

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



Thomas E. Hampton  
Acting Commissioner

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

Limited-Scope Examination of Ocean Risk Retention Group, Inc.  
for the period of May 22, 2005 through May 31, 2005

**ORDER**

A limited-scope examination of Ocean Risk Retention Group was conducted at its office in accordance with the provisions of Section 15 of the Captive Insurance Companies Act of 2004, for the period of May 22, 2005 through May 31, 2005.

The examiners' report found no significant violations. However, the examiners found in several instances that Ocean was not using the rating, underwriting, and discount criteria submitted in its initial application filed with the Department.

Please find enclosed for your consideration the finalized Examination Report and Adoption Order for the above captioned company.

Also enclosed is a copy of Ocean's response dated September 27, 2005 to our draft examination report.

It is hereby ordered on this 23<sup>rd</sup> day of March, 2006, that the attached limited-scope examination report be adopted and filed as an official record of this Department. All findings and conclusions resulting from the review of the limited-scope financial examination report, relevant examiner work papers, and any appropriate changes based on the Company's written submissions or rebuttals are incorporated in the attached examination report.

The Company shall comply with the following:

1. Ocean shall comply with the rating and discount criteria provided in the Bartlett feasibility study (the DISB-approved rates) as well as comply with the established ORRG underwriting guidelines.

2. Ocean's captive manager shall monitor Ocean's application of rating and discount criteria to ensure compliance with filed guidelines, and provide DISB with a quarterly status report until further notice from DISB.
3. Ocean shall ensure that its Managing General Underwriter promptly complies with all applicable laws and regulations of the State of New Jersey.

The Department will continue to hold the contents of the examination report as private and confidential information for period of ten (10) days from the date of this Order.



---

Thomas E. Hampton  
Acting Commissioner of Insurance,  
Securities and Banking



THE TAFT COMPANIES

September 27, 2005

Dana G. Sheppard  
Acting Director, Compliance Division  
DEPARTMENT OF INSURANCE,  
SECURITIES AND BANKING  
1400 L STREET, N.W., SUITE 400  
WASHINGTON DC 20005

Lee Backus  
Examiner-in-Charge  
DEPARTMENT OF INSURANCE,  
SECURITIES AND BANKING  
1400 L STREET, N.W., SUITE 400  
WASHINGTON DC 20005

**RE: Ocean Risk Retention Group, Inc.**  
Certificate of Authority No. RRG-44-05-06  
Subject: Ocean Risk Retention Group Examination Report March 22 – May 31, 2005

Gentlemen:

I refer to your letter of August 19<sup>th</sup>, 2005 covering the Examination Report for Ocean Risk Retention Group. Our comments and observations with specific reference to the Recommendations (page 37) are as follows:

**Recommendation** - Ocean should provide the DISB with a full description as the reason for the material deviations from the financial projections included in the Bartlett feasibility study. Consideration should also be given to Ocean providing updated five-year financial projections.

**Response** – Revised five year proformas and revised assumptions were provided to the DISB June 8<sup>th</sup>, 2005.

**Recommendation** – Ocean should comply with the rating and discount criteria provided in the Bartlett feasibility study (the DISB-approved rates) as well as comply with the established ORRG underwriting guidelines

**Response** – Ocean is in compliance with the rates and guidelines approved by the DISB August 12<sup>th</sup>, 2005

**Recommendation** – The Captive Manager should monitor Ocean's application of rating and discount criteria to ensure compliance with the filed guidelines, and provide the DISB with a monthly status report until further notice from the DISB.

**Response** – The Taft Companies will provide the DISB with a monthly status report commencing October 2005.

W. A. TAFT & COMPANY (DC) LTD.  
1250 H. Street, NW, Suite 901  
Washington, DC 20005  
P 877 587 1763  
F 877 224 0876

**Recommendation** – Ocean should ensure that its Managing General Underwriter promptly complies with all applicable laws and regulations of the State of New Jersey

**Response** – It is our understanding that Renaissance Retention Group is now in compliance with the laws and regulations of the State of New Jersey.

I would also like to point out that all concerned, Ocean Risk Retention Group, The Taft Companies, The Bartlett Group, Atlantic Risk Management and Muldoon Murphy & Aguggia LLP cooperated fully with the examiners in all areas expediting the examination process.

With respect to the examination as a whole, we did find several minor factual errors in the narrative but in the aggregate they had no overall impact on the outcome of the examination.

If you have any questions, please do not hesitate to contact me.

Yours truly,

W. A. TAFT & COMPANY (DC) LTD.



W. Allen Taft  
President

Cc: Lou Campisano, Renaissance Retention Group  
Jeanette Frankenberg, Ocean Risk Retention Group  
Glenn Battschinger, Renaissance Retention Group  
Arthur Perschetz, Muldoon Murphy & Aguggia LLP  
Aaron Kaslow, Muldoon Murphy & Aguggia LLP  
Brian Johnson, The Bartlett Group  
John Weitzel, The Taft Companies

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# EDWARDS & CALDWELL LLC

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Date: 9/16/2005

Please deliver the following message to:

Name	Company	Fax Number
Richard Pisacane		201-246-1093
Lou Campisano		
Glenn Battinger		
Jeanette Frankenbeg		

From: Douglas F. Doyle, Esq. (Sue)

Pages including  
this cover 12  
page:

Comment:  
Please review the attached and call me with your comments.

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September 16, 2005

VIA EMAIL & REGULAR MAIL

Arthur D. Perschetz, Esq.  
MULDOON, MURPHY & AGUGLIA, LLP  
5101 Wisconsin Ave., N.W.  
Washington, DC 20016

Re: Renaissance Retention Group, Inc.  
Ocean Risk Retention Group, Inc.

Dear Mr. Perschetz:

Attached is the proposed insert for the response to the Washington, DC, Department of Insurance Report:

Renaissance Retention Group ("RRG") as the Managing General Agent/Managing General Underwriter ("MGA/MGU") for Ocean Risk Retention Group ("ORRG") has always maintained insurance in order to comply with N.J.S.A. 17:22C-5 and N.J.A.C. 11:17-6.3d. It has also always maintained errors and omissions coverage in the amount required under N.J.A.C. 11:17-6.3d.

Specifically, RRG has maintained professional liability insurance coverage under policy #647-79-32 with National Union Fire Insurance Company of Pittsburgh (the "National Policy"). A copy of the National Policy is attached hereto as Exhibit A. It was effective from July 28, 2004 to July 28, 2005.

EDWARDS & CALDWELL LLC

Arthur Perschetz, Esq.  
September 16, 2005  
Page 2

The New Jersey Department of Insurance ("NJDOI") under N.J.A.C. 11:17-6.3d requires that "all managing general agents shall acquire and maintain an errors and omissions insurance policy with coverage limits [which] shall be set at \$100,000.00 or ten percent up to \$500,000.00 of the direct premium written by an insurer for the previous calendar year that is attributable to the MGA, whichever is greater".

The limit of liability on the National Policy is \$1,000,000.00. This limit of liability insurance clearly meets the requirement under the Administrative Code.

When RRG was questioned by the NJDOI whether the National Policy covered acts or omissions by RRG acting as an MGA/MGU, RRG confirmed with its broker that RRG had coverage to act as an MGA/MGU. A confirming letter from RRG's broker is attached hereto as Exhibit B. That letter confirms that the National Policy does not have any specific coverage exclusions for MGA/MGU activity under the definition of "special services".

RRG was also advised that an investigator from the NJDOI may have contacted National directly to determine whether an "endorsement" could be obtained to cover acts by the insured to provide MGA/MGU services. Apparently, National advised that no endorsement for such coverage was available.

However, an endorsement would not be required because there is no specific exclusion in the policy for RRG acting as MGA/MGU.

When RRG attempted to renew its policy, National elected not to renew the policy and RRG acquired insurance from American Home

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EDWARDS & CALDWELL LLC

Arthur Perschetz, Esq.  
 September 16, 2005  
 Page 3

Assurance Company ("American"). A copy of the declaration page for American is attached hereto as Exhibit C together with a full copy of the policy.) We direct your attention to page 3 of 11 of the American policy. "Professional Services" specifically includes services for others in any of the following capacities; "...#3 Insurance General Agent".

In sum, RRG maintained at all times professional liability insurance which protected ORRG from potential improper acts or omissions by RRG acting as a managing general agent/managing general underwriter.

Second, NJDOI indicated that RRG had not secured a surety bond.

However, a close reading of the New Jersey regulations did not immediately reveal that RRG is required to have a Surety Bond for Ocean Risk Retention Group.

Specifically N.J.A.C. 11:17-6.3, subsection (a) provides as follows: no person, firm, association or corporation shall act in a capacity of a managing general agent with respects to risks located in this state for an insurer licensed in this state unless such person is licensed as an insurance producer in this state with the authority for the kind of business to be transacted. Subsection (c) provides "all managing general agents shall acquire and maintain a surety bond for the protection of the insurer contracting with the managing agent..".

A fair reading of these two sections is that since ORRG is not an insurer "licensed in this state" the managing general agent (i.e. RRG) does not require a surety bond.

RRG advised NJDOI of this position and specifically requested guidance. The NJDOI

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Arthur Perschetz, Esq.  
September 16, 2005  
Page 4

could not immediately explain its basis for requiring a surety bond under the pertinent statutes. However, subsequently the NJDOJ did explain to counsel for RRG how it interprets the relevant statutes, which interpretation (albeit not readily apparent from a plain reading of the statutes) requires the posting of a surety bond.

Therefore, RRG is in the process of procuring a surety bond to comply with N.J.A.C. 11:17-6.3.

This draft is provided for discussion purposes only and is subject to RRG's review and approval. Please call me upon receipt to discuss.

Very truly yours,

DOUGLAS F. DOYLE

DFD:eh  
Enclosures

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# EXHIBIT A



THIS IS A CLAIMS MADE POLICY  
PLEASE READ CAREFULLY  
NATIONAL UNION  
FIRE INSURANCE COMPANY  
OF PITTSBURGH, PA. ®

175 WATER STREET, NEW YORK, NY 10038

A CAPITAL STOCK COMPANY, HEREIN CALLED THE "COMPANY"

NOTICE: THE LIMITS OF LIABILITY AVAILABLE TO PAY JUDGMENTS OR SETTLEMENTS SHALL BE REDUCED BY AMOUNTS INCURRED FOR LEGAL DEFENSE. FURTHER NOTE THAT AMOUNTS INCURRED FOR LEGAL DEFENSE SHALL BE APPLIED AGAINST THE DEDUCTIBLE AMOUNT.

INSURANCE AGENTS AND BROKERS PROFESSIONAL LIABILITY POLICY

REPLACEMENT OF POLICY NUMBER: N/A

POLICY NUMBER: 647-78-32

DECLARATIONS

Item 1: Insured: *RENAISSANCE RETENTION GROUP INC.*

Address: *839 KEARNY AVE  
P O BOX 450  
KEARNY, NJ 07032*

Item 2. Policy Period From: *July 28, 2004* To: *July 28, 2005*  
at 12:01 A.M. standard time at the address of the insured stated above.

Item 3. Limits of Liability (Including Defense Costs, Charges and Expenses):

*31,000,000*

Each Wrongful Act or series of continuous, repeated or  
interrelated Wrongful Acts.

*31,000,000*

Aggregate.

Item 4. Deductible:

*35,000*

Each Wrongful Act or series of continuous, repeated or  
interrelated Wrongful Acts.

Item 5. Premium:

*83,030+*

*830 NJ Surcharges*

*Premium for Certified Acts of Terrorism Coverage under Terrorism  
Risk Insurance Act 2002: \$90 included in policy premium.  
Any coverage provided for losses caused by an act of terrorism as  
defined by TRIA (TRIA Losses) may be partially reimbursed by the  
United States under a formula established by TRIA as follows: 90% of  
TRIA Losses in excess of the insurer deductible mandated by TRIA, the  
deductible to be based on a percentage of the insurer's direct earned  
premiums for the year preceding the act of terrorism.  
A copy of the TRIA disclosure sent with the original quote is  
attached hereto.*

7914934

42418 (8/02)

09/09/05 THU 17:17 [TK/RX NO 0008]

Producer: **D & D CONCEPTS, INC**  
Address: **PO BOX 400**  
**LIVINGSTON, NJ 07039-2200**

By acceptance of this policy the insured agrees that the statements in the Declarations and the Application and any attachments hereto are the insured's agreements and representations and that this policy embodies all agreements existing between the insured and the Company or any of its Representatives relating to this insurance.



Aug 26, 2004

AUTHORIZED COMPANY REPRESENTATIVE

9374934

42418 (8/85)

# EXHIBIT B



Small Business

MEMORANDUM

Conwell Corporate Center I  
One Conwell Drive  
Berkeley Heights, NY 10038  
Phone: 908-679-3618  
Fax: 866-344-1903

To: David Ratner

From: Neal Stoeckel

Date: July 7, 2005

RE: RENAISSANCE RETENTION GROUP, INC. - PROFESSIONAL  
LIABILITY - POLICY NUMBER 6477932

In accordance with the above noted policy including all Terms, Conditions and Exclusions, the policy does not have a specific coverage exclusion for MGAM/GU activity under the definition of professional services. Coverage for any claims would depend on the allegations of such claims as well as the policy Terms, Conditions and Exclusions. It would not be possible to make a determination of coverage unless we have specific claim wording.

Regards,

~~Neal Stoeckel~~

Neal Stoeckel,  
Assistant Vice President

# EXHIBIT C



**Professional Liability Specialists**

30 West Mount Pleasant Avenue, P.O. Box 468, Livingston, NJ 07039  
 Telephone: 973-758-1700 • Fax: 973-758-1702  
 www.DOconcepts.com

**Evidence of Insurance**

**Insured:** Mr. Lou Campisano  
 Renaissance Retention Group, Inc.  
 839 Koarny Avenue  
 P.O. Box 450  
 Koarny, NJ 07032

We are pleased to advise you that, pending the issuance of the applicable insurance policy, coverage is bound as follows:

<b>Insurance Carrier:</b>	American Home Assurance Company (Admitted)	
<b>Type of Coverage</b>	Professional Liability	
<b>Binder Number</b>	DOC- 6594	
<b>Binder Type:</b>	New <input checked="" type="checkbox"/> Renewal <input type="checkbox"/> Endorsement <input type="checkbox"/>	
<b>Policy Term:</b>	From: 7/18/2005	From: 7/18/2006
<b>Limit of Liability:</b>	\$1,000,000 / \$1,000,000	
<b>Retention / Deductible:</b>	\$5,000	
<b>Premium:</b>	\$7,041.00 (Plus NJ Piling Surcharge of \$123.00)	
<b>Endorsements / Exclusions:</b>	In accordance with our revised quote letter dated: July 7 <sup>th</sup> , 2005	
<b>Conditions:</b>	Receipt, review, and acceptance of Supplements A, B, & C (attached), even if they are not applicable; Re-signed and re-dated order to issue.	

Issuance of a policy is contingent upon receipt, review and acceptance of the aforementioned conditions AND upon receipt by D & O Concepts, Inc., of the premium due.

As documentation or information is received in satisfaction of the aforementioned conditions, the underwriter reserves the right to modify or rescind this temporary binder. Furthermore, this binder and any policy issued pursuant thereto, are subject to confirmation of no material change in the information provided in the insured's original application.

If the requested information is not received, reviewed and approved by the binder expiration date, or if a material change in the original application information is revealed, then this binder, and any policy issued pursuant thereto, may become null and void *Ab Initio*. Extension or modification of any binder may only be made in writing by D & O Concepts, Inc.

  
 By: David A. Rainer, President

Dated: July 18, 2005



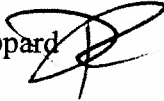
**Government of the District of Columbia  
Department of Insurance, Securities and Banking**



**Thomas E. Hampton**  
Acting Commissioner

**MEMORANDUM**

TO: Thomas E. Hampton  
Acting Commissioner

FROM: Dana G. Sheppard   
Director  
Risk Finance Bureau

SUBJECT: Ocean Risk Retention Group

DATE: November 2, 2005

---

As you aware, in June of this year, New Jersey Insurance Commissioner Don Bryan informed then-DC Commissioner Mirel that Ocean Risk Retention Group was engaged in market conduct practices that were contrary to the information stated in its business plan. Ocean Risk Retention Group ("Ocean") writes liability coverage for taxis operating in the State of New Jersey.

The Department engaged Rector & Associates to perform a limited-scope examination of the company's underwriting and rating, claims, and handling of premiums to ensure that Ocean was in compliance with District of Columbia law, and the business plan on file with the Department. The NJ Department of Insurance also participated in the examination by examining the practices of Ocean's MGU. The examination commenced on July 11, 2005 and concluded on July 13, 2005.

The examiners' report found no significant violations. However, the examiners found in several instances that Ocean was not using the rating, underwriting, and discount criteria submitted in its initial application filed with the Department.

The examination report was sent to Ocean on August 19, 2005 and comments from Ocean were received on September 29, 2005. Ocean did not dispute the findings and recommendations, and agreed to take all necessary steps to correct the problems found in the examination report. The findings and recommendations were discussed with Ocean's representatives, and Ocean's captive manager, Allen Taft agreed to monitor the

company more closely, and report his findings to the Department on a monthly basis. The Recommendations can be found on page 37 of the examination report.

Please let me know if you accept the findings and recommendations. If so, I will prepare an order adopting the report for you to sign.

August 19, 2005

**Limited Scope Examination for  
OCEAN RISK RETENTION GROUP, INC.**

**For the Period**

**March 22, 2005 through May 31, 2005**

The Honorable Lawrence Mirel  
Commissioner  
Department of Insurance, Securities and Banking  
Government of the District of Columbia  
810 First Street, N.E., Suite 701  
Washington, DC 20002

Commissioner Mirel:

Under the provisions of the District of Columbia Insurance Code, Section 3931.14 *et seq.*, a limited-scope examination was made of the conduct, performance and practices of

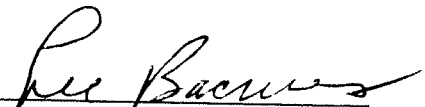
**OCEAN RISK RETENTION GROUP, INC.**

with administrative offices located at 839 Kearny Avenue, Kearny, NJ 07032. This limited-scope examination, as of May 31, 2005, reflects the insurance activities for Ocean Risk Retention Group, Inc. hereinafter referred to as "ORRG." ORRG's National Association of Insurance Commissioners ("NAIC") individual company code number is 10158.

ACKNOWLEDGEMENT

In addition to the undersigned, Bruce Schowengerdt and Edward Dinkel of Rector & Associates, Inc. participated in this limited-scope examination.

Respectfully submitted,



Lee Backus, Examiner-in-Charge  
For the District of Columbia  
Department of Insurance, Securities and Banking

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## SCOPE OF EXAMINATION

This limited-scope examination covers the period ORRG commenced business, March 22, 2005 through May 31, 2005. The examination fieldwork commenced on July 11, 2005 and concluded on July 13, 2005. ORRG has only been domiciled (licensed) in the District of Columbia since March 2005 and thus we have not performed a full-scope examination of ORRG in the past.

Ocean is a risk retention group that is licensed only in the District of Columbia. It writes only taxi-cab auto liability coverage and writes such coverage exclusively in the State of New Jersey.

A limited-scope examination of Ocean was called by the District of Columbia Department of Insurance, Securities and Banking (the "DISB") to respond to issues raised by the New Jersey Department of Banking and Insurance (the "NJDOI") regarding Ocean's operations. The scope of the examination was designed to specifically address the issues raised by the NJDOI.

Rector & Associates, Inc. ("R&A"), with assistance from the New Jersey Department of Banking and Insurance ("NJDOI"), performed the limited-scope examination of ORRG in accordance with the Final Scope – Targeted Financial/Market Conduct Examination – Ocean Risk Retention Group, Inc. (Appendix B) outlined and approved by the District of Columbia Department of Insurance, Securities and Banking ("DISB").

The limited-scope examination included the following procedures: review of the ORRG business plan; review of the captive management agreement with the Taft Companies ("Taft"); review of the managing general underwriter ("MGU") agreement with Campisano/Renaissance Retention Group ("RRG"); assessment of applicability of, and compliance with, managing general agent ("MGA") laws; determination of management of ORRG; review of the feasibility study performed by Bartlett Actuarial Group, Ltd. ("Bartlett"); tests of underwriting and rating; analysis of handling of premiums by RRG; review of capital and surplus contributions by ORRG policyholders; tests of claims; and review of business plan requirements for errors & omissions ("E&O") insurance and/or bonds for the protection of ORRG.

The limited-scope examination consisted of a review of extensive information provided by the DISB, NJDOI and ORRG, three days of on-site examination work that included meetings and discussions with ORRG, Taft, Atlantic Risk Management ("ARM") and RRG personnel, and telephone conferences with various DISB, NJDOI, ORRG and Taft personnel.

The procedures performed were based on the limited-scope examination scope approved by the DISB. The examination was not a "full-scope" examination as described in the NAIC *Financial Condition Examiners Handbook* and the NAIC *Market Conduct Examiners Handbook* and is not intended to communicate all matters of importance for an understanding of ORRG. We did not examine or verify any information, data,

procedures, etc. beyond the scope of the procedures described in this report. Had we performed a more comprehensive full scope examination, information may have been obtained that would have altered the conclusions in this report.

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

The NJDOI sent its own examiner to conduct a review of Ocean's MGA, RRG to determine whether RRG is in compliance with all applicable New Jersey laws and regulations. NJDOI's findings appear in Appendix A of this report.

## BUSINESS PLAN

### Financial Projections

#### Summary

We performed the following procedures pertaining to the review of the ORRG business plan: 1) obtained and reviewed a copy of the ORRG business plan filed with the DISB and the NJDOI; 2) determined whether ORRG was in compliance with the elements of the business plan pertaining to: management of ORRG, underwriting and rating; capital contributions; claims; and handling of premiums; 3) compared the most recent financial results to the financial projections included in the business plan; and 4) discussed with ORRG personnel the process of developing the financial projections (including key assumptions relied on).

Our assessment of ORRG's compliance with the specified components of the ORRG Business Plan was performed in conjunction with those procedures outlined in items 2. through 11. below. To avoid duplication, we have included the write-ups of the description of tests performed, and our conclusions, under those various items. We direct the reader to those items for our detailed discussions of ORRG's compliance with the specified sections of the ORRG business plan.

The most recent financial statements available for review at the time of our on-site examination were ORRG's 5/31/05 internal financial statements. ORRG did not begin insurance operations until early April 2005. Therefore, the 5/31/05 financial statements, which included only two months of insurance operations, were too limited to compare directly with the financial projections contained in the ORRG business plan. Instead we compared the key assumptions in the financial projections to ORRG's current operations and noted differences as described in detail below. We did not attempt to quantify the differences; however, the impact of the differences on the financial projections could be significant. We were informed that ORRG has filed an amended business plan with the

DISB that includes revised financial projections, which might have taken into account the differences we noted. We also performed a general analytical review of the financial statements for compliance with the DC Captive Laws, and nothing came to our attention that would indicate that the financial statements are not being prepared in accordance with the DC Captive Laws.

#### Detailed Discussion

We performed our assessment of ORRG's compliance with certain specific components of the ORRG Business Plan in conjunction with the procedures outlined in the various sections below. To avoid duplication, we have included the write-ups of the description of tests performed, and our conclusions, under those various items.

To perform a comparison of the most recent financial statements to the financial projections contained in the ORRG Business Plan, we obtained a copy of ORRG's 5/31/05 internal financial statements and the Bartlett feasibility study. (The Bartlett feasibility study contained the ORRG Business Plan financial projections.)

ORRG initiated insurance operations in early April 2005. As a result, the 5/31/05 financial statements contain very limited financial results, thus making it difficult to perform a meaningful comparison to the ORRG business plan financial projections. Instead, through review of the financial projections contained in the Bartlett feasibility study and discussions with ORRG and Taft, we identified the key assumptions contained in the financial projections. We then compared those key assumptions against ORRG's current operations (including the actual financial results presented in the 5/31/05 financial statements) to determine whether differences existed. We did not attempt to quantify the effect of the differences we noted. However, we believe the differences as a whole could have a material impact on the financial projections.

#### Key Assumptions in Business Plan:

Following are key assumptions included in the financial projections contained in the ORRG Business Plan (Bartlett feasibility study):

- First year (2005) gross written premium will be approximately \$3 million.
- ORRG's book of business will closely resemble that of its major competitors.
- June 1, 2004 CAIP rates as promulgated by AIPSO in New Jersey should be offered.
- Discounts of up to 25% will be offered for exceptional risks (however, for the first three policy years, the maximum discount would be 20%).

- Initial capitalization of \$600,000 (\$400,000 in the form of a letter of credit and \$200,000 in the form of a surplus note).
- Yearly loss ratios of 36%.
- 95% of available assets will be invested and the average yield on investments will be 4.0%.
- Annual capital contributions by policyholders will be 11% of gross written premium.
- Commissions on the RRG MGU Agreement will be 25% of gross written premium.
- Additional operating expenses will be approximately \$236,000 in the first year.
- Forecasted losses are limited to a basic per occurrence combined single limit of \$35,000.

Differences from Key Assumptions in Business Plan:

We noted the following differences between ORRG's actual operations (including those captured in the 5/31/05 financial statements) and those contained in the Bartlett feasibility study. We were informed that ORRG has filed an amended business plan with the DISB that includes revised financial projections which may have taken into account the differences we noted.

- Rates charged by ORRG through 6/5/05 were not based on the CAIP rates, including discounts, contained in the Bartlett feasibility study. We noted a significant number of policies with discounts in excess of 30% off the CAIP rates. However, in a letter dated June 7, 2005 from Brian Johnson, ACAS, MAAA (Bartlett Actuarial Group), Mr. Johnson stated "In my opinion, the difference between charged and filed rates for those policies written in April and May 2005 has no material affect on the solvency and continued financial solidity of Ocean Risk Retention Group."

ORRG indicated that it initially believed it had discretion to vary from the CAIP rates included in the Bartlett feasibility study. However, as a result of discussions with the NJDOI and with Taft, ORRG concluded that the rates in the Bartlett feasibility study are required to be followed to be in compliance with the ORRG business plan approved by the DISB. Although ORRG indicated that it began strictly following the rates in the Bartlett feasibility study in early June 2005, some differences were still noted in our tests of underwriting and rating (see the discussion in item 7. below).



- Actual written premium per the 6/30/05 Production Report equaled approximately \$1.6 million. If ORRG were to continue to write at this level for the remainder of the year, written premium for 2005 would be approximately \$4.8 million. The total written premium projected for all of 2005 per the Bartlett feasibility study is only \$3.0 million.
- ORRG's current criteria necessary to obtain the 5% MVR discount is seven or fewer insurable points. However, the Bartlett feasibility study indicates that four or fewer insurable points are necessary to obtain the 5% MVR discount.
- ORRG is not charging additional premium for Uninsured Motorist coverage. The Bartlett feasibility study includes a \$24 per car additional premium for Uninsured Motorist coverage.
- ORRG is charging all policyholders the "non-fleet" CAIP rate, even in instances when the insured would meet the CAIP definition of "fleet." The Bartlett feasibility study includes "fleet" and "non-fleet" rates. The "fleet" rates are slightly higher than the "non-fleet" rates.
- ORRG capital contributions are equal to 10% of gross written premium. However, the Bartlett feasibility study assumes capital contributions of 11% of gross written premium.
- ORRG is requiring policyholders to make capital contributions in the amount of 10% of first year gross written premium for each of the first three policy years. However, the Bartlett feasibility study assumes that the annual capital contributions are based on current year gross written premium and that the capital contributions will continue for as long as the policyholder maintains a policy with ORRG. (We were informed that an Amended Business Plan was filed with the DISB that included a revised actuarial study that assumes capital contributions only in the first three policy years based on first year gross written premium.)
- The \$200,000 Surplus Note was not funded into an ORRG bank account until June 8, 2005. However, the Bartlett feasibility study assumed the surplus note would be funded as part of "initial" capital and surplus.
- The actual ORRG loss ratio at 5/31/05 was 55%. The Bartlett feasibility study assumed a 36% loss ratio. (We were informed that the higher actual loss ratio was a result of the premium rates charged from inception to 6/5/05 being lower than the approved discounted CAIP rates.)
- As of the date of our examination, all of ORRG's liquid assets were in non-interest bearing bank accounts and ORRG had no investment income.

The Bartlett feasibility study assumed a 4% investment return on ORRG's liquid assets in 2005.

- Approximately half of the business written by ORRG has been Newark Airport and Penn Station vehicles, which are not allowed to cruise the streets for passengers. We were informed by ORRG that the rate charged for those policyholders is the undiscounted CAIP rate. The premium rate schedule in the Bartlett feasibility study does not include a Newark Airport or Newark Penn Station rate, and it is unclear whether the Newark Airport and Penn Station risks were evaluated as part of the Bartlett feasibility study.
- Due to an error in the formula used to calculate discounts, all \$100,000 liability limit policies issued by ORRG after 6/5/05 include a discount of 25% off the CAIP rate. (This formula error was corrected by ORRG during our on-site visit.) The Bartlett feasibility study assumes maximum discounts of 20% in the first three policy years.

#### Evaluation of Financial Statements:

In addition to comparing ORRG's 5/31/05 financial statements to the financial projections in the ORRG Business Plan, we reviewed the 5/31/05 financial statements to determine general compliance with DC statutory accounting rules for captive insurers and for any unusual transactions. We also held discussions with Mr. Weitzel regarding the preparation and content of the financial statements.

Mr. Weitzel indicated that Taft is responsible for preparing ORRG's internal financial statements, including performing bank reconciliations of all ORRG accounts and maintaining the books and records of ORRG. Taft is also responsible for preparing the annual and quarterly statement blanks for filing with the DISB. He stated that Taft receives production reports, as well as copies of all policy declaration pages, from RRG on at least a monthly basis. Taft also has access to the claims administration system maintained by the claims administrator (Atlantic Risk Management). Taft will access that system to obtain financial information necessary to establish ORRG's insurance liabilities. All claims will be paid from an operating account maintained by Taft. In addition all operating expenses, except payment of commissions and return premiums, are paid out of the ORRG operating account maintained by Taft. Premium receipts, commission payments and return premiums flow through the ORRG Premium Trust Account (an ORRG account) that is maintained by the officers of ORRG. Excess funds in the premium account are periodically transferred to the Ocean operating account maintained by Taft. Taft performs the monthly reconciliation of the ORRG Premium Trust Account. Monthly internal financial statements are due (to the officers of ORRG) by the 15<sup>th</sup> day following month end. Mr. Weitzel indicated that the financial statements are prepared in accordance with the DC Captive

Laws. He indicated that Taft has a substantial number of captive clients that are domiciled in DC and that Taft has prepared and filed annual and quarterly financial statements with the DISB that are in compliance with the DC Captive Laws.

As a result of our review of ORRG's 5/31/05 internal financial statements and our discussions with Mr. Weitzel, nothing came to our attention that would indicate that the financial statements are not being prepared in accordance with DC captive laws. However, we did note that the 5/31/05 financial statements did not include the ORRG – Premium Trust Account (as described in more detail below) that was opened by ORRG on 5/18/05 and had a balance as of 5/31/05. We were informed by Taft that the exclusion was non-intentional and that the result of the exclusion was that "Premium Receivables" was overstated and "ORRG – Premium Trust Account" was understated by equal amounts. Therefore the 5/31/05 total asset amount was correct. It was merely a misstatement in individual balances. We were provided with a copy of ORRG's 6/30/05 internal financial statements which included the ORRG – Premium Trust Account.

#### Requirements for E&O Insurance and/or Bonds for the Protection of ORRG

##### Summary and Detailed Discussion

We performed the following procedures pertaining to the review of ORRG business plan requirements for E&O insurance and/or bonds for the protection of ORRG: 1) evaluated requirements for E&O insurance coverage and/or bonds in the Business Plan; and 2) determined that required coverage and/or bonds were in effect.

The ORRG business plan does not contain any specific E&O insurance coverage and/or bond requirements for any of the ORRG service providers. However, RRG is required to maintain \$1 million of E&O coverage as a part of the MGU Agreement. See the COMPANY OPERATIONS AND MANAGEMENT section below for a discussion of RRG's E&O coverage.

#### COMPANY OPERATIONS AND MANAGEMENT

##### Determination of Management

###### Summary

We performed the following procedures pertaining to the determination of the management of ORRG: 1) obtained and reviewed listings of management (officers and directors) of ORRG, Taft and RRG; 2) obtained and reviewed background data (biographical information) pertaining to management personnel at ORRG, Taft and RRG; 3) determined whether the background and expertise of the various management personnel of ORRG, Taft and RRG are acceptable and appropriate given the role each performs for ORRG.

The management of ORRG is divided between two entities: i) ORRG's Officers and Board of Directors; and ii) Taft. ORRG has no paid employees; therefore, the day-to-day management oversight of ORRG's operations is the responsibility of Taft. Taft is responsible for oversight of all ORRG service providers (MGU, claims administrator, auditing firm, actuarial firm, etc.). To assist in its oversight role, one Taft employee is also an officer of ORRG. Taft is subject to the control and supervision of ORRG's three-member Board of Directors, two of which are also officers of ORRG.

Although a service provider, RRG also exerts substantial influence over the management of ORRG. RRG is solely responsible for underwriting and maintaining policies, including the collection of premium on behalf of ORRG. Also, we were informed that the owner of RRG is married to an ORRG officer/director. In addition, Mr. Battschinger is both a paid employee of RRG and also an officer and director of ORRG. Therefore, although RRG has no authority in areas such as check writing authorization, Mr. Battschinger does have such authority in his role as an officer and director of ORRG. We were informed that this structure was specifically designed to allow for ease of completing transactions.

Based on the results of our examination, we believe that background and expertise of the management of ORRG, Taft and RRG are acceptable and appropriate given the role each performs for ORRG. However, although we did not note any improprieties or favoritisms during our examination, the lack of segregation of duties between RRG and ORRG caused by dual roles performed by Mr. Battschinger does pose a potential risk to ORRG.

#### Detailed Discussion

We performed a review of the management (officers and directors) of ORRG, Taft and RRG:

#### ORRG

As described in the Business Plan, the ultimate responsibility for management of ORRG is vested in the ORRG Board of Directors, which currently consists of the following three persons:

Jeanette Frankenberg  
Glenn Battschinger  
Amet Songun

The ORRG officers, and their titles, are as follows:

Jeanette Frankenberg, President  
Glenn Battschinger, Secretary and Treasurer  
A. John Guignon, Assistant Secretary and Assistant Treasurer

To assess the backgrounds of the ORRG directors and officers, we obtained biographical affidavits for each and held discussions with ORRG and Taft personnel. Except for Mr. Guignon, none of the remaining officers or directors had any significant previous property/casualty insurance experience prior to becoming officers and directors of ORRG. Ms. Frankenberg is a partner in a law firm with primary emphasis in banking clients. Prior to joining ORRG as an officer and director, Mr. Battschinger has been the operations manager of RRG for approximately one year. Prior to that time, he owned and operated various companies, none of which were associated with the insurance and/or financial services industry. He also has previous military experience. Mr. Songun is an owner of a taxi cab company. Mr. Guignon has approximately 17 years of insurance industry experience, primarily as a risk manager. He has approximately five years of experience working directly in the alternative risk (captives and risk retention groups) market, including two years with Taft. He previously served on the Board of Directors and was an officer of a multi-billion dollar insurance company.

In our discussions with Mr. Battschinger, he indicated that he and Ms. Frankenberg are the ORRG directors and officers who are most involved with the oversight of ORRG. He indicated that Ms. Frankenberg is not physically located at the ORRG offices. However, Mr. Battschinger holds telephone conferences with Ms. Frankenberg virtually on a daily basis regarding ORRG matters. Mr. Battschinger indicated that to offset his limited insurance experience, he has extensive conference calls with Messrs. Guignon and Weitzel.

Mr. Battschinger indicated that Mr. Songun has very limited daily contact with ORRG. However, as a taxi cab company owner, Mr. Songun has been working closely with ORRG to help develop underwriting risk factors as well as to assist in the development of the ORRG taxi cab audit process. (As part of the policy maintenance process, RRG is expected to perform on-site inspections of the insured taxi cab companies to verify the accuracy of the underwritten taxi cabs.)

As described in more detail below, Mr. Guignon, as an employee of Taft, is involved primarily with the financial oversight of ORRG through review of various ORRG-prepared reports, preparation of various financial documents (e.g. bank reconciliations) and review of financial statements prepared by Mr. Weitzel.

In our discussion with Mr. Taft, we were informed that due to the limited time that ORRG has been in business, the ORRG Board of Directors has not yet met, except to approve the ORRG Bylaws. Mr. Taft indicated that the ORRG bylaws require that the ORRG Board meet at least annually.

#### Taft

In our discussions with Mr. Taft, we were informed that the following Taft employees were assigned to the ORRG account:

W. Allen Taft, President  
Richard C. Goff, Secretary and Treasurer  
Mary C. Goff, Senior Vice President  
A. John Guignon, Captive & Risk Retention Group Manager  
John A. Weitzel, Managing Director

In our discussions with Mr. Taft, we were informed that Mr. Taft is primarily responsible for oversight of regulatory compliance issues related to Taft, including, but not limited to, reporting to the DISB on regulatory issues, filing statutory reports, working with ORRG on regulatory requirements, and responding to insurance regulator requests. Mr. Taft has in excess of 30 years of insurance industry experience, including 11 years at Taft. Taft primarily provides services related to the alternative risk market (captives, risk retention groups, off-shore reinsurance companies, etc.). We were informed that Taft provides management oversight for a substantial number of risk retention groups and captives in Vermont, Washington, D.C. and South Carolina.

Mr. and Ms. Goff provide general oversight services to ORRG, including information systems support. Mr. and Ms. Goff have in excess of 35 and 30 years, respectively, of insurance industry experience, primarily in the areas of underwriting and risk management.

Mr. Guignon is responsible for the day-to-day oversight of ORRG, including maintaining the books and records of ORRG at Taft. His duties include, but are not limited to, review of daily, weekly and monthly reports prepared by ORRG, RRG and ARM (the claims administrator), approval of invoices, issuance of checks from the ORRG operating account, preparation of quarterly reports as required by the Management Services Agreement, assistance with preparation of monthly and quarterly financials statements and related supporting documents, review of policies issued and responding to service provider requests/questions. As described above, Mr. Guignon is a non-paid ORRG officer in addition to being a paid Taft employee. He has approximately 15 years of insurance industry experience, primarily in the areas of finance (accounting) and risk management.

Mr. Weitzel is responsible for preparation of ORRG's financial statements (both internal and external). Mr. Weitzel is a CPA and has in excess of 35 years of insurance industry experience, primarily in the area of finance (accounting). Mr. Weitzel has previous experience as Chief Financial Officer of three mid-sized insurance/reinsurance companies as well as experience at a national CPA firm. Our discussions with Mr. Weitzel and our conclusions on the internal financial statements are described in more detail elsewhere in this report.

## RRG

As described elsewhere in this report, RRG has entered into a MGU Agreement with ORRG to perform managing general agent services for ORRG, including, but not limited to, policy underwriting, policy maintenance, oversight of sub-producers, solicitation and acceptance of applications, conducting audits, policy issuance, cancellation and renewal, handling of premiums, and claims administration monitoring. RRG serves exclusively as managing general agent for ORRG. All RRG activities are subject to oversight by Taft, and Taft may override any actions taken by RRG. As managing general agent, and by other means described below, RRG could exercise significant influence over the management of ORRG.

RRG employees primarily responsible for the ORRG account are:

Louis S. Campisano, Sr., President, Secretary and Treasurer  
Glenn T. Battschinger, Operations Manager

Per our discussions with Mr. Battschinger, Mr. Campisano is responsible for the solicitation and acceptance of policies, oversight of subproducers, and compliance with the requirements of the MGU Agreement. Mr. Campisano has in excess of 25 years of experience in the insurance industry, primarily as an insurance agent and underwriter. In our discussions with Messrs. Battschinger and Campisano, we were informed that Mr. Campisano's agency experience includes personal and commercial lines insurance, including taxi cab business. In addition, in communications with the NJDOI, we were informed that Mr. Campisano and Ms. Frankenberg are married.

Mr. Battschinger is primarily responsible for underwriting ORRG policies as well as maintaining the books and records of RRG. In our discussions with Mr. Battschinger, he indicated that he was the exclusive underwriter of all ORRG policies. As described above, Mr. Battschinger is also an officer and director of ORRG. Although we noted no improprieties, the lack of segregation between Mr. Battschinger's roles as officer and director of ORRG and as a paid employee of RRG (primary underwriter of ORRG policies) would allow for the possibility of ORRG's interests being placed behind those of RRG.

Based on the results of our testing, we believe that background and expertise of the management of ORRG, Taft, and RRG are acceptable and appropriate given the role each performs for ORRG. However, although we did not note any improprieties or favoritisms during our examination, the lack of segregation of duties between RRG and ORRG caused by dual roles performed by Mr. Battschinger does pose a potential risk to ORRG.

## Taft Agreement

### Summary

We performed the following procedures pertaining to the review of the captive management agreement with Taft: 1) obtained and reviewed a copy of the captive management agreement with Taft; 2) obtained and reviewed copies of reports provided by Taft pertaining to the serviced provided to ORRG (including, but not necessarily limited to, administration, underwriting, accounting/financial, investment management, regulatory compliance and management reporting); 3) determined whether Taft is in compliance with key elements of the captive management agreement; and 4) discussed with ORRG personnel the scope of the services provided by Taft.

As described in the ORRG business plan, Taft is responsible for providing substantially all of the day-to-day operational and overall management of ORRG. The scope of services to be provided by Taft are outlined in the Management Services and Consulting Agreement (“Taft Agreement”) between Taft and ORRG. Due to the limited amount of time that ORRG has been in business, Taft’s oversight of ORRG has generally been limited and has primarily focused on underwriting performed by RRG, preparation of monthly financial statements, and responding to state insurance department examinations. Based on our review of the Taft Agreement, reports prepared by Taft and discussions with Taft and ORRG management, it appears that Taft is in compliance with the key elements of the Taft Agreement.

### Detailed Discussion

To perform our review, we obtained a signed copy of the Taft Agreement dated March 15, 2005 between W.A. Taft & Company (DC) Ltd. and Ocean Risk Retention Group, Inc. The key elements of the Taft Agreement are contained in Section 4 and include the following services to be performed by Taft:

- a. “To staff such offices as are required to enable the due performance of all duties to be performed pursuant to the terms of this Agreement”

We held discussions with W. Allen Taft, President, and John A. Weitzel, Managing Director, of Taft and Glenn Battschinger, ORRG Secretary and Treasurer, regarding offices maintained by Taft. Taft has two offices that primarily service the ORRG account. Those offices are located in Washington, DC and Charleston, SC. The Washington, DC office is responsible for the day-to-day oversight of ORRG, including maintaining records, communicating with insurance regulators, maintaining operating bank accounts, and coordinating functions with other outside vendors of ORRG. The Charleston office is responsible for the production of accounting and financial statement reports.



- b. “To maintain the books and records of the Company and provide quarterly financial statements and reports to the DISB, as required”

In our discussions with Mr. Taft, we were informed that books and records of ORRG are maintained at Taft’s Washington, DC office. To maintain the books and records in Washington, DC, Taft obtains periodic reports and documents, some of which are available on-line (on a real-time basis), from ORRG, RRG and ARM (the claims administrator). Original incorporation documents and accounting and financial statement documents are maintained at Taft’s Washington DC office, while original claim and underwriting file documents are maintained at the RRG and ARM locations.

ORRG began operations on March 22, 2005. Therefore, ORRG’s quarterly statement for the first quarter of 2005 would have been due to the DISB by May 15, 2005. However, in a letter dated May 4, 2005, Mr. Taft, on behalf of ORRG, requested a waiver of the first quarter financial statement filing requirement due to the fact that ORRG did not engage in the business of insurance from the date of its incorporation through March 31, 2005. In a letter dated May 13, 2005 from James H. Lawrence III, DISB Chief Financial Analyst, ORRG was granted a waiver from the first quarter DISB filing requirements.

Quarterly financial statements for the period ended June 30, 2005 are not required to be filed with the DISB until August 15, 2005. Therefore, there was no second quarter financial statement available for our review. However, we were provided with a copy of the 5/31/05 internal financial statements (balance sheet, income statement and general ledger) prepared by Taft. Mr. Battschinger confirmed that the 5/31/05 internal financial statements were filed with ORRG in a timely manner.

- c. “To maintain the operating bank account of the Company, and reconcile monthly”

Based on our discussions with Mr. Taft, an ORRG operating bank account was established by Taft during ORRG’s incorporation process. The operating account was established in the name of ORRG at the Branch Banking and Trust Company (“BB&T”) under the management of Taft.

We obtained a copy of the May 31, 2005 operating account bank reconciliation as prepared by Taft. The May 31, 2005 bank statement from BB&T indicated that the account was in the name of ORRG and was mailed to the attention of Taft in Towson, MD (another Taft office address).

In addition to the operating account, we were informed that, on July 8, 2005, Taft opened a zero-balance account in ORRG’s name at BB&T. This account will be maintained by Taft and used to pay claims incurred by ORRG. (We explain the account in more detail in item 10. below.) Since the zero balance account was opened in July, no month-end reconciliation was available for our review.

- d. “To manage relations with reinsurers, reinsurance intermediaries and brokers to include contracts, premium and loss bordereau, payments and collections”

At the time of the examination, ORRG had no reinsurance in effect. Therefore, Taft currently performs no services for ORRG related to reinsurance.

- e. “To report on a mutually agreed schedule and confer with the DISB with respect to all matters deemed by the Service Provider (Taft) to be relevant”

In our discussions with Mr. Taft, we were informed that ORRG has not yet been requested to report to the DISB. ORRG is required to file certain financial reports (annual and quarterly financial statements, actuarial opinion, audit financial statement, etc.) at timeframes established by DC law and/or the DISB. Mr. Taft indicated that due to the infancy of ORRG, the DISB is still assessing ORRG and would likely establish a reporting schedule once ORRG has more reportable activity.

In addition to regularly scheduled reporting, Mr. Taft indicated that Taft would report relevant matters to the DISB. As an example, he indicated that following an on-site examination of ORRG (at RRG’s offices) by the NJDOI, Taft performed an on-site review to address the concerns raised by the NJDOI. The results of Taft’s review were then communicated to DISB in a letter dated June 13, 2005 from Mr. Taft to Dana Sheppard, Acting Director, DISB Compliance Division. We obtained a copy of the June 13 letter and confirmed its contents as including a summary of the Taft review.

- f. “To coordinate the outsourcing of accounting, auditing, actuarial and other services which are separately negotiated and engaged by the company”

As described in the Business Plan, ORRG has contracted with the following entities for relevant services:

- i.) Accounting & Auditing – Johnson Lambert and Company
- ii.) Actuarial – Bartlett Actuarial Group, Ltd.
- iii.) Claims – Atlantic Risk Management
- iv.) Underwriting – Renaissance Retention Group
- v.) Resident (Washington DC) Counsel – Muldoon, Murphy & Aguggia, LLP
- vi.) Defense Counsel (claims defense) – Suarez & Suarez

Although not specifically identified in Section 4 of the Taft Agreement, the ORRG business plan also indicates that Taft will be responsible for the investment management functions for ORRG, including assisting ORRG with procuring an investment advisor, overseeing investment services provided by the investment advisor, monitoring compliance with investment policy, and maintaining statutory accounting records related to investment transactions. Due to the limited amount of funds available for investment at

the time of our on-site examination, no investment policy has been established. All cash receipts are currently maintained in non-interest bearing bank accounts. We were informed that when sufficient funds for investing are available, Taft will help initiate necessary investment services and help draft applicable investment policies that comply with DC captive laws.

Based on our review of the Taft Agreement, reports prepared by Taft and discussions with Taft and ORRG management, it appears that Taft is in compliance with the key elements of the Taft Agreement.

### Renaissance Retention Group (Managing General Underwriter) Agreement

#### Summary

We performed the following procedures pertaining to the review of the MGU agreement between RRG and ORRG: 1) obtained and reviewed a copy of the MGU Agreement with RRG; 2) determined whether RRG is in compliance with key elements of the MGU Agreement; 3) discussed with ORRG personnel the scope of services provided by RRG; and 4) determine the fees paid to RRG are in compliance with the ORRG business plan.

Under the terms of the MGU Agreement, RRG is responsible for all underwriting activities related to ORRG including, but not limited to: i) underwriting applications; ii) issuing policies; iii) billing and collecting premiums; and iv) appointment and oversight of producers and sub-producers. In addition to underwriting, RRG is responsible for oversight of claims activities performed by ARM. In exchange for services provided to ORRG, RRG is paid a commission equal to 25% of gross collected premium. Per the MGU Agreement, all services performed by RRG are under the supervision of the captive manager (Taft). Based on our review of the MGU Agreement and calculation of commissions and our discussions with RRG, it appears that RRG is in compliance with the key elements of the MGU Agreement and that fees paid to RRG are in compliance with the ORRG business plan (and the MGU Agreement).

#### Detailed Discussion

To perform our review, we obtained and reviewed a signed copy of the MGU Agreement between ORRG and RRG (the MGU) dated April 10, 2005 and a spreadsheet outlining the calculation of commissions paid to RRG.

Based on our review of the MGU Agreement, the following key elements were identified:

The MGU shall:

- a. Solicit and accept applications, quote, underwrite and conduct audits, and solicit, negotiate, execute, amend, cancel, renew and terminate contracts of insurance, binders, cover notes, policies, certificates, slips and other formal evidences of insurance.

Through our discussions with Mr. Battschinger and Mr. Taft, we confirmed that ORRG has no paid employees and that all activities related to the solicitation, underwriting, binding, terminating, maintenance, etc. of the ORRG insurance policies is performed by RRG.

As part of our testing of the sample of policy files (see item 7. below), we reviewed applicable documents related to application, policy issuance, subscription agreement requirements and underwriting to determine whether such activities were performed by RRG. We noted no exceptions.

- b. Retain producers and subproducers and collect and receive premiums, fees, audits, and other amounts due, and pay all commissions, return premiums and adjustments.

Through our inquiries of Mr. Battschinger, we were informed that RRG has retained three subproducers for the ORRG account.

- Khellah Agency
- Tango Agency
- LCI Agency

Mr. Battschinger indicated that the subproducers have no authority to underwrite or bind policies or collect premiums on behalf of RRG or ORRG. All such activities are performed exclusively by RRG. Mr. Battschinger indicated that the Khellah Agency is sub-agent (subproducer) on all Newark cab business underwritten by RRG. All other business has been produced by RRG. The Tango and LCI Agencies were sub-agents on one policy each. Commissions to sub-agents are paid directly from RRG accounts.

- c. Procure \$1 million E&O insurance policy for itself.

We obtained a copy of RRG's Insurance Agents and Brokers Professional Liability Policy effective from July 28, 2004 – July 28, 2005 in the amount of \$1 million with National Union Fire Insurance Company. In our discussions with Lou Campisano, owner of RRG, we were informed that the policy was designed to cover all managing general agency activities performed by RRG on behalf of ORRG. However, he indicated that he had contacted RRG's insurance carrier and was unable to obtain written confirmation of such coverage. Therefore, Mr. Campisano negotiated a new E&O policy with another insurance carrier (AIG) to be effective retroactive to April 1, 2005 that would specifically include coverage for RRG managing general agency responsibilities for the ORRG account. We were provided with a copy of a memo from AIG dated July 7, 2005 that indicated that professional liability policy number 6477932 issued to RRG by American Home Assurance (a subsidiary of AIG) does not have a specific coverage exclusion for MGA/MGU activity under the definition of professional services. The memo does go on to note that coverage for any claims would depend on the allegations of such claims as well as the policy Terms, Conditions and Exclusions and, as such, it would not be possible to make a determination

of coverage unless AIG has specific claim wording. Thus, RRG's new policy from AIG appears to cover managing general agency services provided to ORRG. However, the policy had not yet been received by RRG at the time of our examination, so we were not able to review the new E&O policy. We were informed by the NJDOI that a copy of the American Home Assurance E&O policy was received and reviewed by the NJDOI and that it met the requirements of the NJ Laws including coverage for MGA activities performed by RRG on behalf of ORRG. The policy was issued July 18, 2005 and was issued retroactive to April 1, 2005.

- d. Establish and maintain a premium trust account designated "Renaissance Premium Trust Account" in a bank mutually agreed to by MGU and ORRG and shall deposit into such premium trust account all premiums collected by MGU under the terms of the MGU Agreement. MGU shall maintain signature authority on such account and shall be entitled to retain any interest earned on funds deposited in such accounts. MGU shall not commingle any funds in such premium account with funds in MGU's corporate accounts or other funds held by the MGU in any other capacity. MGU shall remit to ORRG all premiums due under the MGU Agreement by the middle of the second month following the month during which MGU collects such funds.

Through our inquiries of Mr. Battschinger, we were informed that during the period from ORRG's incorporation through the date of our on-site examination, there have been three premium accounts for ORRG's business: i) Renaissance Retention Group – ORRG premium account; ii) Ocean RRG Premium Trust Account; and iii) Ocean RRG – Trust Account. All three accounts were/are with the Bank of New York.

The RRG – ORRG premium account (the first account) was an RRG premium account opened exclusively for ORRG business. During an on-site examination by the NJDOI, ORRG was informed that ORRG funds had to be maintained in a "trust" account. As a result, RRG closed the RRG – ORRG premium account and transferred all funds to the Ocean RRG Premium Trust Account (the second account). That account was also an RRG account. After submitting the new trust account information to the NJDOI, RRG was informed by the NJDOI that the trust account had to be an ORRG account and not an RRG Account. Subsequently, RRG closed the Ocean RRG Premium Trust Account and ORRG opened the Ocean RRG – Trust Account (the third account). All funds from the Ocean RRG Premium Trust Account were transferred to the Ocean RRG – Trust Account. The Ocean RRG – Trust Account, which is the current account used by ORRG for all premium activity, is owned exclusively by ORRG. RRG has no authority to withdraw funds from this account.

Although the current account used by RRG for ORRG premium activity is not in compliance with the terms of the MGU Agreement (it is an ORRG account, not an RRG account), we believe ORRG has more protections/benefits under the current arrangement than would be attained under the MGU Agreement.

- The current premium account is owned exclusively by ORRG. RRG has no signature authority over the account. This provides additional control over any misappropriation of funds by RRG. Under the MGU Agreement, RRG would have signature authority over the premium account and would control distributions from the account.
  - ORRG has immediate access to the premium funds. This has the potential to increase ORRG's investment income. Under the MGU Agreement RRG would have the ability to hold the funds for as long as 75 days.
- e. Prepare and maintain on behalf of ORRG weekly and monthly bordereau providing such policy information in such form as reasonably requested by ORRG, and shall prepare and maintain on behalf of ORRG, monthly by the 15<sup>th</sup> business day of the following month, accounting bordereau providing such information in such format as required by the DISB in respect to policies issued by ORRG.

We obtained a copy of the 6/30/05 Ocean Risk Retention Group Production Report. The Production Report provides a listing of all policies issued/cancelled by ORRG since inception, and includes information such as policy number, name of insured, policy effective date, policy limits and premium and capital contribution amounts. In our discussions with Mr. Weitzel, the Production Report is transmitted to Taft on a monthly basis, along with copies of the policy declaration page for all new policies issued by ORRG, in order for Taft to produce internal financial statements as well as any DISB required filings (annual and quarterly statements).

To determine whether the commission payments to RRG were calculated in accordance with ORRG business plan, we obtained a listing from ORRG of all payments made to RRG as of 6/30/05. According to the listing, ORRG has made two payments to RRG as of 6/30/05: 1) \$118,848.03 on 5/15/05; and 2) \$195,489 on 6/8/05.

Per the ORRG business plan, RRG's commission is calculated as 25% of "direct written premium." However, the MGU Agreement states that RRG shall be entitled to a fixed fee of 25% of "gross collected premium." In calculating the RRG commission amount, ORRG has used "gross collected premium." We believe this benefits ORRG as no commission would be paid to RRG until the premium is actually collected.

At the time of collection of premium, RRG also collects a 10% (as a percentage of premiums) capital contribution payment and a 1% organization fee. As an example, an insured owing a \$5,000 premium, would also pay a \$500 capital contribution (10% of the \$5,000 premium) and a \$50 organization fee (1% of the \$5,000 premium). The total collected by RRG for this insured would be \$5,550. As a percentage, the premium equates to 90.09% of the total amount collected (\$5,000 divided by \$5,550).

Since RRG's commission is based on "gross collected premiums," to calculate the commission payable to RRG, "total cash collections" (the sum of premiums, capital contributions and organization fees) from ORRG must be multiplied by 90.09%. That amount is then multiplied by the 25% commission rate to arrive at commissions payable to RRG.

The commission calculations of 5/15/05 and 6/8/05 both properly took total cash receipts at ORRG at the date of calculation and multiplied that amount by 90.09% to arrive at gross collected premiums. For the 5/15/05 commission calculation, the gross collected premium amount was then multiplied by 25% to arrive at the commission amount due to RRG. We reperformed the calculation and verified its accuracy.

However, for 6/8/05, the gross collected premium was multiplied by 30% to arrive at the commission amount due to RRG. The 30% commission rate did not agree to the commission rate set forth in the ORRG Business Plan. However, the 30% rate does tie to the MGU Agreement which allows the MGU, at its discretion, to charge a service fee of up to five (5%) of premium to policyholders. In our discussions with Mr. Battschinger, he indicated that RRG had interpreted this clause to allow for an additional 5% commission payment from ORRG. However, after consultation with Taft, it was determined that the additional 5% service charge was not an additional commission allowance, but, instead, was an amount that RRG could charge the policyholder directly. Therefore, it was determined that RRG must refund to ORRG the additional 5% commission received on 6/8/05. We were provided with a copy of the June 2005 Ocean RRG – Trust Account Statement showing the refund deposit. We reperformed the calculation of the 6/8/05 commission payable to RRG, with consideration for the refunded 5% overcharge, and verified its accuracy.

Based on our review of the MGU Agreement and calculation of commissions and our discussions with RRG, it appears that RRG is in compliance with the key elements of the MGU Agreement and that fees paid to RRG are in compliance with the ORRG business plan (and the MGU Agreement).

## UNDERWRITING AND RATING PRACTICES

### Bartlett Feasibility Study

#### Summary

We performed the following procedures pertaining to the review of the feasibility study performed by Bartlett Actuarial Group, Ltd ("Bartlett"): 1) obtained and reviewed a copy of the feasibility study performed for ORRG by Bartlett; and 2) determined whether ORRG policies are being rated based on the recommendations of the Bartlett feasibility study.

A copy of the Bartlett feasibility study is attached to this document as Exhibit 2. According to the feasibility study, Bartlett recommended that ORRG offer commercial automobile liability coverage to the New Jersey taxicab marketplace at the current CAIP (Commercial Automobile Insurance Program) rates, promulgated by AIPSO in New Jersey, effective June 1, 2004, subject to certain specified allowable discounts. Prior to June 5, 2005, ORRG was not using the recommended discounted CAIP rates. We were informed that, as a result of an examination recommendation from the NJDOI, ORRG began using the CAIP rates, adjusted for DISB approved discounts, beginning on June 5, 2005. Our testing of rating was performed as part of our tests of underwriting and rating (see item 7. below), and we have included our summary results related to our review of compliance with the Bartlett feasibility study recommended rates in that item.

### Detailed Discussion

To test for ORRG compliance with the rates recommended by the Bartlett feasibility study, we obtained a copy of the Actuarial Feasibility Study – Ocean Risk Retention Group, Inc. – Bartlett Actuarial Group – January 2005 (the “Bartlett feasibility study”). The Bartlett feasibility study concluded that, “we recommend that Ocean offer commercial automobile liability coverage to the New Jersey taxicab marketplace at the current CAIP rates promulgated by AIPSO in New Jersey, effective June 1, 2004.” The feasibility study also concluded that “percentage discounts off the basic premium rates will be available for exceptional risks.”

Exhibit A to the Bartlett feasibility study included a listing of the CAIP rates by territory and non-fleet and fleet status for \$35,000 single limits for Bodily Injury and Property Damage. Since ORRG was also proposing to write bodily injury and property damage coverage for \$50,000 and \$100,000 single limits, Exhibit A also included an “Increased Limit Factor” that would be applied to the \$35,000 rate to arrive at the rate for the higher limits.

The “Discounts Available for Exceptional Risks,” including criteria for attaining such discounts, as listed in Exhibit A of the Bartlett feasibility study are as follows:

- 10% Risk Management Credit
  - Operations Survey must be completed
  - Each vehicle listed on Schedule of Covered Auto must be inspected by ORRG annually
  - Maintenance Records for each vehicle listed on the Schedule of Covered Autos must be made available to ORRG
- 5% MVR Credit
  - Available to each driver listed on the Schedule of Named Drivers with no more than four (4) insurance eligibility points on their current driving record



- 5% Clean History Credit
  - Available to each member who submits a 3-year loss run showing no losses
- 5% Accident-free Member Credit
  - Available to each member after three years with ORRG if no losses have occurred during those three years

As outlined above, the maximum discount available to a policyholder is 20% for the first three years of the policy and 25% after three years.

Due to the fact that we performed our testing of conformity of ORRG-charged rates with the Bartlett feasibility study in conjunction with our testing of underwriting and rating, we have combined our write-up in item 7. below.

### Underwriting and Rating Tests

#### Summary

We performed the following procedures pertaining to the tests of underwriting and rating: 1) reviewed RRG's underwriting procedures to determine that the procedures are in compliance with ORRG guidelines; 2) discussed the underwriting procedures with RRG to gain an understanding of how underwriting procedures are implemented in practice; 3) discussed with RRG whether rates (including discounts and surcharges) have been calculated consistent with the ORRG business plan; and 4) selected a limited sample of policies that have been issued to: i) determine that the policy file information was complete (contained all information necessary for underwriting and rating and to determine exposure); ii) determine that appropriate underwriting was performed based on RRG's underwriting procedures; iii) recompute the premium and determine that it was in accordance with the ORRG business plan rates; and iv) determine that discounts/surcharges were properly supported by appropriate documentation.

ORRG's underwriting and pricing is performed by RRG as part of RRG's MGU responsibilities. Subsequent to 6/5/05, RRG began using underwriting and pricing guidelines based primarily on the Bartlett feasibility study (the Bartlett feasibility study was filed as an attachment to the ORRG business plan). Prior to 6/5/05, RRG used the Bartlett feasibility study as merely a guideline and varied its pricing based on judgmental factors. ORRG indicated that it initially believed it had discretion to vary from the CAIP rates included in the Bartlett feasibility study. However, as a result of discussions with the NJDOI and with Taft, ORRG concluded that the rates in the Bartlett feasibility study are required to be followed to be in compliance with the ORRG business plan approved by the DISB.

The following exceptions were noted during our testing of underwriting and rating:

- Exhibit A of the Bartlett feasibility study contains territory rates separated between “fleet” and “non-fleet” rates. The “fleet” rate is slightly higher than the “non-fleet” rate. Our testing indicated that the rates for all ORRG policyholders were based the “non-fleet” rates, including those policyholders that meet the definition of “fleet” owners.
- Exhibit A of the Bartlett feasibility study indicates that an additional premium of \$24 per car should be charged for Uninsured Motorist coverage. Our testing indicated that none of the policies issued by ORRG contained this additional \$24 per car premium even though ORRG policies do include Uninsured Motorist coverage.
- Exhibit A of the Bartlett feasibility study indicates that a member must have covered drivers with no more than four points on their current driving record to obtain the 5% MVR discount. RRG currently allows drivers with up to seven points on their current driving record to obtain the 5% MVR discount.
- Exhibit A of the Bartlett feasibility study does not include CAIP rates for Newark Airport taxis or Newark Penn Station taxis. RRG has underwritten a substantial number of Newark Airport and Newark Penn taxicab policies for a rate that is less than any of the territory rates outlined in Exhibit A. Two of the policy files we tested were Newark Airport taxi cabs. We were informed by ORRG that the rates charged for Newark Airport and Penn Station vehicles are CAIP rates and that the rate was unintentionally left off of Exhibit A.
- The rate charged for Newark Penn Station policies is \$147 more than the rate charged for Newark Airport policies. The rate for Newark Airport vehicles agrees to the CAIP rate that was provided to us by ORRG. Therefore, the Newark Penn Station rate is above the CAIP rate. ORRG was unable to provide documentation for the reason for the difference in rates.
- The rates charged to policyholders qualifying for the 20% maximum discount on \$100,000 liability limit policies were incorrectly calculated due to a formula error in the pricing spreadsheet used by the underwriter. Those policyholders were actually given a 25% discount. (The formula error in the pricing spreadsheet was corrected during the week of our on-site examination.)
- For one of the sample policies tested, the premium rate, and applicable discounts, were not based on the DISB-approved CAIP rates. This policy

was issued prior to 6/5/05 when, according to ORRG, it believed that deviations in the feasibility study rates were allowed.

- For one of the sample policies tested, the incorrect territory was used to calculate the policy premium. Use of the proper territory would have resulted in an additional \$3,432 of premium.
- For one of the sample policies tested, the “affidavit for no losses” was not in the file and could not be located by ORRG. Although there was no support in the policy file for the 5% Clean History discount, the policyholder was still given the discount. (After the missing documentation was discovered, ORRG sent a request for completion of an “affidavit for no losses” to the policyholder during the week of our on-site examination.)
- For one of the sample policies tested, the motor vehicle report for one of the drivers was outdated. The policyholder was given the 5% MVR discount even though the ORRG underwriting guidelines require that the motor vehicle report be dated within 30 days of the application date. (However, after this was discovered, ORRG provided us with a current MVR for the driver during the week of our on-site examination showing that the driver had no points.)

The results of our testing indicate that prior to 6/5/05, RRG did not use the pricing and discount criteria set forth in the Bartlett feasibility study. Subsequent to 6/5/05, it appears that RRG attempted to use the pricing and discount criteria set forth in the Bartlett feasibility study. However, our testing indicated that misapplication of the pricing and rating continued, although we saw no evidence that the misapplications were intentional.

#### Detailed Discussion

To perform our testing of underwriting and rating, we obtained copies of the ORRG 2005 Underwriting Guidelines (which includes the underwriting procedures), the 6/30/05 ORRG Production Report, and the underwriter’s pricing schedule (updated as of 6/1/05).

A copy of the ORRG 2005 Underwriting Guidelines is included as Exhibit 3 to this report. We discussed the ORRG underwriting guidelines and procedures with Mr. Battschinger. He indicated that he underwrites all applications received by RRG, even those solicited by a sub-producer. He also indicated that the ORRG 2005 Underwriting Guidelines are to be used for all underwriting decisions. The individual policy files are to contain all necessary information to support all underwriting decisions, including pricing of the policy. Mr. Battschinger indicated that the underwriting guidelines and procedures currently in use were the same as those used from inception of ORRG, with the following exceptions:

- Prior to 6/5/05, the rates and discounts cited in the Bartlett feasibility study were used only as a guideline in rate determinations. Actual rates used prior to 6/5/05 were judgmentally determined, with the Bartlett rates being used as a starting point. After 6/5/05, the Bartlett feasibility study rates were implemented. This change was precipitated by an on-site examination performed by the NJDOI. The NJDOI informed ORRG that the rates, and applicable discounts, approved by the DISB in the Bartlett feasibility study had to be used on all policies issued by ORRG.
- The criteria for meeting the MVR discount was lowered from four points to seven points. Mr. Battschinger indicated that this change was made to recognize the fact that very few taxicab companies have drivers with four or fewer points on their MVRs. He indicated that the seven point criteria was still very strict, but allowed additional flexibility in issuing policies.

To test compliance with the ORRG 2005 Underwriting Guidelines, we reviewed the 6/30/05 ORRG Production Report. We were informed that the production report contained a listing of all ORRG policies issued from ORRG's inception to 6/30/05. From the production report, we selected the following four (4) policies for detail testing of the policy files. (Two of the files selected were pre-6/5/05 issued policies and two were policies issued after 6/5/05.)

Policy # 5-0016 (policy effective 4/24/05)  
 Policy # 5-0036 (policy effective 4/28/05)  
 Policy # 5-0094 (policy effective 6/26/05)  
 Policy # 5-0102 (policy effective 6/14/05)

We obtained the policy file for each of the above selected policies.

We compared the Production Report detail for each of the policies selected to the policy files. We noted no exceptions.

Next, we reviewed the contents of the policy file to determine whether the underwriting and rating of the policy were performed in compliance with the ORRG 2005 Underwriting Guidelines. Our review included: i) review of completeness of the documents contained in the policy file; ii) review of underwriting procedures performed by RRG; iii) recomputation of the premium to determine if premium charged was in compliance with the ORRG Business Plan; and iv) review documentation supporting discounts (the recomputation of discounts was performed as part of the recomputation of premium). We noted the following exceptions.

- The policy file for Policy # 5-0016 did not contain an "affidavit of no losses," as required by the underwriting guidelines to receive the 5% Clean History discount. The underwriting checklist indicated that the applicant was eligible for the discount even though the affidavit was not obtained. Our recomputation of premium verified that the charged

premium included the 5% Clean History discount even though support for the discount was not included in the policy file. (However, after the missing documentation was discovered, ORRG sent a request for completion of an “affidavit for no losses” to the policyholder during the week of our on-site examination.)

- Policies 5-0016 and 5-0102 had “EWR” territorial designations in the application. We were informed by RRG that the “EWR” territory designation represented a Newark Airport or Newark Penn Station taxicab. Newark Airport and Penn Station taxicabs are one-way cabs (they can only pick up passengers at the airport or train station and must return to the airport or train station with no passenger(s)). Because of the restrictions placed on one-way taxicabs, the approved CAIP rate is lower than any other NJ territory. When we attempted to trace the EWR rate as charged in the application process for policies 5-0016 and 5-0102 from the policy file to the rates approved by the DISB in the Bartlett feasibility study, we were unable to locate the EWR rate in the Bartlett feasibility study. We were informed by ORRG that the CAIP-approved EWR rate was unintentionally left out of the Bartlett feasibility study. We were provided a copy of the underwriter’s pricing schedule, which did include an EWR rate. We then compared the rate calculated in the two sample policy files to the EWR rate in the underwriter’s pricing schedule. The policy file rate for neither sample policy agreed to the underwriter’s pricing schedule. For Policy 5-0016, we were informed that CAIP changed its approved EWR rate on June 1, 2005 to \$4,178. Therefore, the \$4,055 EWR rate for policy 5-0016 represented the June 1, 2004 rate. For Policy 5-0102, the charged rate (\$4,325) did not agree to the underwriter’s pricing schedule EWR rate (\$4,178). We were informed that this was due to the fact that Policy 5-0102 was for a Newark Penn Station taxicab and that the \$4,178 EWR rate was for Newark Airport taxicabs only. RRG had no documentation supporting the higher Newark Penn Station EWR rate.

We were informed that ORRG has filed an amended Business Plan with the DISB that includes an EWR rate. However, we were told that no separate rate was requested for the Newark Penn Station cabs.

- The premium charged for Policy 5-0036, which was issued prior to 6/5/05, did not agree to the DISB approved rates, adjusted for approved discounts, contained in the Bartlett feasibility study. Per the policy file, Policy 5-0036 was designated in Territory 13. We confirmed that the address in the application corresponded with Territory 13. Per the CAIP rates contained in the Bartlett feasibility study, the premium for Territory 13 is \$8,096. Since the policy limits were \$50,000, and the CAIP rates are based on a \$35,000 policy limit, the base rate must be multiplied by a factor of 1.11 (this factor is included in the Bartlett feasibility study). Per the underwriting file, the applicant qualified for the full 20% discount.

Therefore, the \$50,000 policy limit CAIP rate would be discounted by 20% to arrive at a DISB-approved premium rate. As recomputed, the DISB-approved rate would be \$7,190 ( $\$8,096 * 1.11 * .80$ ). However, the actual premium rate charged to the policyholder was \$4,160, a difference of \$3,030. There was no support in the policy file to support the \$4,160 rate.

- The applicant for Policy 5-0036 was given the 5% MVR discount even though the driver's motor vehicle report indicated the driver had five points. Although the ORRG 2005 Underwriting Guidelines would permit the MVR discount for any driver with seven or fewer points, and, therefore, the underwriter properly followed the ORRG underwriting guidelines, the qualifications for the 5% MVR discount as set forth in the Bartlett feasibility study indicated the MVR discount cannot be obtained if the driver has more than four points. Using the Bartlett feasibility study criteria, the applicant should not have received the 5% discount. Based on our conversations with ORRG, an amended business plan has been filed with the DISB requesting a revision to MVR discount criteria to allow up to seven points to qualify for the MVR discount.
- The rating territory for Policy 5-0094 was incorrectly designated as Territory 14 in the policy file. The actual rating territory for the policy should have been Territory 10. The effect of the incorrect territorial designation was the premium actually charged was \$3,432 less than it would have been had ORRG used the proper territorial designation.
- The applicant for Policy 5-0102 was given the 5% MVR discount even though the motor vehicle report for one of the listed drivers was more than 30-days old. The ORRG 2005 Underwriting Guidelines require all motor vehicle reports be dated within 30 days of application prior to qualify for the MVR discount. ORRG obtained a current motor vehicle report during the week of our on-site examination. The current motor vehicle report confirmed that the applicant did qualify for the 5% MVR discount.

We reviewed the Bartlett feasibility study, ORRG 2005 Underwriting Guidelines, 6/30/05 Production Report, and underwriter's pricing spreadsheet for consistency and for unusual entries. The Bartlett feasibility study is described in more detail above and is also attached as Exhibit 2. The 6/30/05 Production Report is described in more detail above. The ORRG 2005 Underwriting Guidelines are attached as Exhibit 3.

The underwriter's pricing spreadsheet is an RRG-developed Excel spreadsheet that is designed to provide the RRG underwriter with quick access to the territorial CAIP rates. In addition to the CAIP rates, the spreadsheet includes calculated rates for discounts of 20%, 25%, 30% and 35%, and includes separate calculations for the three different policy limit levels (\$35,000, \$50,000 and \$100,000). By using the spreadsheet, the underwriter

does not have to recalculate the premium for each application. Rather, he can simply look at the spreadsheet table and find the applicable rate for the policy.

As part of our review of the Bartlett feasibility study, ORRG 2005 Underwriting Guidelines, 6/30/05 Production Report, and underwriter's pricing spreadsheet, we noted the following:

- The underwriter's spreadsheet calculation for premium rates for a \$100,000 policy limit application at the 20% discount level was incorrect for all territories. The spreadsheet incorrectly calculated the discount at 25% instead of 20%. The effect of this miscalculation would be that all \$100,000 policies issued by ORRG at the 20% discount level would be 5% below the DISB approved rates. In our review of the Production Report, we noted that 30 policies (out of 139 total policies issued) issued by ORRG were at the \$100,000 limit. We were informed that all ORRG policyholders have received the 20% discount. Therefore, each of the 30 policies would be priced at least 5% below the DISB-approved rates.

Subsequent to our discovery of the spreadsheet miscalculation, RRG corrected the spreadsheet. We obtained and reviewed a copy of the corrected spreadsheet and verified the correction.

- The rate schedule included in the Bartlett feasibility study contains "fleet" and "non-fleet" rates. The "fleet" rates are slightly higher than the "non-fleet" rates. We were informed by ORRG that the CAIP defines "fleets" as policies insuring more than four taxicabs. Based on that definition, and on the fact that the "fleet" CAIP rate schedule was included in the Bartlett study, it would appear that ORRG should charge the "fleet" rate for all policies containing more than four taxicabs. In our discussions with ORRG, we were informed that ORRG only charges "non-fleet" rates to its policyholders even if the number of taxicabs insured is in excess of four. Our review of the Production Report confirmed that "non-fleet" rates were being charged to policyholders with five or more cars. Per the Production Report, ORRG had 10 policies issued to policyholders with more than four taxicabs. It is unclear from the information we received whether ORRG is required to charge "fleet" rates for policyholders with five or more insured vehicles. We were informed by ORRG that it was ORRG's initial intent to use only the "non-fleet" rates.

We were informed by ORRG that an amended Business Plan has been filed with the DISB that includes a request for approval of only the "non fleet" CAIP rates, thereby clarifying ORRG's initial intent to use only the "non fleet" rates.

- The rate schedule included in the Bartlett feasibility study includes an additional premium amount of \$24 for Uninsured Motorist coverage. In

our review of the Production Report, as well as part of our testing of four sample policy files, we noted that the \$24 Uninsured Motorist premium was not being included in the total premium charged to the policyholder even though ORRG policies include Uninsured Motorist coverage. It appears that the premiums charged on all ORRG policies could be deficient by \$24 for each taxicab insured, based on the rates in the Bartlett feasibility study.

The results of our testing indicate that prior to 6/5/05, RRG did not use the pricing and discount criteria set forth in the Bartlett feasibility study. Subsequent to 6/5/05, it appears that RRG attempted to use the pricing and discount criteria set forth in the Bartlett feasibility study. However, our testing indicated that misapplication of the pricing and rating continued, although we saw no evidence that the misapplications were intentional.

## EVALUATION OF OPERATIONS

### Handling of Premiums

#### Summary

We performed the following procedures pertaining to our analysis of handling of premiums by RRG: 1) discussed with RRG personnel the procedures for receipt and deposit of ORRG premiums and the subsequent remittance of premiums to ORRG; and 2) determined that the premium receipt, deposit, and remittance procedures are in compliance with the MGU Agreement and with applicable state insurance laws (including, if applicable, the use of trust accounts).

In its role as MGU, RRG is responsible for the billing and collection of premiums. As described elsewhere in this report, since ORRG's inception, RRG has had two premium accounts and ORRG has had one premium account. Since the premium account currently used by ORRG is in ORRG's name, and is not an RRG account, many of the deposit and remittance procedures included in the MGU Agreement are no longer relevant. Although RRG is not in technical compliance with the MGU Agreement since it is not maintaining a premium account for ORRG, we believe ORRG is in a stronger position as a result of the premium trust account being in ORRG's name and under ORRG's control.

Based on the results of our testing, no exceptions were noted, and it appears that ORRG premium handling procedures are being properly implemented.

#### Detailed Discussion

To obtain an understanding of ORRG's premium receipt and remittance procedures, we met with Mr. Battschinger.

According to Mr. Battschinger, ORRG receives premium from two sources: from the policyholder and from premium finance companies. (Mr. Battschinger indicated that



virtually all ORRG policyholders finance their premiums.) The full year's premium is due at the time the policy is issued. If no premium finance company is used, the policyholder writes a check to ORRG for the full amount of the premium. If a premium finance company is used, a portion of the premium (deposit) is paid directly by the policyholder and the remainder is paid by the premium finance company. Depending on which premium finance company is used, the premium is either wired directly into ORRG's premium trust account or a check is written by the finance company to ORRG for the amount of the financed premium. All checks received (either from policyholders or premium finance companies) are endorsed and deposited directly into ORRG's premium trust account. Mr. Battschinger indicated that a limited number of policyholders write out their checks to RRG instead of ORRG. He indicated that those checks are endorsed in ORRG's name and deposited directly into the ORRG premium trust account. On a periodic basis, the premiums held in the ORRG Premium Trust Account are transferred to the ORRG Operating Account maintained by Taft. Since no ORRG premiums are deposited in any RRG account, no remittances from RRG to ORRG are required.

As part of our testing of the four policy files selected under Section 7. above, we traced cash receipts (policyholder checks and premium finance company checks) to ORRG deposit slips and then traced the total of the deposit slip to the ORRG premium trust account statement. Premium finance company wire transfers were traced directly into the ORRG premium trust account statement. We noted no exceptions in our testing, and it appears that the ORRG premium handling procedures are being properly implemented.

### Capital and Surplus Contributions by ORRG Policyholders

#### Summary

We performed the following procedures pertaining to the review of capital and surplus contributions by ORRG policyholders: 1) discussed with ORRG personnel the requirement in the ORRG business plan that policyholders make contributions to the capital and surplus of ORRG and how these policyholder capital and surplus contributions are calculated in practice; and 2) recomputed the policyholder capital and surplus contribution for the limited sample selection obtain under item 7. above and determined that the contributions were calculated in accordance with the provisions of the ORRG business plan and information provided to policyholders.

As a risk retention group, all policyholders of ORRG must also be owners of the risk retention group. As described in the ORRG business plan, policyholders must contribute an amount equal to 10% of annual premiums, to be applied to the purchase of ORRG common stock. The capital contributions are collected by ORRG at the same time as the annual premiums. The ORRG business plan is silent as to how long the policyholder must continue to make capital contributions. The financial statement projections in the Bartlett feasibility study assume that the capital contributions will be made every year. However, the ORRG Policyholder Information Circular that is provided to all potential policyholders states that capital contributions will only be required of the policyholder for

the first three years of the policy. In addition, according to the ORRG Policyholder Information Circular, the capital contributions are based on the first year premium amount. We were informed that ORRG's intention is to require capital contributions only during the first three years of policy and that ORRG has filed an Amended Business Plan with the DISB that includes revised financial statement projections reflecting the three-year capitalization period. Based on the results of our examination, it appears that ORRG is calculating the capital contribution amount in conformance with the ORRG Business Plan. We did identify one instance where a policyholder/shareholder was not notified of a change in his total ownership shares. However, the total ownership share for this policyholder was calculated properly and the policy file included documentation of the proper number of shares owned.

Although we noted one instance where a policyholder was not notified of changes in shares owned, based on the results of our testing it appears that the calculation of the capital contribution by ORRG is in compliance with the ORRG business plan.

#### Detailed Discussion

To determine the ORRG capital contribution requirements, we obtained a copy of the ORRG Business Plan, and related exhibits, and the ORRG Policyholder Information Circular. We also held discussions with Mr. Battschinger.

As stated in the ORRG business plan, "Policyholders will own all common stock of the Company. Each policyholder will contribute an amount equal to 10% of their annual premium to purchase shares of the Company." According to Mr. Battschinger, all potential policyholders are provided a copy of the ORRG Policyholder Information Circular that includes detailed information on the capital contribution requirements. The Policyholder Information Circular provides that a policyholder is required to make total capital contributions of 30% of first-year premiums, due in three equal yearly installments. At the time the policy is underwritten and priced, the RRG underwriter will calculate the required capital contribution. The capital contribution amount is then added to the amount of premium to be collected from the policyholder. At the time the premium and capital contribution are paid, the policyholder and ORRG sign a Subscription Agreement, establishing the policyholder's ownership. The Subscription Agreement includes an exhibit (Exhibit A) outlining the number of shares owned by the policyholder. No stock certificates are issued. The Exhibit also documents the per share price. Per Mr. Battschinger, all ORRG shares have been priced at \$1 per share. Mr. Battschinger indicated that he maintains common share data as part of the ORRG Production Report. When a policyholder's common shares change, the policyholder is notified by being sent an amended Exhibit A that outlines the current shares owned.

Mr. Battschinger indicated that, prior to 6/5/05, policyholders were issued 10 shares of ORRG stock for every vehicle insured. However, after an on-site examination by the NJDOI, ORRG was informed that they must calculate the number of shares based on the amount of capital contributed and not on the number of cars insured. Thus, beginning 6/5/05, policyholders were issued one share of stock for every \$1 of capital contributed.

For those policies issued prior to 6/5/05, ORRG recomputed the shares based on the amount of capital contributed and sent each policyholder a revised Exhibit A, along with a letter explaining why the number of shares was adjusted.

To test whether ORRG was calculating the capital contribution in conformance with the Business Plan and whether proper notification was made to policyholders, we used the policy file sample selection from item 7. above and performed the following:

1. Recalculated the capital contribution amount.
2. Recalculated the number of shares issued based on the capital contribution amount.
3. Reviewed the subscription agreements for proper signature. Reviewed Exhibit A to the subscription agreement to verify that the number of shares was properly reported to the policyholder.
4. Reviewed deposit slip to verify receipt of the capital contribution.
5. Reviewed the policy file to verify that policyholder was notified of any changes to shares owned.

Based on the results of our testing, we noted no exceptions in the calculation of the capital and surplus contribution or in the number of shares issued. However, we did note one instance where a change in the number of shares owned by a policyholder was not communicated to the policyholder. Although the policyholder was not notified of the change in shares owned, the calculation of capital contribution and the number of shares was computed correctly and was properly documented in the policy file. Subsequent to us notifying ORRG of the failure to notify the policyholder, a letter was written to the policyholder with an updated Exhibit A. We were provided a copy of the signed letter. A description of the exception is described below.

- For Policy # 5-0094, we noted that the policyholder was not notified of a change in the number of shares owned. The change in ownership shares was precipitated by an adjustment to the amount of premium charged to the policyholder. The policyholder initially applied for a policy with liability limits of \$35,000. The policy was issued, the capital contribution was collected, and the subscription agreement, including Exhibit A, was completed and signed. After a few days, the policyholder returned to ORRG when he discovered that his jurisdiction required him to maintain a \$100,000 liability policy limit. The policy was amended and an additional premium and capital contribution was collected from the policyholder. The policy file was updated to document the additional shares owned by the policyholder. Although the capital contribution was computed accurately and the policy file was properly documented, the policyholder did not receive an Amended Exhibit A outlining the revised number of shares owned. As described above, we were informed that a letter was sent to the policyholder during the week of our on-site examination notifying the policyholder of his revised number of shares.

Although we noted one instance where a policyholder was not notified of changes in shares owned, based on the results of our testing it appears that the calculation of the capital contribution by ORRG is in compliance with the ORRG business plan.

## CLAIM SETTLEMENT PRACTICES

### Summary

We performed the following procedures pertaining to the test of claims: 1) reviewed the claims processing procedures and determined that the procedures are in compliance with ORRG guidelines; 2) reviewed the claim reserving policies and procedures and determined that they are in compliance with ORRG guidelines; 3) discussed the claims processing and reserving procedures with appropriate personnel to gain an understanding of how claims processing and reserving procedures are implemented in practice; and 4) selected a limited sample of claims paid to: i) determine that the claim file was complete (contained all of the information necessary to process the claim); ii) determine that the claim was processed in accordance with the appropriate claims processing procedures; iii) determine that the claim was settled on a timely basis; iv) determine that the claim settlement amount was appropriate and that the proper payee was paid; v) determine that initial reserves were established in a timely manner for the claim and that the initial reserves appeared to be reasonable based on the information available to the adjuster at the time the initial reserves were established; vi) determine that reserve adjustments were reflected in a timely manner when the adjuster received updated information regarding the loss; and vii) determine that the claim reserves and the claim settlement amounts were properly reflected in ORRG's detail claim reserve and claim expense listings.

ORRG has entered into a Claims Administration Agreement with Atlantic Risk Management, Inc. ("ARM") to provide ORRG with full-service claims administration, including the establishment of case and expense reserves. As such, ORRG has not developed any claims procedures. Instead, ORRG relies exclusively on ARM for claim management. We held discussions with ARM to obtain an understanding of ARM's claim procedures. We then selected a sample of claims files to assess whether the claims procedures were functioning as described. As a result of our testing, the claims and reserving processes appear to be functioning as designed, and no exceptions were noted.

### Detailed Discussion

To obtain an understanding of the claims procedures used by ORRG, we met with Messrs. Battschinger, Taft and Kieslich (ARM).

ORRG has entered into a Claims Administration Agreement with Atlantic Risk Management, Inc. ("ARM") to provide ORRG with full-service claims administration. Under the terms of the agreement, ARM is contracted to perform all claim functions for ORRG. (However, Taft must prior approve all claim payments.) As such, ORRG has not developed any claims procedures. Instead, it will rely on ARM for claim management.

ARM is a full-service claims management company that has been in business since 1994. The ARM individuals assigned to the ORRG account, along with their years of insurance industry experience and ARM job titles are:

Otto J. Kieslich, 35 years, President & Director of Claims  
Kerry Donovan, 26 years, Claim Director  
Stephen Donovan, 6 years, Claim Supervisor  
John Chiappardi, 4 years, Claim Representative

As described to us by Mr. Kieslich, the ARM claims procedures are as follows.

When a new policy is issued, Mr. Battschinger notifies ARM of the new policyholder. ARM inputs the policyholder information into ARM's proprietary claim's management system. A letter is then issued to the new policyholder introducing that policyholder to ARM and notifying the policyholder that all claims should be filed with ARM. The letter also provides information on how to file a claim, including instructions on how to file an electronic claim.

At the time a claim is filed with ARM, the information is input in the computer system and a claim file is established and sent to Mr. Kieslich. The claim information is then checked against the policy to verify coverage. Based on the claim information, Mr. Kieslich establishes an initial case and expense reserve. Concurrently, as required by New Jersey law, a letter is sent to the claimant and insured (policyholder) acknowledging the claim. The claim file is then sent to the ARM claim representative assigned to ORRG. The claims representative proceeds to obtain documentation to complete the claim filing (police reports, witness statements, pictures, doctor's records, etc.). Once compiled, the claim file is sent to an independent claims adjuster. ARM has contracts with a variety of claims specialists such as medical consultants, auto body specialists, legal consultants, etc. After the adjuster obtains an estimate, it is forwarded to the claims representative. If the estimate requires a revision to Mr. Kieslich's initial case and/or expense reserve, the claims representative has the authority to make such a change within limits established by ARM. Above a certain level, the Claims Supervisor must approve changes to the claim reserve. Once a claim amount has been established, the claimant is contacted with an estimated settlement amount. After a settlement has been reached, an approval for payment notice is sent from ARM to Taft. Taft must then approve the claim payment and transfer an amount equal to the approved claim payment from the ORRG operations account to the ORRG zero-balance claims account. Once the money is transferred, Taft notifies ARM of the approval. ARM then prepares, signs, and mails the claim check and updates all records in the claim administration system.

The zero-balance account is designed to allow for the safe, convenient payment of claims by the claims manager. As indicated by its name, a zero-balance account normally has a zero balance. When Taft approves a claim payment, funds are transferred from the operations account into the zero-balance account. The claims administrator has signature authority on the zero-balance account and would write the claim settlement check and

send it to the claimant. Since the claims administrator has all the information related to the claim, allowing the claims administrator to prepare and mail the claim check is more efficient. However, because the administrator is only given signature authority over the zero balance account and the zero-balance account is only funded in the event of an approved claim payment, the claims administrator does not have access to ORRG's operating accounts.

Both ORRG and Taft have access to the ARM claims administration system via the Internet. The system is designed to allow the user to review any information related to an individual claim or all claims for a particular entity. In addition to the claims system, ARM will immediately notify ORRG and Taft of any claim filed with ARM that exceeds \$25,000. (This amount was established by ORRG. If requested, ARM can immediately notify ORRG of a claim of any size.) In our discussions with Mr. Weitzel, he indicated that the ARM reports will be used to record the case reserves and help in establishing the IBNR reserves as well as to complete various sections of the annual and quarterly statement blanks.

To test compliance with the ARM claims procedures, we requested a listing of all claims paid by ORRG since its inception. We were informed that ORRG had not yet paid any claims as of the date of our on-site examination. We then requested a list of all claims filed with ARM (and thus ORRG) since ORRG's inception. We were informed that seven claims had been filed with ARM. We selected the following claim files for our detailed testing:

Claim # B-001  
Claim # B-004  
Claim # B-008

For each of the claim files selected, we tested for the attributes described in the Summary. The claim files were complete and well documented.

As a result of our testing, it appears that the claims and reserving processes are functioning as designed and no exceptions were noted.

### SUMMARY OF FINDINGS

No significant differences or exceptions were noted as a result of the limited-scope examination procedures performed, except as discussed in the following two paragraphs.

1. Several differences were noted in our comparison of ORRG's actual reported financial results as of May 31, 2005 to the financial projections included in the Bartlett feasibility study. For a discussion of the specific differences noted, see the BUSINESS PLAN section above. We did not attempt to quantify the effect of the differences noted. However, we believe that the differences, taken as a whole, could have a material impact on the financial projections.

2. Several exceptions/differences were noted in our testing of underwriting and rating. Prior to 6/5/05, ORRG did not follow the pricing and discount criteria set forth in the Bartlett feasibility study. ORRG indicated that it initially believed it had discretion to vary from the CAIP rates and discount criteria included in the Bartlett feasibility study. However, as a result of discussions with the NJDOI and with Taft, ORRG concluded that the rates and discount criteria in the Bartlett feasibility study are required to be followed in order to be in compliance with the ORRG business plan approved by the DISB. Subsequent to 6/5/05, it appears that ORRG attempted to use the Bartlett feasibility study pricing and discount criteria. However, our testing indicated that misapplication of the pricing and rating criteria continued, although we saw no evidence that the misapplications were intentional. For a discussion of the specific exceptions/differences noted, see the UNDERWRITING AND RATING PRACTICES section above.

### RECOMMENDATIONS

1. Ocean should provide the DISB with a full description as to the reasons for the material deviations from the financial projections included in the Bartlett feasibility study. Consideration should also be given to Ocean providing the DISB with updated five-year financial projections.
2. Ocean should comply with the rating and discount criteria provided in the Bartlett feasibility study (the DISB-approved rates) as well as comply with the established ORRG underwriting guidelines.
3. The Captive Manager should monitor Ocean's application of rating and discount criteria to ensure compliance with filed guidelines, and provide DISB with a monthly status report until further notice from DISB.
4. Ocean should ensure that its Managing General Underwriter promptly complies with all applicable laws and regulations of the State of New Jersey.

Appendix A—NJDOI’s Assessment of Applicability of, and compliance with, MGA Laws

The NJDOI performed the following procedures pertaining to the assessment of the applicability of, and compliance with, MGA laws: 1) evaluated the applicability of New Jersey insurance laws pertaining to MGAs to ORRG and RRG; 2) determined whether ORRG and RRG are in compliance with pertinent provisions of New Jersey MGA laws; 3) obtained evidence of RRG’s E&O insurance coverage; 4) determined that RRG’s E&O coverage extends to services provided to ORRG; 5) evaluated whether RRG’s E&O coverage is in compliance with the coverage required by the MGU Agreement and New Jersey MGA requirements; 6) determined whether New Jersey insurance laws require any other insurance coverage or bonds of either Taft or RRG for the protection of ORRG and its policyholders; and 7) determined whether any other required additional insurance coverage or bonds were properly in effect. R&A supervised the work performed by the NJDOI. Their findings are as follows:

- a. Evaluate the applicability of New Jersey insurance laws pertaining to MGA’s to ORRG and Campisano/RRG.

The examiners reviewed N.J.A.C. 11:17-6, which addresses regulatory requirements that apply to Managing General Agents, as well as applicable sections of N.J.S.A. 17:47A-1 through 10. The examiners checked for compliance with the following requirements governing managing general agents: producer licensing, acquisition and maintenance of mandatory surety bonds and errors and omissions insurance coverage. The examiners findings with respect to these requirements are outlined in sections b-g below.

- b. Determine whether ORRG and Campisano/RRG are in compliance with pertinent provisions of New Jersey MGA Laws.

The examiners determined that Renaissance Retention Group failed to procure the required surety bond and further did not obtain errors and omissions coverage that extends to Ocean Risk Retention Group. Therefore, Renaissance Retention Group does not meet the minimum requirements to conduct business as a managing general agent in the State of New Jersey. These errors are outlined in sections c-f below.

- c. Objective: Obtain evidence of Campisano/RRG’s E&O insurance coverage.

Result: Not in Compliance during Review Period

Pursuant to N.J.S.A. 17:22C-5 and N.J.A.C. 11:17-6.3(d), all managing general agents are required to maintain an errors and omissions insurance policy that includes a coverage limit of \$100,000, or 10% of direct written premium of the prior calendar year up to \$500,000, whichever is greater. The examiners requested Renaissance Retention Group representatives to provide evidence of such coverage, and were provided with a copy of a declarations page and insurance contract issued to Renaissance Retention Group by National Union Fire Insurance Company of Pittsburgh, P.A. This policy was



effective July 28, 2004 through July 28, 2005. The type of coverage listed on the declarations page stated: Insurance Agents and Brokers Professional Liability Policy. Upon review of the Insuring Agreement section of the policy, the examiners noted that errors and omissions coverage was indeed included in the contract. However, the policy did not specify whether or not this contract extends to managing general agents. Upon inquiry to National Union Fire Insurance Company of Pittsburgh, P.A, the Department was advised that the above-referenced policy form extends coverage to a managing general agent only by endorsement. The policy contract provided for review did not include this endorsement, and such an endorsement had neither been applied for by nor issued to Renaissance Risk Retention Group. Therefore, the company was not in compliance with the errors and omissions requirement specified in N.J.S.A. 17:22C-5 and N.J.A.C. 11:17-6.3(d) during the review period. In response to this examination, however, Renaissance Risk Retention Group did procure an acceptable errors and omissions policy effective July 18, 2005 through American Home Assurance. This company also provided coverage retrospectively from April 1, 1004 through July 18, 2005 in order to cover any claims that could be made for activity that occurred during this period.

- d. Objective: Determine that Campisano/RRG's E&O coverage extends to the services provided to ORRG.  
Result: Not in Compliance during Review Period

The examiners found that the errors and omissions policy written by National Union Fire Insurance Company of Pittsburgh, P.A., did not provide errors and omissions coverage to managing general agents without a specific endorsement for this coverage, and that Renaissance Retention Group did not secure this endorsement. Therefore, the company's errors and omissions coverage did not extend to Ocean Risk Retention Group, contrary to N.J.S.A. 17:22C-5 and N.J.A.C. 11:17-6.3(d) during the review period.

- e. Objective: Evaluate whether Campisano/RRG's E&O coverage is in compliance with the coverage required by the MGU Agreement and New Jersey MGA requirements.  
Result: Not in Compliance during Review Period

As indicated in items c and d above, the company's errors and omissions coverage did not extend to managing general agents during the review period. Therefore, Renaissance Retention Group was not in compliance with the errors and omissions requirements stated in N.J.S.A. 17:22C-5 and N.J.A.C. 11:17-6.3(d). As a result, Ocean Risk Retention Group is not in compliance with N.J.S.A. 17:22C-5 and N.J.A.C. 11:17-6.3(d). As noted in item c above, Renaissance Risk Retention Group did ultimately obtain the required errors and omissions coverage as a result of this examination.

- f. Objective: Determine whether insurance laws require any other insurance coverage or bonds required of either Taft or Campisano/RRG for the protection of ORRG and its policyholders.  
Result: Not in Compliance

Pursuant to N.J.S.A. 17:22C-4 and N.J.A.C. 11:17-6.3(c), all managing general agents shall acquire and maintain a surety bond for the protection of the insurer that is under contract with the managing general agent. This regulation further requires that surety bonds be issued in the amount of \$100,000 or 10% up to \$500,000 of the insurer's direct written premium for the previous calendar year that is attributable to the managing general agent, whichever is greater.

When the examiners requested Renaissance Retention Group representatives to provide evidence of such a bond, the company responded by providing the errors and omissions documents referenced above. Upon a second request for surety bond documentation, Renaissance Retention Group representatives responded by providing the examiners with a Certificate of Liability Insurance, along with a premium invoice for an Employee Dishonesty Policy and a Declarations page for a Commercial Crime Policy and advised that these documents demonstrate proof that the company secured the required surety bond. Notably, these insurance policies are not surety bonds; therefore, Renaissance Retention Group and Ocean Risk Retention Group are not in compliance with N.J.S.A. 17:22C-4 and N.J.A.C. 11:17-6.3(c).

Ocean Risk Retention Group has contracted with W.A. Taft & Company, Ltd, to act as a captive agent that oversees the overall business operations of Renaissance Retention Group on behalf of Ocean Risk Retention Group. It did not appear that W.A. Taft & Company, Ltd, currently performs the functions within the definition of a managing general agent as outlined in N.J.S.A. 17:22C-1 et seq and N.J.A.C. 11:17-6-1 et seq. Therefore, the insurance and bond requirements outlined in N.J.S.A. 17:22C-5 and N.J.A.C. 11:17-6.3(d), and N.J.S.A. 17:22C-5 and N.J.A.C. 11:17-6.3 (c), respectively, do not appear to apply to this entity at this time.

- g. Objective: If other insurance coverage or bonds are required by either Taft or Campisano/RRG, determine that they are properly in effect.

Result: Not Applicable

No insurance or bond requirements other than those specified in N.J.A.C. 11:17-6.3(c) and (d) as referenced above, are applicable to Renaissance Retention Group. Deficiencies are noted in sections c-f above with respect to Renaissance Retention Group and Ocean Risk Retention Group. W.A. Taft & Company, Ltd does not perform the function of a managing general agent at this time. Therefore, it does not appear that W.A. Taft & Company, Ltd, is required to obtain insurance or surety bonds as a captive agent and overseer of Renaissance Retention Group on behalf of Ocean Risk Retention Group.

### NJDOI Recommendations

1. In order to comply with N.J.S.A. 17:22C-5 and N.J.A.C. 11:17-6.3(d), a managing general agent that conducts insurance business in the State of New Jersey is required to maintain errors and omissions coverage in the amounts specified in N.J.A.C. 11:17-6.3(d).
2. In order to company with N.J.S.A. 17:22C-4 and N.J.A.C. 11:17-6.3(c), a managing general agent that conducts insurance business in the State of New Jersey is required to maintain a surety bond in the amounts specified in N.J.A.C. 11:17-6.3(c).

## Appendix B—Scope of the Examination

### **Scope Targeted Financial/Market Conduct Examination Ocean Risk Retention Group, Inc. (“ORRG”)**

1. Review of Business Plan
  - a. Obtain and review a copy of the ORRG Business Plan filed with the District of Columbia Department of Insurance, Securities, and Banking (“DC DOI”) and the New Jersey Department of Banking and Insurance (“NJ DOI”).
  - b. Determine whether ORRG is in compliance with the following elements of the Business Plan: management of ORRG, underwriting and rating, capital contributions, claims, and handling of premiums.
  - c. Compare the most recent financial results to the financial projections included in the Business Plan.
  - d. Discuss with ORRG personnel the process of developing the financial projections (including key assumptions relied on).
2. Review of Captive Management Agreement with the Taft Companies (“Taft”)
  - a. Obtain and review a copy of the Captive Management Agreement with Taft.
  - b. Obtain and review copies of reports provided by Taft pertaining to the services provided to ORRG (including, but not necessarily limited to, administration, underwriting, accounting/financial, investment management, regulatory compliance, and management reporting).
  - c. Determine whether Taft is in compliance with key elements of the Captive Management Agreement.
  - d. Discuss with ORRG personnel the scope of the services provided by Taft.
3. Review of MGU Agreement with Campisano/Renaissance Retention Group (“RRG”)
  - a. Obtain and review a copy of the MGU Agreement with Campisano/RRG.
  - b. Determine whether Campisano/RRG is in compliance with key elements of the MGU Agreement.

- c. Discuss with ORRG personnel the scope of services provided by Campisano/RRG.
  - d. Determine that fees paid to Campisano/RRG are in compliance with the Business Plan.
4. Determination of Management of ORRG
- a. Obtain and review listings of the management (officers and directors) of ORRG, Taft, and RRG.
  - b. Obtain and review background data (biographical information) pertaining to management personnel at ORRG, Taft, and RRG.
  - c. Determine whether the background and expertise of the various management personnel of ORRG, Taft, and RRG are acceptable and appropriate given the role each performs for ORRG.
5. Review of Feasibility Study Performed by Bartlett Actuarial Group, Ltd.
- a. Obtain and review a copy of the feasibility study performed for ORRG by Bartlett Actuarial Group, Ltd. (“Bartlett”).
  - b. Determine whether ORRG policies are being rated based on the recommendations of the Bartlett feasibility study.
6. Tests of Underwriting and Rating
- a. Review Campisano/RRG’s underwriting procedures and determine that the procedures are in compliance with ORRG guidelines.
  - b. Discuss the underwriting procedures with Campisano/RRG to gain an understanding of how underwriting procedures are implemented in practice.
  - c. Discuss with Campisano/RRG whether rates (including discounts and surcharges) have been calculated consistent with the Business Plan.
  - d. Select a limited sample of policies that have been issued and: i) determine that the policy file information is complete (contains all information necessary for underwriting and rating and to determine ORRG’s exposure); ii) determine that appropriate underwriting was performed based on Campisano/RRG’s underwriting procedures; iii) recompute the premium and determine that it is in accordance with the Business Plan

rates; and iv) determine that discounts/surcharges are properly supported by appropriate documentation.

7. Analysis of Handling of Premiums by Campisano/RRG
  - a. Discuss with Campisano/RRG personnel the procedures for receipt and deposit of ORRG premiums and the subsequent remittance of premiums to ORRG.
  - b. Determine that the premium receipt, deposit, and remittance procedures are in compliance with the MGU Agreement and with applicable state insurance laws (including, if applicable, the use of trust accounts).
8. Review of Capital and Surplus Contributions by ORRG Policyholders
  - a. Discuss with ORRG personnel the requirement in the Business Plan for policyholders to make contributions to the capital and surplus of ORRG and how these policyholder capital and surplus contributions are calculated in practice.
  - b. For the limited sample of policies selected for the underwriting and rating test (in item 7. above), recompute the policyholder capital and surplus contribution and determine that the contributions were calculated in accordance with the provisions of the Business Plan and information provided to policyholders.
  - c. Determine that the policyholder capital and surplus contributions are being properly reported to ORRG.
9. Test of Claims
  - a. Review the claims processing procedures and determine that the procedures are in compliance with ORRG guidelines.
  - b. Review the claim reserving policies and procedures and determine that they are in compliance with ORRG guidelines.
  - c. Discuss the claims processing and reserving procedures with appropriate personnel to gain an understanding of how claims processing and reserving procedures are implemented in practice.
  - d. Select a limited sample of claims paid and: i) determine that the claim file is complete (contains all of the information necessary to process the claim); ii) determine that the claim was processed in accordance with the appropriate claims processing procedures; iii) determine that the claim was settled on a timely basis; iv) determine that the claim settlement

amount was appropriate and that the proper payee was paid; v) determine that initial reserves were established in a timely manner for the claim and that the initial reserves appeared to be reasonable based on the information available to the adjuster at the time the initial reserves were established; vi) determine that reserve adjustments were reflected in a timely manner when the adjuster received updated information regarding the loss; and vii) determine that the claim reserves and the claim settlement amounts were properly reflected in ORRG's detail claim reserve and claim expense listings.

10. Review of Business Plan Requirements for Errors & Omissions ("E&O") Insurance and Bonds for the Protection of ORRG
  - a. Evaluate requirements for E&O insurance coverage and/or bonds in the Business Plan.
  - b. If E&O insurance coverage and/or bonds are required per the Business Plan, determine that they are properly in effect.
  
11. Assessment of Applicability of/Compliance with Managing General Agent ("MGA") Laws **[Performed by New Jersey Department of Insurance and Banking Examiners]**
  - a. Evaluate the applicability of New Jersey insurance laws pertaining to MGAs to ORRG and Campisano/RRG.
  - b. Determine whether ORRG and Campisano/RRG are in compliance with pertinent provisions of the New Jersey MGA laws.
  - c. Obtain evidence of Campisano/RRG's E&O insurance coverage.
  - d. Determine that Campisano/RRG's E&O coverage extends to the services provided to ORRG.
  - e. Evaluate whether Campisano/RRG's E&O coverage is in compliance with the coverage required by the MGU Agreement and New Jersey MGA requirements.
  - f. Determine whether state insurance laws require any other insurance coverage or bonds are required of either Taft or Campisano/RRG for the protection of ORRG and its policyholders.
  - g. If other insurance coverage or bonds are required by either Taft or Campisano/RRG, determine that they are properly in effect.

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



**Lawrence H. Mirel  
Commissioner**

August 19, 2005

Ocean Risk Retention Group  
c/o Allen Taft, President  
The Taft Companies  
12076 Leeds Chapel Lane  
Markham, VA 22643-1939

Dear Mr. Taft:

Re: Examination Report for Ocean Risk Retention Group

Pursuant to Section 15 of the Captive Insurance Company Act of 2004 (the "Act") and Section 1404 of the Law on Examinations Act of 1993, the Commissioner of Insurance has attached hereto the examination report for Ocean Risk Retention Group ("Ocean") for your review and comment. You are hereby directed to file any written comments or rebuttal with the Commissioner on or before September 19, 2005.

If you have any questions about this letter, you should contact Mr. Lee Backus on (202) 535-1419.

Sincerely,

A handwritten signature in black ink, appearing to read 'Dana Sheppard', written over a horizontal line.

Dana Sheppard  
Acting Director  
Risk Finance Bureau

cc: Rector & Associates





THE TAFT COMPANIES

September 27, 2005

Dana G. Sheppard  
Acting Director, Compliance Division  
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SECURITIES AND BANKING  
1400 L STREET, N.W., SUITE 400  
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Lee Backus  
Examiner-in-Charge  
DEPARTMENT OF INSURANCE,  
SECURITIES AND BANKING  
1400 L STREET, N.W., SUITE 400  
WASHINGTON DC 20005

**RE: Ocean Risk Retention Group, Inc.**  
Certificate of Authority No. RRG-44-05-06  
Subject: Ocean Risk Retention Group Examination Report March 22 – May 31, 2005

Gentlemen:

I refer to your letter of August 19<sup>th</sup>, 2005 covering the Examination Report for Ocean Risk Retention Group. Our comments and observations with specific reference to the Recommendations (page 37) are as follows:

**Recommendation** - Ocean should provide the DISB with a full description as the reason for the material deviations from the financial projections included in the Bartlett feasibility study. Consideration should also be given to Ocean providing updated five-year financial projections.

**Response** – Revised five year proformas and revised assumptions were provided to the DISB June 8<sup>th</sup>, 2005.

**Recommendation** – Ocean should comply with the rating and discount criteria provided in the Bartlett feasibility study (the DISB-approved rates) as well as comply with the established ORRG underwriting guidelines

**Response** – Ocean is in compliance with the rates and guidelines approved by the DISB August 12<sup>th</sup>, 2005

**Recommendation** – The Captive Manager should monitor Ocean's application of rating and discount criteria to ensure compliance with the filed guidelines, and provide the DISB with a monthly status report until further notice from the DISB.

**Response** – The Taft Companies will provide the DISB with a monthly status report commencing October 2005.

W. A. TAFT & COMPANY (DC) LTD.  
1250 H. Street, NW, Suite 901  
Washington, DC 20005  
P 877 587 1763  
F 877 224 0876

**Recommendation** – Ocean should ensure that its Managing General Underwriter promptly complies with all applicable laws and regulations of the State of New Jersey

**Response** – It is our understanding that Renaissance Retention Group is now in compliance with the laws and regulations of the State of New Jersey.

I would also like to point out that all concerned, Ocean Risk Retention Group, The Taft Companies, The Bartlett Group, Atlantic Risk Management and Muldoon Murphy & Aguggia LLP cooperated fully with the examiners in all areas expediting the examination process.

With respect to the examination as a whole, we did find several minor factual errors in the narrative but in the aggregate they had no overall impact on the outcome of the examination.

If you have any questions, please do not hesitate to contact me.

Yours truly,

W. A. TAFT & COMPANY (DC) LTD.



W. Allen Taft  
President

Cc: Lou Campisano, Renaissance Retention Group  
Jeanette Frankenberg, Ocean Risk Retention Group  
Glenn Battschinger, Renaissance Retention Group  
Arthur Perschetz, Muldoon Murphy & Aguggia LLP  
Aaron Kaslow, Muldoon Murphy & Aguggia LLP  
Brian Johnson, The Bartlett Group  
John Weitzel, The Taft Companies

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Date: 9/16/2005

Please deliver the following message to:

Name	Company	Fax Number
Richard Piscane		
Lou Carpiano		201-246-1093
Glenn Battinger		
Jeanette Frankenberg		

From: Douglas F. Doyle, Esq. (Sue)

Pages including  
this cover 12  
page:

Comment:  
Please review the attached and call me with your comments.

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# EDWARDS & CALDWELL LLC

## COUNSELLORS AT LAW

# DRAFT

New York Office:  
40 Exchange Place  
80<sup>th</sup> Floor  
New York, NY 10006  
(212) 747-0130  
Telecopier (212) 747-0134

1600 Route 208 North  
P.O. Box 23  
Hawthorne, New Jersey 07507  
(973) 636-0500

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Trenton, NJ 08606  
(609) 890-2500  
Telecopier (609) 284-3470

Please Reply to Hawthorne

Telecopier (973) 636-0505  
E-mail: [ecplaw@ecp-law.com](mailto:ecplaw@ecp-law.com)

Central New Jersey Office:  
710 Tenoni Road  
Suite 302  
Manalapan, NJ 07728  
(732) 617-4100  
Telecopier (732) 617-4100

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September 16, 2005

VIA EMAIL & REGULAR MAIL

Arthur D. Perschetz, Esq.  
MULDOON, MURPHY & AGUGLIA, LLP  
5101 Wisconsin Ave., N.W.  
Washington, DC 20016

Re: Renaissance Retention Group, Inc.  
Ocean Risk Retention Group, Inc.

Dear Mr. Perschetz:

Attached is the proposed insert for the response to the Washington, DC, Department of Insurance Report:

Renaissance Retention Group ("RRG") as the Managing General Agent/Managing General Underwriter ("MGA/MGU") for Ocean Risk Retention Group ("ORRG") has always maintained insurance in order to comply with N.J.S.A. 17:22C-5 and N.J.A.C. 11:17-6.3d. It has also always maintained errors and omissions coverage in the amount required under N.J.A.C. 11:17-6.3d.

Specifically, RRG has maintained professional liability insurance coverage under policy #647-79-32 with National Union Fire Insurance Company of Pittsburgh (the "National Policy"). A copy of the National Policy is attached hereto as Exhibit A. It was effective from July 28, 2004 to July 28, 2005.

EDWARDS &amp; CALDWELL LLC

Arthur Perschets, Esq.  
September 16, 2005  
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The New Jersey Department of Insurance ("NJDOI") under N.J.A.C. 11:17-6.3d requires that "all managing general agents shall acquire and maintain an errors and omissions insurance policy with coverage limits [which] shall be set at \$100,000.00 or ten percent up to \$500,000.00 of the direct premium written by an insurer for the previous calendar year that is attributable to the MGA, whichever is greater".

The limit of liability on the National Policy is \$1,000,000.00. This limit of liability insurance clearly meets the requirement under the Administrative Code.

When RRG was questioned by the NJDOI whether the National Policy covered acts or omissions by RRG acting as an MGA/MGU, RRG confirmed with its broker that RRG had coverage to act as an MGA/MGU. A confirming letter from RRG's broker is attached hereto as Exhibit B. That letter confirms that the National Policy does not have any specific coverage exclusions for MGA/MGU activity under the definition of "special services".

RRG was also advised that an investigator from the NJDOI may have contacted National directly to determine whether an "endorsement" could be obtained to cover acts by the insured to provide MGA/MGU services. Apparently, National advised that no endorsement for such coverage was available.

However, an endorsement would not be required because there is no specific exclusion in the policy for RRG acting as MGA/MGU.

When RRG attempted to renew its policy, National elected not to renew the policy and RRG acquired insurance from American Home

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EDWARDS & CALDWELL LLC

Arthur Perachetz, Esq.  
September 16, 2005  
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Assurance Company ("American"). A copy of the declaration page for American is attached hereto as Exhibit C together with a full copy of the policy.) We direct your attention to page 3 of 11 of the American policy. "Professional Services" specifically includes services for others in any of the following capacities; "...#3 Insurance General Agent".

In sum, RRG maintained at all times professional liability insurance which protected ORRG from potential improper acts or omissions by RRG acting as a managing general agent/managing general underwriter.

Second, NJDOI indicated that RRG had not secured a surety bond.

However, a close reading of the New Jersey regulations did not immediately reveal that RRG is required to have a Surety Bond for Ocean Risk Retention Group.

Specifically N.J.A.C. 11:17-6.3, subsection (a) provides as follows: no person, firm, association or corporation shall act in a capacity of a managing general agent with respects to risks located in this state for an insurer licensed in this state unless such person is licensed as an insurance producer in this state with the authority for the kind of business to be transacted. Subsection (c) provides "all managing general agents shall acquire and maintain a surety bond for the protection of the insurer contracting with the managing agent..".

A fair reading of these two sections is that since ORRG is not an insurer "licensed in this state" the managing general agent (i.e. RRG) does not require a surety bond.

RRG advised NJDOI of this position and specifically requested guidance. The NJDOI

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Arthur Perschetz, Esq.  
September 16, 2005  
Page 4

could not immediately explain its basis for requiring a surety bond under the pertinent statutes. However, subsequently the NJDOJ did explain to counsel for RRG how it interprets the relevant statutes, which interpretation (albeit not readily apparent from a plain reading of the statutes) requires the posting of a surety bond.

Therefore, RRG is in the process of procuring a surety bond to comply with N.J.A.C. 11:17-6.3.

This draft is provided for discussion purposes only and is subject to RRG's review and approval. Please call me upon receipt to discuss.

Very truly yours,

DOUGLAS F. DOYLE

DFD:ah  
Enclosures

# EXHIBIT A





**THIS IS A CLAIMS MADE POLICY  
PLEASE READ CAREFULLY  
NATIONAL UNION  
FIRE INSURANCE COMPANY  
OF PITTSBURGH, PA. ®**

**175 WATER STREET, NEW YORK, NY 10038**

A CAPITAL STOCK COMPANY, HEREIN CALLED THE "COMPANY"

**NOTICE: THE LIMITS OF LIABILITY AVAILABLE TO PAY JUDGMENTS OR SETTLEMENTS SHALL BE REDUCED BY AMOUNTS INCURRED FOR LEGAL DEFENSE. FURTHER NOTE THAT AMOUNTS INCURRED FOR LEGAL DEFENSE SHALL BE APPLIED AGAINST THE DEDUCTIBLE AMOUNT.**

**INSURANCE AGENTS AND BROKERS PROFESSIONAL LIABILITY POLICY**

REPLACEMENT OF POLICY NUMBER: *N/A*

POLICY NUMBER: *647-78-32*

**DECLARATIONS**

Item 1: Insured: *RENAISSANCE RETENTION GROUP INC.*

Address: *839 KEARNY AVE  
P O BOX 450  
KEARNY, NJ 07032*

Item 2. Policy Period From: *July 28, 2004* To: *July 28, 2005*  
at 12:01 A.M. standard time at the address of the insured stated above.

Item 3. Limits of Liability (Including Defense Costs, Charges and Expenses):

*\$1,000,000* Each Wrongful Act or series of continuous, repeated or  
interrelated Wrongful Acts.  
*\$1,000,000* Aggregate.

Item 4. Deductible: *\$5,000* Each Wrongful Act or series of continuous, repeated or  
interrelated Wrongful Acts.

Item 5. Premium: *\$3,030+* *\$38 NJ Surcharges*

*Premium for Certified Acts of Terrorism Coverage under Terrorism  
Risk Insurance Act 2002: \$30 included in policy premium.  
Any coverage provided for losses caused by an act of terrorism as  
defined by TRIA (TRIA losses) may be partially reimbursed by the  
United States under a formula established by TRIA as follows: 80% of  
TRIA losses in excess of the insurer deductible mandated by TRIA, the  
deductible to be based on a percentage of the insurer's direct earned  
premiums for the year preceding the act of terrorism.  
A copy of the TRIA disclosure sent with the original quote is  
attached hereto.*

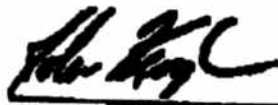
7914934

42418 (8/02)

09/08/05 THU 17:17 (TX/RX NO 8888)

Producer: **B & D CONCEPTS, INC**  
Address: **PO BOX 488  
LIVINGSTON, NJ 07039-2288**

By acceptance of this policy the insured agrees that the statements in the Declarations and the Application and any attachments hereto are the insured's agreements and representations and that this policy embodies all agreements existing between the insured and the Company or any of its Representatives relating to this insurance.



Aug 28, 2004

AUTHORIZED COMPANY REPRESENTATIVE

7314834

42418 (6/88)

# EXHIBIT B

**Small Business****MEMORANDUM**

Connell Corporate Center I  
One Connell Drive  
Berkley Heights, NY 10838  
Phone: 908-679-3678  
Fax: 966-344-1903

**To:** David Ratner

**From:** Neal Stoeckel

**Date:** July 7, 2005

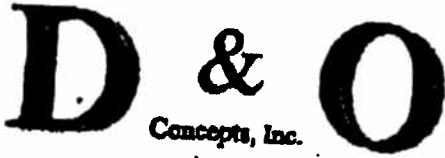
**RE: RENAISSANCE RETENTION GROUP, INC. - PROFESSIONAL  
LIABILITY - POLICY NUMBER 6477932**

In accordance with the above noted policy including all Terms, Conditions and Exclusions, the policy does not have a specific coverage exclusion for MGA/MGU activity under the definition of professional services. Coverage for any claims would depend on the allegations of such claims as well as the policy Terms, Conditions and Exclusions. It would not be possible to make a determination of coverage unless we have specific claim wording.

Regards,

Neal Stoeckel,  
Assistant Vice President

# EXHIBIT C



**Professional Liability Specialists**

30 West Mount Pleasant Avenue, P.O. Box 468, Livingston, NJ 07039  
 Telephone: 973-758-1700 • Fax: 973-758-1702  
 www.DOconcepts.com

**Evidence of Insurance**

**Insured:** Mr. Lou Campisano  
 Renaissance Retention Group, Inc.  
 839 Kearny Avenue  
 P.O. Box 450  
 Kearny, NJ 07032

We are pleased to advise you that, pending the issuance of the applicable insurance policy, coverage is bound as follows:

<b>Insurance Carrier:</b>	American Home Assurance Company (Admitted)	
<b>Type of Coverage:</b>	Professional Liability	
<b>Binder Number:</b>	DOC- 6594	
<b>Binder Type:</b>	New <input checked="" type="checkbox"/> Renewal <input type="checkbox"/> Endorsement <input type="checkbox"/>	
<b>Policy Term:</b>	From: 7/18/2005	From: 7/18/2005
<b>Limit of Liability:</b>	\$1,000,000 / \$1,000,000	
<b>Retention / Deductible:</b>	\$5,000	
<b>Premium:</b>	\$7,041.00 (Plus NJ Pign Surchage of \$123.00)	
<b>Endorsements / Exclusions:</b>	In accordance with our revised quote letter dated: July 7 <sup>th</sup> , 2005	
<b>Conditions:</b>	Receipt, review, and acceptance of Supplements A, B, & C (attached), even if they are not applicable; Re-signed and re-dated order to issue.	

Issuance of a policy is contingent upon receipt, review and acceptance of the aforementioned conditions AND upon receipt by D & O Concepts, Inc., of the premium due.

As documentation or information is received in satisfaction of the aforementioned conditions, the underwriter reserves the right to modify or rescind this temporary binder. Furthermore, this binder and any policy issued pursuant thereto, are subject to confirmation of no material change in the information provided in the insured's original application.

If the requested information is not received, reviewed and approved by the binder expiration date, or if a material change in the original application information is received, then this binder, and any policy issued pursuant thereto, may become null and void *Ab Initio*. Extension or modification of any binder may only be made in writing by D & O Concepts, Inc.

  
 By: David A. Reiner, President

Dated: July 18, 2005

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



RECEIVED

2006 MAR 29 P 12: 12

DIVISION OF ANTI-FRAUD  
COMPLIANCE

**Thomas E. Hampton  
Acting Commissioner**

**Risk Finance Bureau  
(RFB)**

March 22, 2006

Mr. Cliff Day  
NJ Department of Insurance  
20 West State Street  
9<sup>th</sup> Floor Market Conduct  
P.O. Box 329  
Trenton, NJ 08625

Dear Mr. Day:

Please accept my apologies for the delay in getting this to you. The Commissioner has signed the order however I have not been able to obtain a copy of the signed order. I am sending everything to you except the signed order since I know that you have waited for it patiently.

Our Associate Commissioner, Dana Sheppard, will see the Commissioner tomorrow, March 23, 2006, and meet with the Commissioner's Executive Assistant to go through materials to locate the signed order. As soon as it is available to me, I will forward a copy to you.

Sincerely,

A handwritten signature in black ink that reads "Lee Backus". The signature is fluid and cursive.

Lee Backus  
Assistant Director, Finance