



Government of the District of Columbia  
Vincent C. Gray, Mayor  
Department of Insurance, Securities and Banking



William P. White  
Commissioner

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

Re: Report on Examination — **Equitable Liability Insurance Company** as of December 31, 2010

**ORDER**

Pursuant to Examination Warrant 2010-5, an Examination of **Equitable Liability Insurance Company** as of December 31, 2010 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

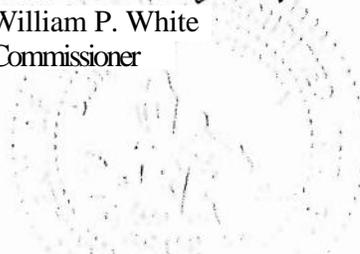
It is hereby ordered on this 20th day of June 2012, that the attached financial condition examination report be adopted and filed as an official record of this Department.

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.

William P. White  
Commissioner



GOVERNMENT OF THE DISTRICT OF COLUMBIA  
DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

EQUITABLE LIABILITY INSURANCE COMPANY

AS OF

DECEMBER 31, 2010

NAIC COMPANY CODE 10183

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Washington, D.C.  
June 6, 2012

Honorable William White,  
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 called the Company) at its home office located at 3341 Benning Road, N.E., Washington, DC 20019, and the following Report on Examination is submitted.

**SCOPE OF EXAMINATION**

This examination, covering the period from January 1, 2006 to December 31, 2010, including any material transactions and/or events noted occurring subsequent to December 31, 2010, was conducted under the association plan of the National Association of Insurance Commissioners (NAIC) 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, 2001 to December 31, 2005.

Our examination was conducted in accordance with examination policies and standards established by the District of Columbia Department of Insurance, Securities and Banking and procedures recommended by the NAIC and, accordingly, included such tests of the accounting records and such other 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

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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 calendar years 2006 through 2010. We placed substantial reliance on the audited financial statements for calendar years 2006 through 2009, and consequently performed only minimal testing for that period. We concentrated our examination efforts on the year ended December 31, 2010. We reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2010, and directed our efforts to the extent practical to those areas not covered by the firm's audit.

**STATUS OF PRIOR EXAMINATION FINDINGS**

Our examination included a review to determine the current status of the eight recommendations made in our preceding Report on Examination, which covered the period from January 1, 2001 to December 31, 2005.

During our current examination, we restated two of the eight recommendations made in our prior Report on Examination. See the "Comments and Recommendations" section of this report under the caption "Independent Director and Committee" for further discussions regarding the recommendations.

**HISTORY**

**General:**

This stock company was incorporated in the District of Columbia on October 27, 1992 and commenced business on December 18, 1994. As stated in the Articles of Incorporation, the purposes for which the Company was organized was 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. Anacostia Holdings Company, Inc. also owns First Washington Insurance Company.

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

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#### Capital Stock:

As of December 31, 2010 the Articles of Incorporation authorized 1,000 shares of common capital stock with a par value of \$300 per share, and has contributed surplus of \$350,000 in compliance with D.C. Code, Section 31-2502.13.

#### Dividends to Stockholders:

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

#### Management:

The Company's Articles of Incorporation and Bylaws provide that the responsibility for the control and management of the affairs, property and interests of the Company is vested in its Board of Directors composed of not less than three (3) members who shall be elected annually by the shareholders. The Bylaws provide that the officers of the Company shall consist of a President, a Secretary, a Treasurer, and such other officers, including a Chairman of the Board of Directors, and one or more Vice Presidents, as the Board of Directors may from time to time deem advisable. The Board of Directors shall elect the officers of the Company at the regular annual meeting of the Board following the annual meeting of shareholders.

According to the Bylaws, at any meeting of the Board of Directors, the presence of a majority of the Directors then in office shall be necessary and sufficient to constitute a quorum for the transaction of business. The minutes of all meetings held during the period under statutory examination indicated that a quorum was obtained at all meetings of the Board of Directors during the period under examination.

Directors duly elected and serving at December 31, 2010 follows. Addresses and business affiliations were provided by the Company.

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

The composition of the board of directors at December 31, 2010 was not in compliance with District of Columbia Official Code Section 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

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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.”

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 officers shall be elected by the Board of Directors and shall serve until his/her successor is duly elected and qualified or the officer is removed.

The following were duly elected Officers serving at December 31, 2010:

Edith F. Schaeffer	President and Chairman
Gerald H. Schaeffer	CEO and Treasurer
Jeffery M. Schaeffer	Secretary and Vice President

Committees:

As of December 31, 2010 the Company was not in compliance with District of Columbia Official Code Section 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 2010 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.

**AFFILIATED COMPANIES**

The Company is a member of the Anacostia Holding Company system. Gerald H. Schaeffer owns 100% of Anacostia, which owns 100 percent of the stock of First Washington Insurance Company and Equitable Liability Insurance Company. These are

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the only insurance companies within the Holding Company structure. The total Holding Company structure with all affiliated companies is as follows:

Gerald H. Schaeffer owns 100% of the following:  
Anacostia Holding Company, Inc.  
Liberty Transportation Management Corporation  
Dragonfly, Inc.  
Auto Safety, Inc.  
Auto Management, Inc.  
Anchor Leasing, Inc.  
Diversified Insurance Management, Inc.

Anacostia Holding Company, Inc. owns 100% of the following:  
First Washington Insurance Company  
Equitable Liability Insurance Company

Liberty Transportation Management Corporation owns 100% of the following:  
Allied Associates, Inc.  
Cabs, Inc.  
Taxi Transportation, Inc.  
Transco, Inc.

Dragonfly, Inc. owns 100% of the following:  
Iris, Inc.  
Lilly, Inc.  
Rooster, Inc.  
Triumph, Inc.  
Zeus, Inc.

Gerald H. Schaeffer owns 98%, Edith F Schaeffer (wife) owns 2% of the following:  
1505 Eastern Avenue, L.L.C.  
1625 New York Avenue, L.L.C.  
3101 Rhode Island Avenue, L.L.C.  
33 New York Avenue, L.L.C.  
5 Q Street, L.L.C.

Gerald H. Schaeffer owns 67% of the following:  
3341 Benning Road Limited Partnership  
Washington Benning Road Limited Partnership

Gerald H. Schaeffer owns 60% of the following:  
9 Fish, L.L.C

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Gerald H. Schaeffer owns 50% of the following:  
1830 Bladensburg Road, L.L.C

Gerald H. Schaeffer owns 33% of the following:  
1915 New York Avenue Limited Partnership  
1943 New York Avenue Limited Partnership  
Minnesota Avenue & Sheriff Road Limited Partnership  
Mount Olivet Joint Venture  
3621 Benning Road Limited Partnership  
1940 Montana Avenue Limited Partnership  
1729 Bladensburg Road Limited Partnership  
1400 Maryland Avenue Limited Partnership  
906 Bladensburg Road Limited Partnership  
1016 H Street Limited Partnership  
M Street Joint Venture  
1900 Bladensburg Road Limited Partnership  
Bladensburg & R Limited Partnership  
1801 Bladensburg Road Limited Partnership  
1910 Bladensburg Road Limited Partnership  
Liberty Limited Partnership

Gerald H. Schaeffer owns 20% of the following:  
DAG Petroleum Suppliers, L.L.C.  
DAG SPE Managing Member, Inc.  
DAG Energy, L.L.C.  
DAG Oil, L.L.C.  
DAG Power, L.L.C.

### **INTERCOMPANY AGREEMENTS**

As of December 31, 2010, the Company was a party to the following significant intercompany agreements:

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

The Expense sharing agreement became effective April 25, 2003 and is between Anacostia Holding Company, First Washington Insurance Company (FWIC) and the Company. According to the agreement, FWIC and the Company agree to pay the Parent for costs incurred on their behalves. Per the agreement, management services will be charged based on the time actually spent by the Parent's employees based on hourly rates agreed by both parties. 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.

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***Tax Sharing Agreement***

Effective May 13, 2001, the Company entered into a tax sharing agreement with Anacostia Holding Company. Based on the agreement, 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. Thus, Parent or subsidiary shall be required to pay for any reduction in its separate company liability because of the absorption of losses, credits or other tax attributes of other members. Conversely, parent or subsidiary shall be entitled to compensation to the extent that the absorption or its losses, credits, or other tax attributes reduces the group's consolidated federal income tax liability.

***Agency Agreement:***

Effective January 1, 2006 the Company entered into an agency agreement with Diversified Insurance Management, Inc. as its licensed resident producer in the District of Columbia for taxicab property and liability insurance. Pursuant to the agreement, Diversified will collect all premium income for the Company and submit biweekly payments in exchange for a commission rate of 5.25%

**FIDELITY BOND AND OTHER INSURANCE**

The Company had fidelity bond coverage of \$100,000 with a deductible of \$5,000. 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 National Association of Insurance Commissioners.

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.

**STATUTORY DEPOSITS**

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

**TERRITORY AND PLAN OF OPERATION**

Equitable Liability Insurance Co. is one of five regulated entities writing taxicab liability insurance business in the District of Columbia.

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The Company writes 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.

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.

**INSURANCE PRODUCTS AND RELATED PRACTICES**

A market conduct examination would include detailed reviews of the Company's sales and advertising, agent licensing, underwriting, and rating, 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**

As of December 31, 2010, the Company had no ceded or assumed business.

**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.

In addition, our examination disclosed that minutes of the Stockholders and Directors did not include the reporting and approval of investments made by the investment committee. This is discussed further in the "Comments and Recommendations" section of this Report, under the caption "Minutes of Stockholders and Directors."

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**FINANCIAL STATEMENTS**

The following financial statements reflect the financial condition of the Company as of December 31, 2010, as determined by this examination:

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The accompanying "Note to Financial Statements" is an integral part of these financial statements.

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**BALANCE SHEET**

**ASSETS**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>	<b>Examination Adjustment Increase (Decrease)</b>	<b>Net Admitted Assets Per Examination</b>
Bonds	\$2,235,272	\$ 0	\$2,235,272	\$ 0	\$2,235,272
Cash (\$1,384,083), cash equivalents (\$0) and short term investments (\$0)	1,384,083		1,384,083		1,384,083
Subtotals, cash and invested assets	\$ 3,619,365	\$ 0	\$ 3,619,365	\$ 0	\$ 3,619,365
Investment income due and accrued	25,893		25,893		25,893
Current federal and foreign income tax recoverable	129,733		129,733		129,733
Net deferred tax asset	40,369		40,369		40,369
Totals	\$ 3,815,350	\$ 0	\$ 3,815,350	\$ 0	\$ 3,815,350

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**LIABILITIES, SURPLUS AND OTHER FUNDS**

	<b>Amounts per Annual Statement</b>	<b>Examination Adjustments</b>	<b>Amounts per Examination</b>
Losses (NOTE)	\$ 1,549,297	\$	\$ 1,549,297
Loss adjustment expenses (NOTE)	906,679		906,679
Commissions Payable	3,537		3,537
Other expenses (excluding taxes, licenses and fees)	32,474		32,474
Taxes, licenses and fees (excluding federal and foreign income taxes)	12,231		12,231
Current Federal income tax	0		0
Net deferred tax liability	0		0
Amounts withheld or retained for the account of others	3,776		3,776
Payable to Parent	0		0
Unearned premiums	0		0
Advance Premiums	<u>0</u>		<u>0</u>
Total liabilities	<u>\$ 2,507,994</u>	<u>\$ 0</u>	<u>\$ 2,507,994</u>
Common capital stock	\$ 300,000		\$ 300,000
Treasury Stock	0		0
Gross paid in and contributed surplus	400,000		400,000
Unassigned funds (surplus)	<u>607,356</u>		<u>607,356</u>
Surplus as regards policyholders	<u>1,307,356</u>	<u>0</u>	<u>1,307,356</u>
Total liabilities and surplus	<u><u>\$ 3,815,350</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 3,815,350</u></u>

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**STATEMENT OF INCOME**

Underwriting Income:

Premiums earned		<u>\$ 1,314,549</u>
Underwriting deductions:		
Losses incurred	\$ 496,540	
Loss expenses incurred	446,640	
Other underwriting expenses incurred	<u>448,734</u>	
Total underwriting deductions		<u>\$ 1,391,914</u>
Net underwriting loss		\$ (77,365)

Investment Income:

Net investment income earned	\$ (1,927)	
Net realized capital gains	<u>(2,771)</u>	
Net investment gain		\$ (4,698)

Other Income:

Miscellaneous income	<u>\$ 17,973</u>	
Total other income		<u>\$ 17,973</u>
Net income after dividends to policyholders and before federal and foreign income taxes		\$ (64,090)
Federal and foreign income taxes incurred		<u>(40,369)</u>
Net income (Loss)		<u><u>\$ (23,721)</u></u>

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**CAPITAL AND SURPLUS ACCOUNT**

Surplus as regards policyholders, December 31, 2005	\$	988,292
Net income, 2006	\$	266,966
Change in net unrealized capital gains or (losses)		28,797
Change in net deferred income tax		(69,791)
Net change in surplus as regards policyholders, 2006		285,972
Surplus as regards policyholders, December 31, 2006	\$	1,274,264
Net income, 2007		(409,564)
Change in net unrealized capital gains or (losses)		(82,833)
Change in net deferred income tax		28,163
Net change in surplus as regards policyholders, 2007		(464,234)
Surplus as regards policyholders, December 31, 2007	\$	810,030
Net income, 2008	\$	403,720
Change in net unrealized capital gains or (losses)		(51)
Change in net deferred income tax		17
Paid in Surplus		50,000
Net change in surplus as regards policyholders, 2008		453,686
Surplus as regards policyholders, December 31, 2008	\$	1,263,716
Net income, 2009	\$	67,361
Net change in surplus as regards policyholders, 2009		67,361
Surplus as regards policyholders, December 31, 2009	\$	1,331,077
Net income, 2010	\$	(23,721)
Net change in surplus as regards policyholders, 2010		(23,721)
Surplus as regards policyholders, December 31, 2010	\$	1,307,356

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**ANALYSIS OF EXAMINATION CHANGES TO SURPLUS**

Surplus as regards policyholders per Annual Statement, December 31, 2010	\$ 1,307,356
Change in unassigned funds	<u>0</u>
Surplus as regards policyholders per examination, December 31, 2010	<u>\$1,307,356</u>

**COMPARATIVE FINANCIAL POSITION OF THE COMPANY**

The comparative financial position of the Company for the five-year period ended December 31, 2010, is as follows<sup>1</sup>:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets	\$3,815,350	\$4,091,034	\$4,552,301	\$4,571,149	\$3,661,070
Liabilities	2,507,994	2,759,957	3,262,815	3,761,119	2,386,806
Policyholders surplus	1,307,356	1,331,077	1,289,486	810,030	1,274,264
Premiums earned	1,314,549	1,351,416	1,559,421	1,821,981	1,838,462
Dividends to Shareholder	0	0	0	0	0
Net underwriting gain (loss)	(77,365)	87,090	608,214	(1,037,467)	146,717
Net investment gain (loss)	(4,698)	(18,707)	26,901	182,928	73,270
Net income (loss)	(23,721)	67,361	429,490	(409,564)	266,966

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<sup>1</sup> Amounts for the years ended December 31, 2006 through 2009 were taken from the Company's Annual Statement as filed with the Department. Amounts for the year ended December 31, 2010 are amounts per examination.

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**NOTE TO FINANCIAL STATEMENTS**

**Note: Losses and Loss Adjustment Expenses:**

The Company reported “Losses” and “Loss adjustment expenses” reserves totaling \$1,549,297 and \$906,679 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, 2010.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expense reserves as of December 31, 2010, 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 an independent actuary engaged as part of our examination. This independent actuary engaged as part of our examination also concluded that the methodologies and reserves appeared to be sufficient.

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**COMMENTS AND RECOMMENDATIONS**

**Lack of Independent Directors:**

The previous examination found that the Company was in violation of District of Columbia Code, Section 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. It should be noted that the Company has requested, in writing, an exemption from the independence requirements of this statute.

**As of the date of this Examination, the Department had not made a determination on the Company's request. However, the Company should note that it is required to comply with all other standards of the management of an insurer within a holding company system as detailed in the statutes while the request is under review by the Department.**

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

Pursuant to District of Columbia Code Section 31-701 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. As noted above, the Company has requested, in writing, an exemption from the independence requirements of this statute.

**As noted in the Comment above, the Company has requested, in writing, an exemption from the independence requirements of this statute and that request is under review by the Department. The Company must still perform the duties contemplated by this statute with its current Board while the request is under review by the Department.**

**Re-filing permission not requested**

The Company is not in compliance with Statement of Statutory Accounting Principles No. 3 (10). Which states if a reporting entity becomes aware of a material error in a previously filed financial statement after it has been submitted to the appropriate regulatory agency; the entity shall file or be directed to file an amended financial statement if approved by its domiciliary regulator. The Company did not get approval to re-file /amend the 2008 Annual Statement.

**The Company should take care to adhere to the Statement of Statutory Accounting Principles.**

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**Investment Plan**

The Company does not have a written investment plan. This is in direct violation of District of Columbia Official Code 31-1371.04 (a) "An insurer's board of directors **shall** adopt a **written** plan for acquiring investments..."

**The Company is required to comply with District of Columbia Code Sections 31-1371.04(a).**

**Additional Comments and Recommendations**

During our examination, in addition to the above Comments and Recommendations, we made 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 are not included in our Report on Examination.

**SUBSEQUENT EVENTS**

During the calendar 2011 the Company liquidated all the bond holdings. These assets were converted in cash holdings for the Company.

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**CONCLUSION**

Our examination disclosed that as of December 31, 2010, the Company had:

Admitted assets	<u>\$ 3,815,039</u>
Liabilities	<u>\$ 2,507,078</u>
Common capital stock	\$ 300,000
Gross paid in and contributed surplus	400,000
Unassigned funds (surplus)	607,961
Treasury Stock	0
Surplus as regards policyholders	<u>\$ 1,307,961</u>
Total liabilities, capital and surplus	<u>\$ 3,815,039</u>

Based on our examination, the accompanying balance sheet properly presents the statutory financial position of the Company as of December 31, 2010, 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.

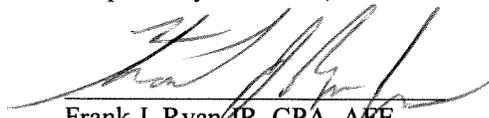
**Equitable Liability Insurance Company**  
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**SIGNATURES**

In addition to the undersigned, Chidinma Ukairo of the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination.

The actuarial portions to this examination were conducted by R. Michael Lamb, FCAS, MAAA of Michael Lamb LLC.

Respectfully submitted,



Frank J. Ryan, JR. CPA, AFE  
Examiner-In-Charge



Nathaniel Kevin Brown. CPA, CFE  
Chief Examiner

District of Columbia Department of  
Insurance, Securities and Banking

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In conjunction with this examination, records of the Diversified Insurance Management, Inc., as of December 31, 2010 were reviewed and summarized in this Addendum to the report.

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**ADDENDUM**

**DIVERSIFIED INSURANCE MANAGEMENT, INC.**

Diversified Insurance Management, Inc. (hereinafter referred to as the "Agency") was organized in the District of Columbia on November 17, 1986, to collect and disburse insurance premiums and to do any and all acts necessary in the operation of an insurance agency. The Agency's business address is 3341 Benning Road, N.E., Washington, D.C. 20002. The Agency is licensed as a policy-writing agent in the District of Columbia and as a non-resident agent and broker in the state of Maryland. The Agency's original number of authorized capital stock consisted of 100 shares of common stock without par value. 25 shares were outstanding and issued at December 31, 2001. Treasury stock was in the Agency's books at December 31, 2005, for 25 shares acquired from Andrew Schaeffer on July 1, 1996. 25 shares of stock were cancelled on June 30, 1993 and 25 shares of stock were cancelled on June 30, 1989. The shareholder of the 25 outstanding shares of the Agency at December 31, 2010 is Gerald H. Schaeffer.

The agency agreement with Equitable Liability Insurance Co. has an effective date of January 1, 2006 and no stated expiration date. In accordance with the terms of the agreement, the Agency shall collect premiums for Equitable Liability Insurance Co. and shall remit all funds due to Equitable Liability Insurance Co. on at least a monthly basis. The due date shall be fixed so that premiums or installments collected shall be remitted no later than 90 days after the effective date of any policy placed with Equitable Liability Insurance Co.

The Agency's financial statements are prepared in conformity with generally accepted accounting principles, which vary in some respects from statutory accounting principles, required of Equitable Liability Insurance Company.

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**DIVERSIFIED INSURANCE MANAGEMENT, INC.**  
**STATEMENT OF ASSETS**  
**AS OF DECEMBER 31, 2010**

Current Assets	
Cash in bank	\$ 9,929
Premiums Receivable	<u>26,760</u>
Other Current Assets	
Prepaid D.C. Income Tax	<u>4,567</u>
Total Assets	<u>\$41,256</u>
 <u>Liabilities</u>	
Unearned Independent Premiums	6,096
Unearned Limo Premiums	<u>2,700</u>
Total Current Liabilities	8,796
Stockholder Loan	<u>2,990</u>
Total Liabilities	<u>11,786</u>
 <u>Equity</u>	
Capital Stock	1,000
Retained Earnings	6,075
Treasury Stock	(21,000)
Net Income	<u>43,395</u>
Total Equity	<u>29,470</u>
<u>Total Liabilities and Equity</u>	\$ <u>41,256</u>

**Equitable Liability Insurance Company**  
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**DIVERSIFIED INSURANCE MANAGEMENT, INC.**  
**STATEMENT OF INCOME**  
**AS OF DECEMBER 31, 2010**

INCOME

Commission Income	\$ 69,105
Returned Check Fee	320
Other Income	<u>49</u>
 TOTAL INCOME	 <u>69,474</u>

EXPENSES

Service Fees	729
Accounting fees	1,050
Broker fees	24,000
Taxes	<u>300</u>
 TOTAL EXPENSES	 <u>26,079</u>
 NET INCOME	 <u>\$ 43,395</u>