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

William P. White
Acting Commissioner

BEFORE THE INSURANCE COMMISSIONER OF THE DISTRICT OF COLUMBIA

Re: Report on Examination - **Scaffold Industry Insurance Company Risk Retention Group, Inc.**, as of December 31, 2009

ORDER

An Examination of **Scaffold Industry Insurance Company Risk Retention Group, Inc.** ("Company"), as of December 31, 2009 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("Department").

It is hereby ordered on this 6th day of May 2011, that the attached financial condition examination report be adopted and filed as an official record of this Department.

In addition, it is hereby ordered that the Company comply with the recommendations in the attached financial condition examination report.

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

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

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

William P. White
Acting Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

REPORT ON EXAMINATION

Scaffold Industry Insurance Company Risk Retention Group, Inc.

AS OF

DECEMBER 31, 2009

NAIC NUMBER 12524

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Washington, D.C.
January 25, 2011

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

Dear Sir:

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

Scaffold Industry Insurance Company Risk Retention Group, Inc.

hereinafter referred to as the "Company" or "SIIC," at its offices located at 5949 Sherry Lane, Suite 1175, Dallas, Texas 75225.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from December 22, 2005 through December 31, 2009, including any material transactions and/or events noted occurring subsequent to December 31, 2009, was conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

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

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

The Company was audited annually by an independent public accounting firm. Except for the effects of the inclusion of the Company's $300,000 letter of credit as an asset, the firm expressed unqualified opinions on the Company's financial statements for all years under examination. The explanation states that the letter of credit is included in the computation of assets and equity under the laws of the District of Columbia; however, its recognition as an asset and as equity is not in accordance with generally accepted accounting principles. We placed substantial reliance on the audited financial statements for calendar years 2006 through 2008, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2009. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2009. We placed reliance on the work of the auditor and directed our efforts, to the extent practical, to those areas not covered by the firm's work papers.

STATUS OF PRIOR EXAMINATION FINDINGS

This is the first full-scope examination of the Company.

SUBSEQUENT EVENTS

As illustrated in the "Financial Statements" section of this Report, the Company has sustained net losses in all years of operation and the Company's surplus as regards policyholders as of December 31, 2009 was near minimum levels required by the Department. Accordingly, during 2010, the Department continued to closely monitor the financial condition of the Company and requested that management seek additional capital to be infused into the Company. In response, the Company submitted a revised business plan and additional capital was infused into the Company. As part of the revised business plan, all management functions were transitioned to services providers and the Company no longer has employees. The Department is continuing to closely monitor the Company's operations and financial position.

HISTORY

General:

SIIC was licensed as an association captive insurer, operating as a risk retention group under the captive laws of the District of Columbia, on December 22, 2005 and began writing business on May 1, 2006.

The Company offers occurrence based commercial general liability coverage, including products liability and completed operations coverage, to scaffold and trade contractors involved in the construction industry. As of December 31, 2009, the Company is registered as a risk retention group in all 50 states.

Membership:

The Company's "Subscription Agreement" obligates policyholders (subscribers) to purchase common stock and contribute capital to the Company equal to ten percent of the subscriber's first year annual premium, and five percent of the subscriber's second year annual premium. In addition, the Company's "Shareholders Agreement" outlines the rights and obligations of the shareholders and the Company. The number of shares of stock issued is determined based on the subscriber's capital contribution divided by the purchase price of the shares in that year. The purchase price is determined annually and is applied to all purchases in a particular year. Payment is due at the time as the subscriber pays the annual policy premium. During the examination, we noted the stock subscription requirements per the "Subscription Agreement" were not consistently applied for all policyholders. In addition, the current "Shareholders Agreement" and "Subscription Agreement" had not been filed with or approved by the Department. See the "Comments and Recommendations" section of this Report, under the caption "Shareholder and Subscription Agreements," for further comments regarding this condition.

During 2009 and 2008, the Company issued 79,921 and 79,697 shares of common stock, respectively. During 2009, the Company redeemed 273,348 shares of stock from subscribers who had terminated their insurance with the Company. The value of the redeemed shares was transferred into the Company's gross paid-in and contributed surplus account, and no capital amounts were returned to stockholders. Any capital returns to shareholders are subject to pre-approval by the Department. The Company has not paid any capital returns to shareholders since inception of the Company.

Common stock has a par value of $0.25 and 10,000,000 shares were authorized and 779,492 were issued and outstanding at December 31, 2009. Brosna Group, LLC, a Company policyholder owns approximately 51 percent of the outstanding shares of the Company.

Dividends and Distributions:

The Company did not declare or pay any dividends or other distributions during the period under examination.

MANAGEMENT

The following persons were serving as the Company's directors as of December 31, 2009:

Name and State of Residence	Principal Occupation
Eugene Morgan Texas	President MDM Scaffolding
Neil W. Woods Texas	Secretary/Treasurer Woody's Access, LLC
Edwin A. Young Texas	Retired Travelers Insurance Company

The following persons were serving as the Company's officers as of December 31, 2009:

Name	Title
Edwin A. Young	President
Timothy N. Odom	Secretary

Committees:

As of December 31, 2009, the Company's board of directors had not established any committees.

Conflicts of Interest:

We reviewed the conflict of interest statements completed by officers and directors for the period under examination. The D.C. municipal regulations require conflict of interest statements be completed annually by all directors, officers and key employees, however, we noted that during the period under examination the Company had not had all directors and officers consistently sign annual conflict of interest disclosure statements. Our review of the statements provided disclosed there were no conflicts of interest reported that would adversely impact the Company. Furthermore, no additional conflicts of interest were identified during our examination. See the "Comments and Recommendations" section of this Report, under the caption "Conflict of Interest Statements," for further comments regarding this condition.

Corporate Records:

We reviewed the minutes of the meetings of the board of directors and shareholders for the period under examination. Based on the minutes, the Company's board of directors met at least one time each year in the District in compliance with Section 31-3931.11(d) of the D.C. Official Code. However, based on our review of the minutes, the minutes do not reflect documentation of review and approval of the Company's significant transactions and events. See the "Comments and Recommendations" section of this Report, under the caption "Corporate Records," for further comments regarding this condition.

CAPTIVE MANAGER

W.A. Taft & Company (DC) LLC ("Taft") is the Company's captive manager, and provides services including record retention, regulatory compliance and other management services. As of July 1, 2010, the Company's agreement with Taft expanded to include accounting services.

AFFILIATED PARTIES AND TRANSACTIONS

As of December 31, 2009, Brosna Group, LLC ("Brosna"), a Company policyholder, owns approximately 51 percent of the outstanding shares of the Company. Brosna also owns SIA Insurance Company (Risk Retention Group) Ltd. ("SIAIC'), the Company's reinsurer. The

Company’s former president, Kevin Curley, is the owner of Brosna, and he is also an officer and director of SIAIC. During 2006, SIAIC provided capital to the Company in the form of a $300,000 letter of credit, which remains in effect as of December 31, 2009.

Since January 1, 2006, and through the current period, International Managers Inc. (“IMI”) provides claim handling services to the Company. In addition, IMI provided administrative services to the Company through March 31, 2008. Mr. Curley is the ultimate owner of IMI. The contract with IMI calls for certain annual fixed fees to be paid for claims management services and statistical services. In 2009, claims activity was minimal and the Company was not required to pay the fixed fees to IMI. The Company did pay IMI $488 for variable claims handling services in 2009. The Company paid IMI $70,911 in 2008 for claims and administrative management services.

Curley Financial Group, LLC (“CFG”) provided administrative services to the Company under an expense sharing agreement from November 2007 through September 30, 2008. CFG is also owned by Mr. Curley. Subsequent to September 30, 2008 and as of December 31, 2009, management services were being provided by Company employees.

The Company shared various administrative and employee expenses with its affiliates, IMI and CFG, such as rent, office supplies, and payroll of certain employees. In 2009, the Company received $12,208 from IMI in connection with these expenses. In 2009, the Company paid CFG a net amount of $102,466 in connection with these expenses.

During 2010, the Company submitted a revised business plan to the Department which proposed eliminating the use of Company employees and outsourcing program management activities to Construction Insurance Services, LLC (“CIS”), a wholly owned subsidiary of Curley Financial Group. This change was made as of July 1, 2010, however, new 2010 service provider contracts executed with IMI, CIS and Taft as part of the Company’s business plan changes were not approved or filed with the Department prior to implementation. See the “Comments and Recommendations” section of this Report, under the caption “Changes in Business Plan,” for further comments regarding these conditions.

FIDELITY BOND AND OTHER INSURANCE

SIIC maintains Directors and Officers Liability coverage in the amount of $1,000,000.

As of December 31, 2009, the Company did not maintain fidelity bond insurance. However, as of the date of this Report, the Company no longer has employees, and all functions are being performed by service providers. These functions include the Company’s accounting, which as of the date of this Report is being done by the Company’s captive manager, Taft, which maintains a fidelity bond of $1,000,000.

The Company’s claims manager, IMI, is contractually required to maintain professional liability insurance in the amount of $1,000,000. Although IMI was unable to show evidence of the contractually required coverage for the entire time period under examination, during 2010 IMI obtained the required coverage.

PENSION AND INSURANCE PLANS

The Company does not have a pension plan.

As of December 31, 2009, the Company offered medical insurance coverage to all full-time employees, and also contributed to employee health savings accounts for employees electing to participate. For 2009, the Company contributed approximately $7,800 for the employer share of employee medical insurance coverage and approximately $1,000 to employee health savings accounts. In July 2010 the Company ceased having any employees or employee-related expenses.

All expenses related to the above plans are properly reflected in the Company's financial statements.

STATUTORY DEPOSITS

As of December 31, 2009, the Company did not have any statutory deposits in the District of Columbia and was not required to maintain any such deposits. In addition, the Company was not required to maintain statutory deposits with any other jurisdictions.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2009, the Company was licensed in the District of Columbia, registered as a risk retention group in 50 states, and was writing business in 21 states. During 2009, SIIC wrote premiums totaling $1,073,772. $270,663 (25 percent) of the Company's written premium in 2009 was in New York, $180,857 (17 percent) in Texas, $136,447 (13 percent) in Connecticut, $100,727 (9 percent) in Georgia, $70,561 (7 percent) in Utah, $67,185 (6 percent) in Florida, $38,218 (4 percent) in Oklahoma, $28,786 (3 percent) in California, $28,116 (3 percent) in Maine, $27,607 (3 percent) in Alaska, and 2 percent or less in Colorado, Kentucky, Maryland, Massachusetts, Missouri, Ohio, Oregon, Pennsylvania, Tennessee, West Virginia, and Wisconsin.

The Company offers occurrence based commercial general liability coverage, including products liability and completed operations coverage, to scaffold and trade contractors involved in the construction industry. SIIC issues policies with single limits of $1 million per occurrence and in the aggregate, with excess limits available up to $5 million. The policies include a sunset clause whereby losses must be reported within three years of the effective date of the policy for claims to be covered.

As of December 31, 2009, the Company had employees managing its daily business operations. In addition, certain services were managed by various service providers based on the service agreements. Effective July 1, 2010, the Company transitioned all of its operational functions to various service providers, some of which are affiliated entities.

During the examination period and as of the date of this Report, the Company's captive manager, Taft, is managing the Company's regulatory filings from offices in Towson, Maryland. Effective July 1, 2010, Taft took over day to day operations, administration, and accounting services from the Company employees. As of December 31, 2009, the underwriting, policy issuance, premium billing and collection, risk management, and financial services were handled by the Company's employees at their offices in Dallas, Texas. As of the date of this Report, these activities are being handled by the Company's affiliate, CIS, from offices in Dallas, Texas. As of December 31, 2009 and as of the date of this Report, claim services are being handled by the Company's affiliate, IMI, from offices in Dallas, Texas.

INSURANCE PRODUCTS AND RELATED PRACTICES

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

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

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

REINSURANCE

From May 1, 2006 to June 30, 2009, the Company was party to quota share and excess of loss agreements with SIAIC. Under these agreements, the Company retained 25 percent of the first $1 million of each insured loss, and the remaining 75 percent of the first $1 million of each loss was reinsured by SIAIC. In addition, SIAIC provided excess of loss coverage on $800,000 excess of $200,000 in the primary $1 million layer. The Company also issued excess policies up to a maximum of $4 million excess of the primary $1 million. SIAIC reinsured, on a quota share basis, 100 percent of losses in the excess layer. During this period the Company received ceding commission of 15 percent of the ceded premiums and the Company's maximum retention is any one risk was $50,000.

Effective July 1, 2009 to July 1, 2010, the Company was party to quota share and excess of loss agreements with SIAIC. Under these agreements, the Company retains 37.5 percent of the first $200,000 of risk and cedes the remaining 62.5 percent to SIAIC. The Company receives ceding commission of 20 percent of the ceded premiums. Under the excess of loss agreement, there are three layers: A) $800,000 excess $200,000, B) $1,000,000 excess $1,000,000, and C) $3,000,000 excess $2,000,000 with multiple reinstatements, which vary by layer, available for each layer at considerable additional premium. The Company's maximum retention is any one risk under these agreements was $75,000.

In 2009, the Company ceded net reinsurance premiums totaling $856,971. As of December 31, 2009, the Company reported as assets "Other amounts receivable under reinsurance contracts" totaling $4,164,019, representing estimated amounts recoverable from the reinsurers on unpaid losses, and "Prepaid reinsurance" totaling $358,687, representing ceded unearned reinsurance premiums. If the reinsurers were not able to meet their obligations under these agreements, the Company would be liable for any defaulted amounts.

Our review of the Company's reinsurance contracts did not disclose any unusual provisions.

ACCOUNTS AND RECORDS

The primary location of the Company's books and records as of December 31, 2009 is at the Company's offices in Dallas, Texas. As of the date of this Report, the location of these records is at the offices of its program manager, CIS, in Dallas, Texas. Company records are also located at the offices of its captive manager, Taft, in Towson, Maryland.

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers. During our examination, it was noted that the Company was not including program fees and premium taxes paid by policyholders as part of gross written premium. See the "Comments and Recommendations" section of this Report, under the caption "Premium Accounting," for further comments regarding this condition.

FINANCIAL STATEMENTS

The following financial statements, prepared in accordance with accounting practices generally accepted in the United States ("GAAP"), except for the condition described in **NOTE 3**, reflect the financial condition of the Company as of December 31, 2009, as determined by this examination:

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

BALANCE SHEET

ASSETS

	December 31, 2009
Cash ($36,168), cash equivalents ($450,593) and short-term investments ($0) **(NOTE 1)**	$ 486,761
Subtotals, cash and invested assets	$ 486,761
Uncollected premiums and agents' balances in the course of collection (net of allowance for doubtful accounts of $48,229) **(NOTE 2(a))**	164,962
Reinsurance:	
Other amounts receivable under reinsurance contracts	4,164,019
Net deferred tax asset **(NOTE 2(b))**	81,075
Aggregate write-ins for other than invested assets:	
Letter of credit **(NOTE 3)**	$ 300,000
Prepaid reinsurance	358,687
Deferred acquisition costs	1,610
Prepaid expense **(NOTE 2(c))**	19,342
Due from other companies **(NOTE 2(d))**	30,811
Finance/install fees receivable	2,152
	$ 712,602
Total	$ 5,609,419

LIABILITIES, SURPLUS AND OTHER FUNDS

	December 31, 2009
Losses (**NOTE 4)**	$ 3,537,397
Loss adjustment expenses **(NOTE 4)**	1,059,509
Other expenses (excluding taxes, licenses and fees)	21,890
Taxes, licenses and fees (excluding federal and foreign income taxes) **(NOTE 2(e))**	37,311
Unearned premiums	452,192
Ceded reinsurance premiums payable (net of ceding commissions)	69,950
Total Liabilities	$ 5,178,249
Common capital stock	$ 194,873
Aggregate write-ins for other than special surplus funds:	
Letter of credit	300,000
Gross paid in and contributed surplus	557,970
Unassigned funds (surplus) **(NOTE 2)**	(621,673)
Surplus as regards policyholders	$ 431,170
Total	$ 5,609,419

STATEMENT OF INCOME

		2009
UNDERWRITING INCOME		
Premiums earned	$	195,661
DEDUCTIONS		
Losses incurred **(NOTE 5)**	$	(28,490)
Loss adjustment expenses incurred		40,722
Other underwriting expenses incurred **(NOTES 2(a)(c)(d)(e))**		352,950
Total underwriting deductions	$	365,182
Net underwriting (loss)	$	(169,521)
INVESTMENT INCOME		
Net investment income earned	$	(4,316)
Net investment loss	$	(4,316)
OTHER INCOME		
Finance and service charges not included in premiums	$	2,666
Aggregate write-ins for miscellaneous income:		
Installment fee income		460
Total other income	$	3,126
Federal income taxes incurred **(NOTE 2(b))**	$	(1,271)
Net loss	$	(169,440)

CAPITAL AND SURPLUS ACCOUNT

Initial capital and surplus:		
Capital - Paid in	$	100,000
Letter of credit		300,000
Net loss, 2006		(41,256)
Surplus adjustment: Paid in		154,134
Net change in surplus as regards policyholders, 2006		512,878
Surplus as regards policyholders, December 31, 2006	$	512,878
Net loss, 2007		(136,125)
Capital changes: Paid in		123,306
Surplus adjustments: Paid in		215,783
Net change in surplus as regards policyholders, 2007		202,964
Surplus as regards policyholders, December 31, 2007	$	715,842
Net loss, 2008		(274,852)
Capital changes: Paid in		19,924
Surplus adjustments: Paid in		62,750
Net change in surplus as regards policyholders, 2008		(192,178)
Surplus as regards policyholders, December 31, 2008	$	523,664
Net loss, 2009		(169,440)
Capital changes: Paid in		(48,357)
Surplus adjustments: Paid in		125,303
Net change in surplus as regards policyholders, 2009		(92,494)
Surplus as regards policyholders, December 31, 2009	$	431,170

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

The following changes to the Company's surplus have been recorded as a result of our examination (please refer to **NOTE 2** in the "Notes to Financial Statements" section of this Report for detailed explanations).

Surplus as regards policyholders, December 31, 2009 per Annual Statement	$	490,421
Increase in Allowance for doubtful accounts		(48,229)
Decrease in Net deferred tax asset		(17,194)
Decrease in Prepaid expenses		(22,023)
Increase in Due from other companies		13,195
Decrease in Accrued taxes, license and fees		15,000
Net decrease in Surplus as regards policyholders	$	(59,251)
Surplus as regards policyholders, December 31, 2009 per Examination	$	431,170

COMPARATIVE FINANCIAL POSITION OF THE COMPANY

The comparative financial position of the Company for the periods since inception is as follows:

	2009	2008	2007	2006
Assets	$ 5,609,419	$ 3,203,631	$ 3,954,067	$ 2,300,458
Liabilities	5,178,249	2,679,967	3,238,225	1,787,580
Capital and surplus	431,170	523,664	715,842	512,878
Gross written premium	1,073,772	953,997	3,255,389	1,512,181
Net earned premium	195,661	363,213	511,059	88,130
Net investment income (loss)	(4,316)	16,415	26,280	6,386
Net income (loss)	$ (169,440)	$ (274,852)	$ (136,125)	$ (41,256)

Note:

Amounts in the preceding financial statements for the years ended December 31, 2006 through December 31, 2008 were taken from the Company's Annual Statements as filed with the Department. Amounts for the year ended December 31, 2009 are amounts per examination.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Cash and Cash Equivalents:

As of December 31, 2009, the Company reported "Cash and cash equivalents" totaling $486,761; $450,593 of which was held in one institution and exceeds the amount insured by the Federal Deposit Insurance Corporation ("FDIC"). During our examination, we discussed with management the potential risk to the Company from maintaining balances in excess of the FDIC insured limit in a single institution. Management agreed potential risk existed and indicated steps would be taken to evaluate this risk in the future.

In addition, as of December 31, 2009, $350,000 of the Company's total "Cash and cash equivalents" balance was pledged for letters of credit ("LOC") in the amount of $350,000 that were issued to the Insurance Commissioner of the District of Columbia on behalf of the Company. Because the LOCs are secured by assets of the Company, the LOCs are not separately recorded as an asset of the Company. These LOCs ($350,000) are in addition to the LOCs described in NOTE 3 below.

NOTE 2 – Examination Adjustments to Surplus

Description	Per Company	Examination Adjustments	Note	Per Examination	Surplus Increase (Decrease)
Assets					
Net Uncollected premiums and agents' balance in the course of collection	$ 213,191	$ (48,229)	(a)	$ 164,962	$ (48,229)
Net deferred tax asset	98,269	(17,194)	(b)	81,075	(17,194)
Prepaid expenses	41,365	(22,023)	(c)	19,342	(22,023)
Due from other companies	17,616	13,195	(d)	30,811	13,195
Liabilities					
Taxes, licenses and fees	52,311	(15,000)	(e)	37,311	15,000
Surplus as regards policyholders					
Surplus as regards policyholders, December 31, 2009, Per Company					$ 490,421
Net effect of adjustments on surplus					(59,251)
Surplus as regards policyholders, December 31, 2009, Per Examination					$ 431,170

(a) An allowance for doubtful accounts of $48,229 was recorded related to past due receivables that were considered unlikely to be collected. This adjustment reduced

"Uncollected premiums and agents' balances in the course of collection" by $48,229. The statement of income effect was recorded through an increase in "Other underwriting expenses incurred."

(b) "Net deferred tax asset" was decreased for the amount of $17,194. This amount was identified as a passed audit adjustment by the Company's auditor, but was booked for purposes of our examination. The statement of income impact was reflected in "Federal income tax benefit." This adjustment increased the "Federal income tax benefit" expense from negative $18,465 reported by the Company to negative $1,271 per our examination.

(c) The Company's "Aggregate write-ins for other than invested assets – Prepaid expense" was decreased by $22,023 for an audit adjustment made by the Company's auditor. The Company booked this audit adjustment in 2010. The statement of income effect was recorded through an increase in "Other underwriting expenses incurred."

(d) The Company's "Aggregate write-ins for other than invested assets – Due from other companies" was increased by $13,195 for additional amounts due from other companies related to shared payroll expenses booked in December 2009. The full payroll expense was booked on the Company's financial statements without the offset of the amount due from other companies. The statement of income effect was recorded through a decrease in "Other underwriting expenses incurred."

(e) The Company's liability for "Taxes, licenses and fees" was decreased by $15,000 to adjust for an over accrual of state premium taxes. The statement of income effect was recorded through a decrease in "Other underwriting expenses incurred."

NOTE 3 – Letters of Credit

In addition to the encumbered LOCs noted above in **NOTE 1**, the Company has an additional LOC in the possession of the Insurance Commissioner of the District of Columbia in the amount of $300,000 that is unencumbered and thus recorded as an asset of the Company at December 31, 2009. This LOC was provided by the Company's affiliated reinsurer SIAIC as part of the initial capitalization of the Company. Under the Laws of the District of Columbia, letters of credit approved by the Department are allowed as admitted assets and surplus as regards policyholders. Inclusion of these letters of credit as assets and surplus as regards policyholders is not in accordance with GAAP.

NOTE 4 – Losses and Loss Adjustment Expense Reserves:

The Company reported "Losses" ($3,537,397) and "Loss adjustment expenses" ($1,059,509) reserves totaling $4,596,906 which represents management's best estimate of the amount necessary to pay all claims and related expenses that have been incurred but are still unpaid as of December 31, 2009. The Company does not utilize a discount rate to reduce its reserves.

Reserve credits taken as of December 31, 2009 for loss reserve cessions to the Company's reinsurers totaled $4,164,019, which was reported as "Other amounts receivable under reinsurance contracts" in the Company's assets and represents estimated amounts recoverable from reinsurers on unpaid losses. If the reinsurers are unable to meet their obligations under the reinsurance treaties, the Company would be liable for any defaulted amounts. The Company's net undiscounted loss reserves totaled $432,887 as of December 31, 2009.

The methodologies utilized by the Company to compute reserves, and the adequacy of the losses and loss adjustment expenses reserves as of December 31, 2009, were reviewed as part of our examination. As part of our review, we relied on the Company's independent actuary, who concluded that the Company's reserves appeared to be sufficient. In addition, as part of our review of the Company's reserves, we engaged an independent actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company's actuary. The independent actuary utilized in our examination concluded that the methodologies and assumptions utilized by the Company's independent actuary to compute these reserves, and the amount of the reserves as of December 31, 2009, were reasonable and adequate.

The Company does not record a separate reserve for unallocated loss adjustment expenses ("ULAE"). Although the independent actuary utilized in our examination concluded the Company's "Losses" and "Loss adjustment expenses" reserves were adequate to cover all losses and LAE, the independent actuary recommended to the Company that specific reserves for ULAE be recorded. Management agreed with this recommendation and indicated going forward a portion of its reserves would be specifically allocated to ULAE.

NOTE 5 – Losses Incurred:

As a result of a number of factors, including decreases in estimates of reserves for accident years 2006 and 2007, the Company reported negative incurred losses for 2009.

COMMENTS AND RECOMMENDATIONS

Shareholder and Subscription Agreements:

The Company's "Subscription Agreement" obligates policyholders to purchase common stock and contribute capital to the Company equal to ten percent of the Subscriber's first year annual premium, and five percent of the Subscriber's second year annual premium. However, we noted the stock subscription requirements per the "Subscription Agreement" were not consistently applied for all policyholders and for new and renewal accounts. For example, some policyholders were also charged 10 percent of premiums based on second year premiums. There were also inconsistencies as to whether the rate was charged on only primary premium or primary plus excess premium. In addition, the Company's current "Subscription Agreement", as well as its "Shareholders Agreement", which outlines the rights and obligations of the shareholders and the Company, were not filed with or approved by the Department. **We recommend that the Company ensure proper and consistent application of the requirements and terms of the "Subscription Agreement". Any future revisions to these agreements should be filed with and approved by the Department prior to implementation.**

Conflict of Interest Statements:

As indicated in the "Conflicts of Interest" section of this report, the D.C. Municipal Regulations, section 26-3712, require that conflict of interest statements from officers, directors and key employees be completed annually. However, the Company was unable to provide completed conflict of interest statements for all directors and officers in all years under examination. **We recommend that the Company require officers, directors, and key employees to complete conflict of interest statements on an annual basis in compliance with the aforementioned section of the D.C. Municipal Regulations.**

Corporate Records:

Our review of the Company's board of director and shareholder meeting minutes for the period under examination indicated that the Company was not documenting board discussion, review, and approval of the Company's significant transactions and events. In addition, we noted that some of the Company's board meetings were held via conference call, but were not documented via minutes to the meetings. **We recommend that the Company ensure minutes are prepared for all board of director meetings, and that the minutes document the board's discussion, review and approval of the Company's significant transactions and events.**

Changes in Business Plan:

Changes to information filed with the Company's application are required to be submitted to the Department. In addition, substantive changes to information in the application and to the

Company's business plan require prior approval of the Department. During 2010, the Company entered into new contracts with its affiliated claims services provider, IMI, as well as new contracts with its affiliate CIS for program management responsibilities and an expanded contract with its captive manager, Taft. These contracts were not approved by or filed timely with the Department. **We recommend that all future substantive or material changes to the Company's business plan should be submitted to the Department for review and approval prior to implementation. Any questions regarding what may or may not constitute a material change to the business plan should be clarified with the Department prior to implementation. In addition, we recommend that the Company ensure that all revisions to documents previously filed with the Department, and any new documents, be submitted to the Department promptly.**

<u>Premium Accounting</u>:

The Company invoices policyholders directly for applicable policy premiums. This amount of policy premium is recorded in the Company's books as direct premium written. In addition, the Company invoices policyholders for additional amounts for program fees and estimated state premium taxes. Program fees are charged to pay producers, association costs, and administrative costs. The estimated amount of premium taxes is calculated based on the direct premium, multiplied by the applicable premium tax rate in each jurisdiction.

However, these amounts for program fees and estimated state premium tax are not recorded as part of the Company's premiums written. Rather, the program fees are netted against (subtracted from) other underwriting expenses, and the state premium tax collected is held on the Company's balance sheet as premium tax payable until paid to the various states. No income or expense flows through the financial statement related to the program fees or the state premium taxes. The result of this accounting treatment is an understatement of gross written premiums. **We recommend that the Company properly classify all amounts billed to policyholders as gross written premium. Applicable District of Columbia premium taxes should be calculated based upon the gross premiums written.**

CONCLUSION

Our examination disclosed that as of December 31, 2009 the Company had:

Assets	$	5,609,419
Liabilities	$	5,178,249
Common capital stock		194,873
Letter of credit		300,000
Gross paid in and contributed surplus		557,970
Unassigned funds (surplus)		(621,673)
Surplus as regards policyholders		431,170
Total Liabilities and surplus as regards policyholders	$	5,609,419

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2009, and the accompanying statement of income properly presents the results of operations for the period then ended.

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

SIGNATURES

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

Christina M. Bonney, Collins Consulting, Inc.
Ronald E. Smith, Collins Consulting, Inc.
Peter F. Toy, Collins Consulting, Inc.

The actuarial portion of this examination was completed by N. Terry Godbold, ACAS, MAAA, FCA, President & Senior Actuary, Godbold, Malpere & Co.

Respectfully submitted,

Pamela R Collins

Pamela R. Collins
Examiner-In-Charge
Collins Consulting, Inc.

Under the Supervision of,

Xiangchun Li

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

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

William P. White
Acting Commissioner

March 22, 2011

Edwin A. Young
President
Scaffold Industry Insurance Company Risk Retention Group, Inc.
C/o W.A. Taft & Company (DC), LLC
1620 Providence Road
Towson, Maryland 21286

RE: Examination of **Scaffold Industry Insurance Company Risk Retention Group, Inc.**, as of December 31, 2009

Dear Mr. Young:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination ("Report") of the affairs and financial condition of **Scaffold Industry Insurance Company Risk Retention Group, Inc.** ("Company") as of December 31, 2009.

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

The response must be in writing and shall be furnished to this Department by April 19, 2011. In addition to a hard-copy response, please also furnish the response electronically via e-mail to me, in a Microsoft "Word" format, to sean.odonnell@dc.gov.

Sincerely,

Sean O'Donnell

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

Enclosure

SIIC
SCAFFOLD INDUSTRY
INSURANCE
COMPANY, (RRG) INC.

April 20, 2011

Sean O/Donnell
Director of Financial Examination
Risk Finance Bureau
Department of Insurance, Securities and Banking
810 First Street NE, Ste 701
Washington, DC 20002

RE: Examination of Scaffold Industry Insurance Company Risk Retention Group, Inc. as of December 31, 2009

Dear Sean:

In reviewing the report of examination received on March 22, 2011, comments are as follows:

Page 7 Reinsurance – this was discussed during our last call and changes to the first paragraph sent to Pam Collins for revision. The revision has not been made and we request that this be revised prior to the report becoming final. The paragraph should read as follows:

Effective May 1, 2006, the Company entered into a quota share and excess of loss agreement with SIAIC. These were renewed effective July 1, 2007 to June 30, 2008 and extended by endorsement to expire June 30, 2009. The Company ceded 100 percent of $4 million excess of $1,000,000 on any one policy. The Company received ceding commission of 15 percent of the ceded premiums. The Company also had an excess of loss agreement with SIAIC where the Company ceded 100 percent of its exposure of $800,000 in excess of $200,000 of losses per claim and in the aggregate. The Company ultimately retained 25 percent of the first $200,000 of risk and ceded the remaining 75 percent of the first $200,000 to SIAIC.

Also In the section Affiliated Parties and Transactions a couple of corrections were made per the attached.

Comments and Recommendations:

- Shareholder and Subscription Agreements: (1) we will revise the agreement to include a phrase regarding 5%-15% for 2nd year annual premiums to include any subsequent renewals, (2) revise the agreement to include the fee will be charged on primary premiums and excess premiums, (3) SIIC will file these changes with DISB for approval. SIIC did not consider this a reportable change because DISB did not have written guidelines as to what constituted a reportable change in 2007
- Conflict of Interest Statements: Agreed and implemented
- Corporate Records: Agreed and implemented
- Changes in Business Plan: Agreed and will provide in the future
- Executed Reinsurance Agreements: The executed reinsurance slips were provided to the DISB and serve as the legal documentation for the reinsurance in place for SIIC.
- Premium Accounting: Program fees are no longer being charged by SIIC therefore there is no need to record. Premium taxes will be reported to regulators as if they were part of premium.

Sincerely,

Edwin A. Young

Edwin A. Young
President

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

William P. White
Acting Commissioner

May 6, 2011

Edwin A. Young
President
Scaffold Industry Insurance Company Risk Retention Group, Inc.
C/o W.A. Taft & Company (DC), LLC
1620 Providence Road
Towson, Maryland 21286

RE: Examination of **Scaffold Industry Insurance Company Risk Retention Group, Inc.**, as of December 31, 2009

Dear Mr. Young:

We are in receipt of your response, dated April 20, 2011, regarding the Report on Examination of Scaffold Industry Insurance Company Risk Retention Group, Inc. ("Company"), as of December 31, 2009. The response is deemed adequate.

In addition, please note the following:

1. Page 7 Reinsurance – the response states changes to the first paragraph were sent to Ms. Collins for revision. Ms. Collins made the revision, but during the internal review here at the Department the paragraph was further modified.
2. To the extent deemed necessary, we have made the suggested changes to the section "Affiliated Parties and Transactions".
3. Regarding the Company's Shareholder and Subscription Agreements, please note that under D.C. Municipal Regulations applicable to captive insurers, any change in information filed with the Company's application is required to be submitted to the Department. This provision has been in place since 2001.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available. The Department of Insurance, Securities and Banking will forward the adopted Report electronically to each Commissioner whose name is set forth on Page 1 of the Report, as well as to each jurisdiction in which the Company is registered and to the National Association of Insurance Commissioners.

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

Please contact me at 202-442-8153 if you have any questions.

Sincerely,

Sean O'Donnell

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures