

Adrian M. Fenty  
Mayor

Thomas E. Hampton  
Commissioner



# Market Conduct Examination



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

(NAIC ACCREDITED)

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



**Thomas E. Hampton**  
**Commissioner**

February 19, 2008

I, Thomas E. Hampton, Commissioner of Insurance, Securities and Banking of the District of Columbia, hereby certify that I have compared the annexed copy of the

**MARKET CONDUCT EXAMINATION REPORT**

of

**JOHN HOPPING**

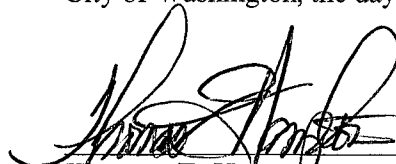
On behalf of

**WRIGHT & COMPANY**

**January 1, 2001 through December 31, 2003**

With the original on file in this Department and the same is a correct transcript there from, and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of this Department, at the City of Washington, the day and year first written



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Thomas E. Hampton  
Commissioner of Insurance, Securities and Banking

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February 19, 2008

Honorable Thomas Hampton  
Commissioner, District of Columbia  
Department of Insurance and Securities Regulation  
810 First Street, NE, Suite 701  
Washington, DC 20002

Commissioner:

Under the provisions of the District of Columbia Official Code, Title 31, Section 1401 et seq., a comprehensive market conduct examination was made of the management and affairs of

**JOHN HOPPING**

**On behalf of**

**WRIGHT & COMPANY**

with administrative offices located at 1400 Eye Street NW, Suite 400, Washington, DC.  
The report thereon, as of December 31, 2003 is herein respectfully submitted.

## **FORWARD**

This examination is a systematic investigation of documents, procedures, and systems conducted in accordance with the guidelines and procedures recommended by the National Association of Insurance Commissioners (NAIC). The examination report generally notes only those areas or items which the Department of Insurance Securities and Banking (DISB) takes exception. The examination reflects the District of Columbia insurance activities of Wright & Company's use of John Hopping's broker license, hereinafter referred to as the Broker. In the District of Columbia, a brokerage firm, such as Wright & Company, cannot obtain a surplus line broker license. The brokerage firm uses the broker license of its designated employee, Mr. John Hopping. Any report reference to the brokerage firm is synonymous to the named licensee.

Violation(s) found in this report identifies the broker's activity that does not comply with an insurance statute or regulation. Brokerage policies, practices, and procedures are commented on for the purposes of giving the reader precision in clarity. The examination report may include management recommendations addressing areas of concern noted by DISB for which no statutory violation exists. In reviewing material for this report, the examiners relied primarily on records and materials furnished by the broker in reconciliation with records on file with the DISB.

This is the broker's initial market conduct examination.

## **SCOPE OF EXAMINATION**

The on-site phase of this Comprehensive Surplus Lines Broker Examination of Wright & Company was performed at its Washington, D.C. office location, which is situated at 1400 Eye Street NW, Suite 400. The examination covered the period from January 1, 2001 through December 31, 2003.

Aside from essential background information, the commentary contained in this report is confined to those areas involving violation of laws, regulations, or rules. Additionally, significant departures from the Broker's policies, procedures, and standards are discussed.

Some unacceptable or non-complying practices may not have been discovered in the course of this examination. Failure to identify or criticize specific practices does not constitute acceptance of such practices by DISB. This report should not be construed to endorse or discredit the Broker or the insurance products administered.

### **METHODOLOGY**

The examination process consists of a sequence of activities. Obtaining and confirming an understanding of the broker's operational system is vital in the examination process.

Such activities are:

- Evaluating brokerage procedural manuals and memorandum;
- Conducting interviews with brokerage personnel; and
- Scanning transactions prior to sample selection

After obtaining operational knowledge, an evaluation or risk assessment is performed of the broker's unique characteristics, identifying and summarizing the major risks that will drive the individual exam area strategies.

Although the sequence of activities outlined occurs in every DISB market conduct examination and is based on NAIC Handbook standards and tests, some standards are measured using an analysis of general data gathered by the examiner, or provided by the broker in response to queries. Some standard findings are developed through direct reviews of random sampling of files.

The examiner's judgment determines the specific procedures, plans and tests appropriate for each brokerage operation. The standards were measured using tests designed to adequately measure how the broker met the standard. Each standard applicable to a broker's

functional operation is reported under its respective heading. A failed standard that also has a specific DC Official Code citation is identified under the related broker function. Unresolved examination violations/issues are at the end of the report under the caption, "Summary of Significant Issues". Areas of review having a direct statutory requirement but not a direct NAIC standard are accompanied at the end of the report under a separate report heading.

This market conduct examination focused upon the following major areas:

- Operations and Management
- Placement Activities
- Areas having a direct statutory requirement, but not a direct NAIC standard.

### **BROKER PROFILE**

Wright & Company, which was formed in 1965, in Washington, DC, is one of the nation's largest third party administrators, specializing in the development of employee benefit programs designed to meet the needs of the federal workforce and professional associations. Also offering benefits consultation, related educational services, and investment products, the Broker has established relationships with the following associations:

- Federal Aviation Agency Managers Association (FAAMA)
- Federal Managers Association (FMA)
- Federal Law Enforcement Officers Association (FLEOA)
- National Council Social Security Management Association (NCSSMA)
- National Hispanic Coalition of Federal Aviation Employees (NHCFAE)
- Professional Managers Association (PMA)
- Senior Executives Association (SEA)
- Technical Women's Organization (TWO)
- Women In Federal Law Enforcement (WIFLE)

In November 1995, the Broker was acquired by the Special Agents Mutual Benefit Association (SAMBA), a Maryland domiciled non-profit association providing group insurance to employees of selected federal law enforcement agencies. While SAMBA and the

Broker share an administrative system, they operate as independent entities in other respects.

Wright & Company is licensed in all 50 states, providing marketing and administrative services for group term life, group dental, long term disability insurance products. Additionally, the Broker offers professional liability and personal umbrella liability insurance products on a group basis through non-admitted carriers. As surplus lines products, some attention will be devoted to these plans throughout the remainder of this report.

Enrollment in two group insurance plans, created and administered by the Broker, requires membership. These plans are the Civil Service Employee Benefit Association (CSEBA), for all Federal Employees, and the Special Agents Trust for Insurance (SATI), for all FBI employees. Membership in these associations requires active federal service; however, former investigators are eligible to enroll in a professional liability program.

Neither the professional liability nor the personal umbrella plan is subject to individual underwriting; applications or renewal submissions for master policies are evaluated in accordance with the carriers' group underwriting criteria and enrollees are issued certificates based on their qualifications as CSEBA or SATI members. Enrollment in both plans is available throughout the year; and, while credit card, direct bill, and EFT payment options are offered with both plans, payment through payroll allotment is available only to professional liability certificate holders. The claims-made professional liability coverage is available with limits of \$500,000 or \$1 million, while the personal umbrella limit may be selected at the 1, 2, or \$3 million level.

In response to the examiner's request for information regarding the management structure of the Broker, the following information was provided regarding the responsibilities and tenure of key executives:



Name	Title	Tenure
Patty Keefe	President	17 years
Dave Cavanaugh	VP, Sales & Marketing	5 years
Mary Stanton	VP, Administration	15 years
Tarsha Johnson	Manager, Client Services	4 years
Aretha Hamilton	Manager, Claims & U/W	13 years
Stuart Pilsbury	Manager, Accounting	3 years

The management organization, structure, and chain of command pertinent to surplus lines operations were reviewed and it was noted that personnel identified as being involved in the handling of claims, the Broker did not have claims settlement authority with respect to any surplus lines products. The Broker does acknowledge claim receipt to the clients and provides carriers with coverage and premium information, but claims are forwarded directly to the carriers for investigation and settlement by the clients.

During the period of this examination, growth, as measured by written premium attributed to the surplus lines products, has trended positively, as revealed in the following table:

	2001	2002	2003
Professional Liability	\$6,761,231	\$6,436,895	\$7,729,602
Personal Umbrella	304,883	488,517	420,555
Total	\$7,066,114	\$6,925,412	\$8,150,157

### **OPERATIONS AND MANAGEMENT**

In order to evaluate the Broker's operations and management, the examiner gathered data using informational requests, direct questioning, interviews, and presentations by the Broker staff and officers.

During the course of this examination, the Broker's operations were reviewed using tests prescribed in the NAIC Examiners Handbook, Volume I, Chapter X to determine if the Broker was meeting established industry standards. The examiners verified that the Brokerage does not collect nonpublic personal information in connection with respect to their

commercial business transactions. NAIC standards for “Broker Operations/Management”, specifically B-14, B-15, B-16, B-17 and B-18 are not applicable in this examination and are excluded from comments and findings. The following report section gives direct reference to the NAIC handbook standards applicable for review.

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-1

The broker has procedures in place to report, as required by statutes, rules, and regulations, fraudulent activities to the appropriate authorities.

Comments: The review methodology for this standard does not have a direct statutory requirement. DC Official Code §§ 22-3225.09 and 22-3225.12 deal with anti-fraud but does not apply to a surplus lines broker.

Finding: The Broker is not in compliance with the standard.

Observations: The Broker does not have a policy dealing with defalcations, misappropriations, and fraudulent or unauthorized transactions for its business activities.

Recommendations: It is recommended that the Broker review its existing office procedures and formalize a fraud prevention plan to address its business activities.

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-2

The broker has a valid disaster recovery plan

Comments: A review of the response provided by the Broker to provide its disaster recovery plan was determined by the examiner as an insufficient response. A valid disaster recovery plan is consistent with the public interest and needs to be tested for effectiveness.

Findings: The Broker is not in compliance with the standard.

Observations: The Broker provided information regarding backup of its data, LAN, and mainframe system recovery but did not demonstrate the existence of a comprehensive disaster plan.

Recommendations: This matter was discussed with the Broker during the examination and consideration was noted by the Broker for future disaster planning.

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-3

Records are adequate, accessible, consistent, orderly and comply with state record retention requirements

Comments: In connection with their verification and evaluation of surplus lines affidavit entries, the examiners reviewed numerous policy and marketing files. The examiners found the Broker compliant with the provisions of DC Official Code § 31-2231.10.

Findings: The Broker is in compliance with the standard.

Observations: The Brokerage provided a copy of policies applicable to the retention and destruction of insurance records.

Recommendations: None

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-4

The broker is appropriately licensed.

Comments: The review methodology for this standard has a direct statutory requirement. DC Official Code § 31-2502.40(a) that states in part any agent or broker licensed in the District may be licensed to procure policies from companies that are not authorized to do business in the District.

Findings: The Broker, John P. Hopping, is in compliance with the standard.

Observations: The examiners reviewed licensing requirements with information provided by the Broker. John Hopping left the employment of the Wright & Company during the period under examination. Aretha C. Hamilton, who was later named by Wright & Company as its surplus lines broker to represent the firm's surplus lines placements, signed the firm's monthly reports using Hopping's license for the remainder of 2003. Ms. Aretha C. Hamilton obtained an active surplus lines license on June 13, 2003.

Recommendations: None

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-5

All statutorily required bonds are in-force

Comments: The DC administrative citation requiring a statutory bond was repealed in April 1997. The DISB failed to inform producers or bond providers of the change in bonding requirements. The Broker provided the examiners with copies of bonds issued biennially covering acts of the licensee, John P. Hopping, for the examination period. Each of the bond forms indicates a penal sum of \$20,000.

Finding: Broker procured bonds for the period under examination based on DISB provided renewal license forms.

Observations: Examiners selected to perform this NAIC standard based on information available during the planning phase of this examination. During the execution phase of the examination, the examiners learned of the statutory repeal. Broker was advised of the change in the DC bond requirement during the course of this examination.

Recommendations: None.

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-6

All required reports have been filed with the Department of Insurance or the appropriate authority.

Comments: The review methodology for this standard has a direct statutory requirement. DC Official Code § 31-2502.40(a) that states in part that each broker so licensed for unauthorized policy procurement shall execute and file with DISB on or before the 10<sup>th</sup> day of each month an affidavit covering the policy transactions of the previous month. For the purposes of testing timeliness and accuracy of reporting, as well as other attributes discussed in this report, the Broker provided Monthly Reports of Unauthorized Business (affidavits) reflecting all surplus lines transacted during the examination period. While the filing of 36 affidavits would be required to cover the entire examination period, those subject to discussion here include only those submitted during the tenure of licensee John Hopping. As previously mentioned, affidavits were submitted over the signature of licensee Aretha C. Hamilton, effective June 1, 2003.

Findings: The Broker is in violation of DC Official Code § 31-2502.40(a).

Observations: Affidavit transactions testing of source documents covered those submitted to DISB during the tenure of John Hopping. It was determined that 29 affidavits, covering the period January 1, 2001 through May 31, 2003 were submitted later than the 10<sup>th</sup> of the month following the month in which the transactions took place. These late filing resulted in the aforementioned finding. The number of overdue days ranged between nine (9) and one hundred fifty eight (158). See the following table:

	Transaction Month	Date Affidavit Due	Affidavit Date or Date Notarized	# Days Overdue
2003	Jan	02-10-03	02-27-03	17
	Feb	03-10-03	04-01-03	22
	Mar	04-10-03	05-08-03	28
	Apr	05-10-03	06-03-03	24
	May	06-10-03	06-24-03	14
2002	Jan	02-10-02	07-17-02	157
	Feb	03-10-02	07-17-02	129
	Mar	04-10-02	07-17-02	98
	Apr	05-10-02	08-01-02	83

	Transaction Month	Date Affidavit Due	Affidavit Date or Date Notarized	# Days Overdue
2002	May	06-10-02	08-01-02	52
	Jun	07-10-02	08-01-02	22
	Jul	08-10-02	01-02-03	145
	Aug	09-10-02	01-02-03	114
	Sep	10-10-02	01-02-03	84
	Oct	11-10-02	01-02-03	53
	Nov	12-10-02	01-29-03	50
	Dec	01-10-03	01-29-03	18
2001	Jan	02-10-01	06-26-01	136
	Feb	03-10-01	06-26-01	108
	Mar	04-10-01	06-26-01	77
	Apr	05-10-01	06-26-01	47
	May	06-10-01	06-26-01	16
	Jun*	07-10-01	07-18-01	8
	Jul*	08-10-01	08-27-01	17
	Aug*	09-10-01	09-26-01	16
	Sep*	10-10-01	02-06-02	119
	Oct*	11-10-01	02-06-02	88
	Nov*	12-10-01	02-06-02	58
	Dec*	01-10-02	02-06-02	27

Recommendations: Discussions with the Broker's management team highlighted that corrective measures were necessary beyond securing an undocumented verbal phone conversation with someone from DISB permitting the Broker an extension of time to file.

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-7

The applicable taxes are reported and are credited to the state

Comments: The review methodology for this standard has a direct statutory requirement. DC Official Code § 31-2502.40(a) states, in part, that each broker shall pay to the Collector of Taxes, Through the Commissioner, on February 1<sup>st</sup> and August 1<sup>st</sup> of each year, a sum equal to 2 per centum of the amount of the gross premiums upon all kinds of policies procured by him during the immediately preceding 6 months' period ending December 31<sup>st</sup> and June 30<sup>th</sup>, respectively.

Findings: The Broker's accounting method develops a premium tax timing issue for new business reported on a master policy's anniversary. The examiners did not develop a premium tax liability due as the payment of tax issue was not premised on a failure to report.

Observations: Affidavit transactions testing of source documents provided by the carriers revealed the following errors as regards accuracy of reporting.

A total population numbering 14,943 professional liability and personal umbrella transactions was identified and a sample of 100 was selected, utilizing the NAIC's Market Conduct Statistical Utilities. The examiner was provided access to the Broker's administra-

tion system, enabling detailed review of each of the selected transactions. A set of legends describing the various system codes was provided as well.

Of particular interest among the transactions reviewed were professional liability modal premium payments remitted annually or quarterly. In discussions with the Broker's accounting personnel, it was determined that these premiums are divided into equal monthly increments ("monthalized" premiums) and only the monthly premium amounts are reported on affidavits under the heading of Gross Premium. So if a new application is received with the annual premium, only 1/12 is reported during the transaction month, and for each succeeding month throughout the annual policy period. The same would be true of a quarterly payment. The carriers permit monthly premium remittances by the Broker when the policy premium is collected on an annual non-refundable premium. This implies that semi-annual tax payments would include tax on only 1/2 of the premium for renewal and new business certificates issued with annual premium received during the previous 6-month period. The additional tax on the remaining 6-month premium would be paid on the next return, but obviously, DISB is penalized by this procedure, which creates a condition of on-going tax arrearage. A total of 53 premium payments in the sample reviewed reflect under-reporting of gross premium due to the "monthalizing" procedure

Prior to August 1, 2002, personal umbrella coverage was continuous until cancelled, so premium was reported as received (new business) and as billed (renewals). Therefore, annual and quarterly premiums received would be reported in their entirety, in the months received with no pro-rata breakdown or monthalizing occurring.

Currently, a portion of an annual premium, calculated pro-rata to the end of the master policy period is reported to the carrier. This amount is reported on the affidavit in the case of new business. The remainder premium is held as a credit and not reported until the July 1 master policy renewal. For example, in the case of a new business certificate, effective April 1, for which the entire annual premium is paid, only 3 months' premium is reported onto the tax reporting affidavit. The July 1 renewal billing to the certificate holder will show the annual premium due, less 9 months' credit, so only 3 months' pro rata premium is due to bring the policy current through June 30 of the following year. The entire annual premium would be reported onto the affidavit at this time, and on subsequent renewals.

Recommendations: With respect to both the professional liability and personal umbrella programs, annual, semi-annual, and quarterly premium payments must be reported on affidavits as these premium transactions occur, not on a pro rata or "monthalized" basis. DC Official Code § 31-2502.40(a) specifies that gross premiums (not 1/12 of gross premiums) are to be reported on or before the 10<sup>th</sup> of each month, covering transactions for the previous calendar month. The statute makes no distinction between earned and un-earned premium. Nor does it permit exceptions.

Consumer and insurance department complaints responded to in accordance with statutes, rules, and regulations.

Comments: The review methodology for this standard has direct statutory requirements, i.e., DC Official Code §§ 31-2231.10 and 31-223 1.18. The former citation states in part that no person shall fail to maintain its books, records, documents, and other business records in such order that data regarding complaints, claims, rating, underwriting, and marketing are not accessible and retrievable for examination.

The latter citation states in part that the broker shall maintain a complete record of all complaints since the date of its last examination.

Findings: The Broker is in compliance with the standard.

Observations: Complaint handling procedures require the referral of written complaints to the appropriate department supervisor or manager for review and resolution. Initial contact with the complainant is to be made within 10 (ten) days and status letters are sent to clients in those cases where additional time is needed to investigate or resolve the complaints.

The Broker receives most DISB consumer complaints through the insurance carriers and the predominant numbers of these complaints involve billing disputes. Copies of the complaint text and response are forwarded to the appropriate insurer. While no dedicated toll-free telephone number is maintained to address complaints, the Broker does maintain a toll-free customer service number through which CSR personnel may resolve verbal disputes.

Recommendations: One of the data elements required by the statute i.e., classification by line of insurance, was absent from the Broker's record. It is recommended that the Broker modify its complaint log to include this information.

If the surplus lines broker is responsible for such calculations then unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

Comments: The review methodology for this standard does not have a direct statutory requirement.

Findings: The Broker is not responsible for determining returned monies.

Observations: The Broker honors written requests for cancellation submitted by certificate holders, refund processing does not apply to the professional liability program. As stated in the certificate, all premiums for this coverage are “fully earned”.

Recommendations: None

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-10

The broker cooperates on a timely basis with examiners performing the examinations.

Comments: The review methodology for this standard has a direct statutory requirement. DC Official Code § 31-1403(b) states in part that every person from whom information is sought must provide the information to the examiners and must facilitate the examination and aid in the examination so far as it is in their power to do so.

Findings: The Broker is in compliance with the standard.

Observations: None

Recommendations: None

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-11

The surplus lines broker has procedures for the collection, use, and disclosure of information gathered in connection with insurance transactions so as to minimize any improper intrusion into the privacy of applicants and policyholders.

Comments: Pursuant to Title 26, Chapter 36 of the D.C. Municipal Regulations (DCMR) and Title V of the Gramm-Leach-Bliley Financial Modernization Act (GLB), the Broker has adopted a formal privacy policy and formulated procedures designed to safeguard non-public personal information of their clients.

Findings: The Broker is in compliance with the standard.

Observations: None

Recommendations: None

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-12

The broker has developed and implemented written policies, standards and procedures for the management of insurance information.



Comments: Pursuant to Title 26, Chapter 36 of the D.C. Municipal Regulations (DCMR) and Title V of the Gramm-Leach-Bliley Financial Modernization Act (GLB), the Broker has adopted a formal privacy policy and formulated procedures designed to safeguard non-public personal information of their clients.

Findings: The Broker is in compliance with the standard.

Observations: None

Recommendations: None

NAIC Market Conduct Examinations Handbook – Chapter X, Section B Standard B-13

The broker has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.

Comments: Pursuant to Title 26, Chapter 36 of the D.C. Municipal Regulations (DCMR) and Title V of the Gramm-Leach-Bliley Financial Modernization Act (GLB), the Broker has adopted a formal privacy policy and formulated procedures designed to safeguard non-public personal information of their clients.

Findings: The Broker is in compliance with the standard.

Observations: None

Recommendations: None

### **PLACEMENT; CANCELLATION/NONRENEWAL**

In order to evaluate the Broker's placement and cancellation/nonrenewal practices, the examiner gathered data using informational requests, direct questioning, interviews, and presentations by the Broker staff and officers.

During the course of this part of the examination, the examiner used the same sample developed for the review of operations to determine if the Broker was meeting established industry standards. NAIC standards for "Placement; Cancellation/Nonrenewal, specifically C-2, C-4, C-5 are not applicable in this examination and are excluded from comments and findings. The following report section gives direct reference to the NAIC handbook standards examined.

NAIC Market Conduct Examinations Handbook – Chapter X, Section C Standard C-1

All required disclosures are made in accordance with statutes, rules, and regulations.

Comments: The review methodology for this standard does not have a direct statutory requirement.

Findings: The Broker is in compliance with the standard.

Observations:

A review of the Broker's plan information packet, enrollment applications, and certificate transmittal letter reveals that no surplus lines warning is provided. At the same time, it is recognized that at least one of the professional liability carriers advises certificate holders that it is a nonadmitted carrier and that claims are not covered by the District of Columbia Guaranty Association.

Recommendations: The District of Columbia does not require a "guaranty fund" disclosure, the use of such a warning notice is regarded as a best practice in the industry and is therefore recommended.

NAIC Market Conduct Examinations Handbook – Chapter X Section C Standard C-3

The selected carrier was evaluated to ensure it complies with statutory requirements regarding financial condition.

Comments: The review methodology for this standard does not have a direct statutory requirement.

Findings: The Broker is in compliance with the standard.

Observations: The examiner reviewed the Broker's documentation for setting and adhering to its solvency standards.

Recommendations: None

NAIC Market Conduct Examinations Handbook – Chapter X, Section C Standard C-6

Diligent effort was made to place the risk with an admitted carrier in compliance with statutes, rules, and regulations.

Comments: The review methodology for this standard can be found in DC Official Code § 31-2502.40 that states in part that prior to procurement of unauthorized policies the licensed agent or broker must make a diligent effort to place the insurance with authorized companies.

Findings: The Broker is in compliance with the standard.

Observations: The Broker conducts its surplus lines business as a retail surplus lines producer and is not engaged directly in the placement of nonadmitted coverage on behalf of clients. Nevertheless, the broker was able to demonstrate diligence by providing documentation which reveals appropriate efforts on the part of wholesalers with whom there are agreements in effect to place its professional liability and personal umbrella master policies

Recommendations: None

### SUMMARY OF SIGNIFICANT ISSUES

Standard B-1

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It is recommended that the Broker develop procedures to report fraudulent activities to the appropriate authorities.

Standard B-2

Page 7

It is recommended that the Broker develop a valid disaster recovery plan.

Standard B-6

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The Broker violated DC Official Code § 31-2502.40(a) inasmuch as twenty-nine (29) Monthly Reports of Unauthorized Business (affidavits) were not filed with the DISB by the 10<sup>th</sup> of the month, as required.

Standard B-7


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DC Official Code § 31-2502.40(a) requires semi-annual payments on the 1<sup>st</sup> day of February and August. Gross premiums are to be reported on the tax remittance as the statute makes no distinction between earned and unearned premium.

## ACKNOWLEDGMENT

In addition to the undersigned, Gerald B. Lyons, CPCU, FLMI, ACS, AMIM, AIM, CIE, of R L Regulatory Consultants, Inc., performed both field work and assisted in exam planning.

Respectfully submitted,



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William F. McCune, MBA, CCP, CIPP, CFE(Fraud), CIE, CIDM, CPCU, CFE(Financial), CLU, LIFA,  
FLMI, FLHC, RHU, PAHM, AIAF, AIAA, AIRC, AIC, API, ACS

Market Analysis Chief  
For the DC Department of Insurance, Securities and Banking



**WRIGHT & CO.**  
Insurance Agency and Administrators

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February 15, 2008

Mr. William F McCune  
Market Analysis Chief  
D.C. Department of Insurance, Securities and Banking  
810 First Street, NE, Suite 701  
Washington, DC 20002

Dear Mr. McCune:

Thank you for the opportunity to respond to the significant issues raised during a comprehensive market conduct examination of the management and affairs of

**JOHN HOPPING**

On behalf of

**WRIGHT & COMPANY**

with our administrative offices located at 2300 Clarendon Blvd., Suite 705, Arlington, VA 22201.

As of July 2006, Wright & Company has undergone a change in upper management. With this change many deficiencies were addresses and new, improved processes were implemented. Wright & Company's new management has addressed each of the significant issues raised during the examination. The significant issues raised are Standard B-1, B-2, B-6 and B-7. We have corrected any and all deficiencies and will address each one individually.

Standard B-1

Wright & Company along with its current broker has developed procedures to minimize and report fraudulent activities to the appropriate authorities. Furthermore our current Surplus Lines carrier requires us to submit an annual report to the Special Investigations Unit on all policies suspected of alleged fraudulent activities.

Standard B-2

Wright & Company has developed a disaster recovery plan. Our disaster recovery plan is review and scrutinized annually by all our carriers. We consider their recommendations and the effects on our company. If we agree with the recommendations we tweak and implement the revised procedures.

Standard B-6

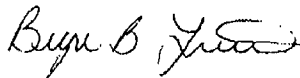
Wright and Company's new management has hired the appropriate staff to accommodate the timely filing of all monthly, quarterly, semi-annual and annual reports and affidavits to each of the 50 states, in which we have licenses. In the agreement with our Surplus Lines carrier, we agreed to be audited 4 times per annum to ensure our individual state filings are accurate and timely.

Standard B-7

Wright and Company's new management recognized this deficiency and has corrected it. We report and pay the complete tax on the annual premium received. We no longer pay 1/12<sup>th</sup> of the tax to the states based on our collection of the premium. We report and pay the full tax based on the annual premium to each of the individual states in which we are licensed. Our licensing and compliance department understand the state filings and the importance of accuracy when filing and paying the tax. There is no longer a condition of on-going tax arrearage or under-reporting to the taxing state.

As President of Wright and Company, I thank you for the opportunity to address these significant issues raised in the market conduct examination report. Should you have further questions or concerns, please do not hesitate to contact me.

Sincerely,



Bryan B. Lewis  
President and CEO  
Wright and Company