressed.

**NOTE 4– Common Capital Stock:**

The Company reported "Common capital stock" totaling $6,373,848. This amount was comprised of capital stock totaling $637,390 and additional paid in capital of $5,736,458.

## COMMENTS AND RECOMMENDATIONS

During our examination, no issues warranting comments or recommendations in this examination report were noted.

## CONCLUSION

Our examination disclosed that as of December 31, 2008 the Company had:

| | | |
|---|---|---|
| Admitted Assets | $ | 29,540,555 |
| Liabilities and Reserves | | 18,851,362 |
| Common Capital Stock | | 6,373,648 |
| Unassigned Funds (Surplus) | | 4,315,545 |
| Total Surplus | | 10,689,193 |
| Total Liabilities and Surplus | $ | 29,540,555 |

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2008, and the accompanying statement of income properly presents the results of operations for the period then ended.

Chapter 39 (“CAPTIVE INSURANCE COMPANIES”) of Title 31 (“Insurance and Securities”) of the D.C. Official Code specifies the level of surplus required for the Company. We concluded that the Company’s surplus funds exceeded the minimum requirements during the period under examination.

## SIGNATURES

In addition to the undersigned, the following examiner representing the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

Lindsey Carr, RSM McGladrey, Inc.

The actuarial portion of this examination was completed by Steven P. Lattanzio, FCAS, MAAA, FCA, and Kristen M. Fitzgerald, ACAS, MAAA, FCA of Actuarial & Technical Solutions, Inc.

Respectfully submitted,

Dean L. Cross

Dean L. Cross, CFE
Examiner-In-Charge
RSM McGladrey, Inc.

Under the Supervision of,

Xiangchun Li

Xiangchun (Jessie) Li, CFE
Supervising Examiner
District of Columbia Department of Insurance, Securities and Banking

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

**Gennet Purcell**
**Commissioner**

May 7, 2010

Douglas R. Holmes
President
United Contractors' Insurance Company, Inc., A Risk Retention Group
C/o USA Risk Group of Vermont, Inc.
PO Box 306
Montpelier, VT 05601

Dear Mr. Holmes:

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 **United Contractors' Insurance Company, Inc., A Risk Retention Group** as of December 31, 2008.

Please submit, to my attention, a written response calling attention to any errors or omissions in the draft Report. In addition, the Company's response shall include responses to each of the recommendations included in the "Comments and Recommendations" section of this Report. These responses should indicate the Company's agreement or disagreement with each recommendation, as well as a summary of the corrective measures which will be taken by the Company for each recommendation. If the Company disagrees with any of these recommendations, the response shall indicate the reason(s) for the disagreement, as well as an explanation of alternative measures to be taken by the Company to address the condition which lead to the recommendation.

The response must be in writing and shall be furnished to this Department by May 28, 2010. In addition to a hard-copy response, please also furnish the response electronically via e-mail to me, in a Microsoft "Word" format, to sean.odonnell@dc.gov.

Sincerely,

Sean O'Donnell

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

Enclosure

# United Contractors Insurance Company, Inc.

**a Risk Retention Group**
**1327-C Ashley River Road, Suite 200**
**Charleston, SC 29407**


May 11, 2010

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau
D. C. Department of Insurance, Securities and Banking
1400 L Street, NW, Suite 400
Washington, DC 20005

RE: United Contractors' Insurance Company, Inc., a Risk Retention Group (NAIC #12280)

Dear Mr. O'Donnell:

Please allow this letter to serve as the Company's acceptance of the DISB's Report on Examination of United Contractors' Insurance Company, Inc., A Risk Retention Group as received on May 7, 2010. We have found no errors or omissions which should be brought to the DISB's attention. In addition, as there are no "Comments and Recommendations", this will conclude the Company's response.

Sincerely,

DR Holmes
Douglas R. Holmes
President

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

**Gennet Purcell**
**Commissioner**


May 14, 2010

Douglas R. Holmes
President
United Contractors' Insurance Company, Inc., A Risk Retention Group
C/o USA Risk Group of Vermont, Inc.
PO Box 306
Montpelier, VT 05601

Dear Mr. Holmes:

We are in receipt of your response dated May 11, 2010, regarding the Report on Examination of **United Contractors' Insurance Company, Inc., A Risk Retention Group** ("Company") as of December 31, 2008. 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 D.C. Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available. The Department of Insurance, Securities and Banking will forward the adopted Report electronically to each Commissioner whose name is set forth on Page 1 of the Report, as well as to the National Association of Insurance Commissioners.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention at the Department.

Please contact me at 202-535-1169 if you have any questions.

Sincerely,

Sean O'Donnell

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures