
REPORT OF EXAMINATION

OF

**SPIRIT MOUNTAIN INSURANCE
COMPANY RISK RETENTION GROUP,
INC.**

MONTGOMERY, ALABAMA

as of

December 31, 2019

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EXAMINER'S AFFIDAVIT

STATE OF ALABAMA
COUNTY OF JEFFERSON

Mary Packard, CFE, CPA being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of Spirit Mountain Insurance Company Risk Retention Group, Inc.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Spirit Mountain Insurance Company Risk Retention Group, Inc. was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.

Mary B. Packard

Mary Packard, CFE, CPA
Noble Consulting Services, Inc.

Subscribed and sworn before me by Mary Packard on this 26th day of February 2021.

(SEAL)

Marilyn K. Winston

(Signature of Notary Public)

State of Alabama
County of Jefferson

My commission expires *September 20, 2022*

*Sworn to and subscribed before me this
26th day of February 2021 in Birmingham, Alabama,
Jefferson County.*

EXAMINER'S AFFIDAVIT

STATE OF ALABAMA
COUNTY OF MONTGOMERY

Blase Francis Abreo, CFE, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of Spirit Mountain Insurance Company Risk Retention Group, Inc.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Spirit Mountain Insurance Company Risk Retention Group, Inc. was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.

Francis Blase Abreo

Blase Francis Abreo, CFE
Insurance Examination Supervisor
Alabama Department of Insurance

Subscribed and sworn before me by Blase Francis Abreo on this 26th day of February 2021.

(SEAL)

Stacy Farris

(Signature of Notary Public)

My commission expires November 13 2021



KAY IVEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
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JIMMY W. GUNN
MARK FOWLER

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
SCOTT F. PILGREEN

GENERAL COUNSEL
REYN NORMAN

February 26, 2021

Honorable Jim L. Ridling
Commissioner of Insurance
Alabama Department of Insurance
201 Monroe Street, Suite 502
Montgomery, Alabama 36104

Dear Commissioner Ridling:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a full scope financial examination as of December 31, 2019, has been made of

**Spirit Mountain Insurance Company Risk Retention Group, Inc.
Montgomery, Alabama**

The examination was conducted remotely with support from its captive manager's office located in Sarasota, Florida. The Company's Statutory address is 445 Dexter Avenue, Suite 9075, Montgomery, Alabama 36014. The report of examination is submitted herewith. Where the description "The Company" or "SMIC" appears herein, without qualification, it will be understood to indicate Spirit Mountain Insurance Company Risk Retention Group, Inc.

SCOPE OF EXAMINATION

We have performed an examination of Spirit Mountain Insurance Company Risk Retention Group, Inc., (“SMIC”), a multi-state insurance company. This is the first examination of the Alabama risk retention group since its Redomestication from Washington D.C. and covers the period January 1, 2015 through December 31, 2019.

The examination was conducted in accordance with applicable statutory requirements of the Code of Alabama, 1975, as amended, the Alabama Insurance Department regulations, bulletins, and directives, and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Generally Accepted Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in the Code of Alabama, 1975, as amended, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report, but separately communicated to other regulators and/or the Company.

An examination of the Company’s information technology systems (IT) was conducted by Brad Myers, CISA, CISM, CISSP of Noble Consulting Services, Inc. The IT examination included a review of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

The Company's annual statements for each year under examination were compared with the corresponding general ledger account balances. During the period covered by the examination, the Company was audited by Crowe, LLP (CPA's). The CPA's workpapers were reviewed and used in the examination as deemed appropriate by the examiners.

A signed letter of representation was obtained at the conclusion of the examination. In this letter, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2019.

ORGANIZATION AND HISTORY

SMIC, with statutory principal offices located at 445 Dexter Avenue, Suite 9075, Montgomery, Alabama, 36104, is a risk retention group which was originally licensed as a captive insurer in the District of Columbia on June 7, 2005. Registrant re-domesticated to the State of Alabama effective February 8, 2019 with the approval of the District of Columbia Department of Insurance, Securities and Banking and the Department of Insurance of the State of Alabama.

Pursuant to the Liability Risk Retention Act, SMIC is registered in all states and operates nationwide.

SMIC is wholly owned by the International Association of Community Services Organization ("IASCO" or "Association"), a District of Columbia non-stock, non-profit Corporation.

The Company offers a Liability Package Policy which includes General Liability, Counseling Professional Liability and Non-Owned Auto Liability, as well as Medical Professional Liability and Directors & Officers Liability coverages.

As of December 31, 2019, the Company's unassigned funds reported in the 2019 Annual Statement was \$3,127,185.

MANAGEMENT AND CONTROL

Members

SMIC insures all members of IASCO through a master policy. Certificates of insurance are issued to the individual insured/association members. The members of IASCO consist of faith-based, non-profit community services facilities.

Board of Directors

Members elected to the Board of Directors by the members and serving as of December 31, 2019, were as follows:

<u>Director</u>	<u>Residence</u>	<u>Principal Occupation</u>
Mark Chappell	Montgomery, Alabama	Chief Executive Officer InsureScan, Inc.
Ronald Renzi	Chandler, Arizona	Vice President Patriot Insurance Agency, Inc.
Michael Rogers	Sarasota, Florida	Chairman & Chief Executive Officer Risk Services, LLC
Michael Vagianos	Chandler, Arizona	Vice President Investments Private Client Advisor JP Morgan

Committees

As of December 31, 2019, the Company's Board of Directors had established the following committee:

Audit Committee:

Michael Rogers, Chairman
Mark Chappell
Michael Vagianos

Officers

Officers of the Company elected by the Board of Directors and serving as of December 31, 2019 were as follows:

<u>Officers</u>	<u>Title</u>
Ronald Renzi	President
Michael Rogers	Treasurer
Brian Troy Winch	Secretary

Conflict of Interest

The conflict of interest statements filed by the officers and directors of the Company were reviewed for the period covered by this examination. There were no material conflicts noted.

Dividends to Policyholders

The Company paid the following dividends to policyholders during the examination period.

<u>Dividends to Policyholders</u>	
<u>Year</u>	<u>Amount</u>
2019	\$680,000
2018	\$680,000
2017	\$680,000
2016	\$680,000
2015	\$680,000

CORPORATE RECORDS

The Articles of Incorporation and Bylaws and amendments thereto were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes and regulations. The Company amended its original Articles of Incorporation on January 22, 2019 and its Bylaws on March 13, 2019 with the re-domestication to Alabama.

Minutes of the meetings of the Shareholders and Board of Directors were reviewed for the period under examination. The minutes appeared to be complete with regard to actions taken on matters before the respective bodies for deliberation and action.

TERRITORY AND PLAN OF OPERATIONS

The State of Alabama approved the licensure and simultaneous re-domestication of the Company from the District of Columbia on February 8, 2019. The Company is licensed in the State of Alabama and registered as a risk retention group to write liability insurance in the remaining forty-nine states and the District of Columbia as of December 31, 2019.

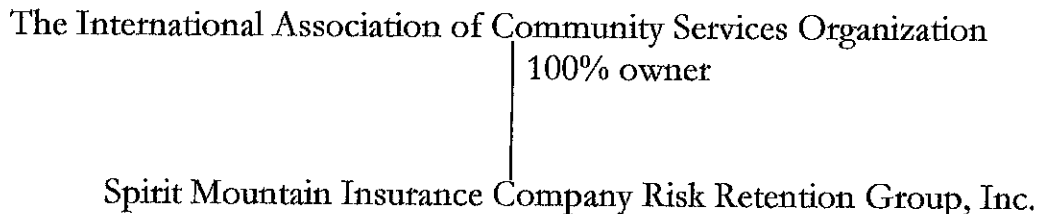
HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration and Reporting

The Company was subject to the Alabama Insurance Holding Company Regulatory Act, as defined in ALA. CODE § 27-29-1 (1975). SMIC was registered with the Alabama Department of Insurance as registrant of an Insurance Holding Company System.

The Company completed an appropriate filing required under the Holding Company Act on May 28, 2020 for the 2019 calendar year.

Organizational Chart



Transactions and Agreements with Affiliates

The Company paid the following dividends to IACSO during the examination period.

Dividends to IACSO

<u>Year</u>	<u>Amount</u>
2019	\$74,285
2018	\$74,285
2017	\$574,285
2016	\$69,700
2015	\$45,300

FIDELITY BONDS AND OTHER INSURANCE

As of December 31, 2019, the Company, due to their limited operations, did not have any fidelity bond coverage in place. The Company should consider obtaining a fidelity bond in an amount in accordance with the NAIC 2020 Financial Condition Examiners Handbook, Exhibit R.

The Company does have an error and omissions policy from Lloyd's London with a sufficient amount of coverage as reviewed by the examiner.

PENSIONS AND STOCK OWNERSHIP

The Company has no employees and, thus, has no pension in place and no stock ownership.

Compliance with 18 U. S. C. 1033

According to ALA. ADMIN. CODE 482-1-146-.11 (2009),

- (1) A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following: (a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense. (b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense. (c) An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting.

In compliance with the ALA. ADMIN. CODE 482-1-146-.11 (2009), the Company will perform the following procedures:

- (1) Have all employees, officers, directors, and managers to complete as part of the application for initial license with the Company verify on the affidavit if they have ever been convicted of a Section 1033 offense after initial employment.

- (2) Annually the Company will require each employee, officer, director, and manager to complete a questionnaire and attest if they have a felony conviction for a Section 1033 offense.
- (3) If it is determined that an employee, manager, officer, or contractor has been convicted of a Section 1033 offense after initial employment, the following will take place:
- (a) Within 30 days, the employee or contractor must provide the required Section 1033 consent or employment will be terminated.
 - (b) Thereafter, on an annual basis, the affected employee or contractor will be subject to a background check and must provide the required Section 1033 consent.

The Company is in compliance with 18 U.S.C. 1033.

SPECIAL DEPOSITS

As of December 31, 2019, the Company maintained the following special deposits on behalf of the Commissioner of Insurance, Securities and Banking of the District of Columbia:

Type	Amount
First American Government Obligations Fund Cl Z	\$ 23,276
U.S. Treasury 1.250% Due 02-29-20	<u>499,670</u>
Total	<u>\$522,946</u>

See subsequent events below for further discussion.

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following information presents significant items that reflect the growth of the Company for the years indicated:

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Admitted					
Assets	\$6,413,980	\$6,058,272	\$6,050,838	\$6,602,926	\$6,553,981
Liabilities	\$2,886,794	\$2,771,013	\$2,963,391	\$2,866,344	\$2,959,541
Direct					
Written					
Premium	\$2,492,480	\$2,419,942	\$2,412,045	\$2,437,102	\$2,427,273
Net Losses					
Incurred	\$33,142	\$85,800	\$1,817	\$13,623	(\$201,536)
Loss					
Adjustment					
expenses					
incurred	\$6,628	(\$7,651)	\$73,213	\$73,317	(\$42,885)
Surplus as					
regards					
policyholders	\$3,527,185	\$3,287,259	\$3,087,447	\$3,736,582	\$3,594,440

REINSURANCE

Reinsurance Assumed

The Company had no reinsurance assumed.

Reinsurance Ceded

The Company has an Excess of Loss Reinsurance Agreement (the "Agreement") with Amtrust International Insurance Limited (Reinsurer) through its reinsurance intermediary, Risk Services, LLC. The Reinsurer agrees to indemnify the Company for 100% of that part of its Ultimate Net Loss which exceeds \$250,000 on account of each and every claim made, each and every policy, and the sum recoverable under the Agreement shall be up to but not exceeding 100% of \$750,000 Ultimate Net Loss on account of each and every claims made, and each and every policy. Under the annual

aggregate limit, the maximum amount recoverable from the Reinsurer in Ultimate Net Losses will not exceed 300% of the Reinsurance Premium paid in respect of any one Agreement year. This limit is further subject to the Term Aggregate Limit which states the maximum amount recoverable from the Reinsurer will not exceed 200% of the Reinsurance Premium for the entire term of the Agreement. If a loss under the Agreement involves more than one insured in the same incident, the maximum recoverable for such incident shall be \$1,500,000.

See subsequent events below for further discussion.

ACCOUNTS AND RECORDS

Location of Records

The Company maintained its records at the office of its captive manager, Risk Services, LLC.

FINANCIAL STATEMENT INDEX

The following financial statements are based on the statutory financial statements filed by the Company with the Alabama Department of Insurance and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments on the financial statements reflect any examination adjustments to the amount reported in the annual statement and should be considered an integral part of the financial statements.

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THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

**SPIRIT MOUNTAIN INSURANCE COMPANY RISK RETENTION
GROUP, INC.**

STATEMENT OF ASSETS
For the Year Ended December 31, 2019

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Assets			
Bonds	\$ 4,508,606	\$ -0-	\$ 4,508,606
Cash, cash equivalents and short-term investment	1,639,145	-0-	1,639,145
Investment income due and accrued	30,657	-0-	30,657
Uncollected premiums and agents' balances in the course of collection	24,918	-0-	24,918
Net deferred tax asset	21,805	-0-	21,805
Aggregate write-ins for other-than-invested assets	<u>188,849</u>	<u>-0-</u>	<u>188,849</u>
Total	<u>\$ 6,413,980</u>	<u>\$ -0-</u>	<u>\$ 6,413,980</u>

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.**

**SPIRIT MOUNTAIN INSURANCE COMPANY RISK RETENTION
GROUP, INC.**
STATEMENT OF LIABILITIES, SURPLUS AND OTHER FUNDS
For the Year Ended December 31, 2019

Liabilities:

Losses	\$ 1,126,704
Loss adjustment expenses	283,678
Other expenses	371,856
Taxes, licenses and fees	34,646
Unearned premiums	468,216
Dividends declared and unpaid: Policyholders	464,275
Ceded reinsurance premiums payable	24,541
Payable to parent, subsidiaries and affiliates	<u>112,878</u>
Total Liabilities	\$ 2,886,794

Capital and Surplus:

Common capital stock	\$ 100,000
Gross paid in and contributed surplus	300,000
Unassigned funds (surplus)	<u>3,127,185</u>

Surplus as regards policyholders	\$ <u>3,527,185</u>
Total	\$ <u>6,413,980</u>

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.**

**SPIRIT MOUNTAIN INSURANCE COMPANY RISK RETENTION
GROUP, INC.**
STATEMENT OF INCOME
For the Year Ended December 31, 2019

Underwriting Income	
Premiums earned	\$ 2,070,340
Deductions:	
Losses incurred	33,142
Loss adjustment expenses incurred	6,628
Other underwriting expenses incurred	<u>1,136,370</u>
Total underwriting deductions	<u>\$ 1,176,140</u>
Net underwriting gains/(loss)	\$ 894,201
Investment income	
Net investment income earned	\$ 124,318
Net realized capital gains (losses) less capital gains tax	<u>1,322</u>
Net investment gain (loss)	<u>\$ 125,641</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 1,019,841
Dividends to policyholders	<u>680,000</u>
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 339,842
Federal and foreign income taxes incurred	<u>72,179</u>
Net income (loss)	<u>\$ 267,663</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

**SPIRIT MOUNTAIN INSURANCE COMPANY RISK RETENTION
GROUP, INC.
CAPITAL AND SURPLUS ACCOUNT RECONCILIATION
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018, 2017, 2016 and 2015**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Surplus as regards policyholders, December 31 prior year	<u>\$ 3,287,259</u>	<u>\$ 3,087,447</u>	<u>\$ 3,736,582</u>	<u>\$ 3,594,440</u>	<u>\$ 3,334,657</u>
Net income	267,663	269,370	(71,067)	215,426	312,020
Change in net unrealized capital gains or (losses) less capital gains tax	46,547	4,728	(4,738)	(3,584)	(6,936)
Cumulative effect of changes in accounting principles	-	-	954	-	-
Dividends to stockholders	<u>(74,285)</u>	<u>(74,285)</u>	<u>(574,285)</u>	<u>(69,700)</u>	<u>(45,300)</u>
Change in surplus as regards policyholders for the year	<u>239,925</u>	<u>8,200</u>	<u>(649,135)</u>	<u>142,142</u>	<u>259,784</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 3,527,185</u>	<u>\$ 3,287,259</u>	<u>\$ 3,087,447</u>	<u>\$ 3,736,582</u>	<u>\$ 3,594,440</u>

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.**

NOTES TO FINANCIAL STATEMENTS

Note 1 – Surplus as regard policyholders

\$3,527,185

The above captioned amount is the same as reported by the Company in its 2019 Annual Statement. There were no adjustments to surplus as a result of this examination.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The examination for contingent liabilities and pending litigation included the review of the Company's statutory financial statement disclosures, minutes of the corporate governing bodies, pending claims, and the usual examination of accounts and unrecorded items. The examiners obtained a letter of representation from management as of December 31, 2019. No unreported contingent liabilities were noted, and all pending litigation against the Company as of December 31, 2019 appeared to be within the ordinary course of its business.

COMMENTS AND RECOMMENDATIONS

Fidelity Bonds and Other Insurance – Page 7

It is recommended the Company consider obtaining a fidelity bond in an amount in accordance with the NAIC 2021 Financial Condition Examiners Handbook, Exhibit R.

SUBSEQUENT EVENTS

A review of events subsequent to the December 31, 2019 examination date was done. The following items were noted during this review.

On February 1, 2020, the Company entered into a Novation and Transfer Agreement which replaced AmTrust International Insurance Limited, an unauthorized reinsurer in the State of Alabama, with Technology Insurance Company, Inc., an authorized reinsurer in the State of Alabama.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulatory decisions, and the impact on the financial markets, all of which are uncertain and cannot be predicted. Due to the timing of the examination and field work, the effects of the pandemic on this entity are not fully addressed within this examination report.

On June 22, 2020, the Company obtained a release from the Commissioner of Insurance, Securities and Banking of the District of Columbia for the special deposits as the deposits are no longer required. The funds were re-invested, and the account was closed.

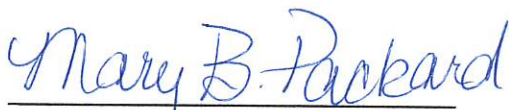
CONCLUSION

Acknowledgment is hereby made of the courteous cooperation extended by the officers and employees of the Company during the course of this examination.

The customary insurance examination procedures, as recommended by the NAIC, have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Julie Smith, AFE, Senior Examiner, Brad Myers, CISA, CISM, CISSP, IT Examiner, and Greg Fanoie, FCAS, MAAA, Actuary, represented the Alabama Department of Insurance and participated in the examination of the Company.

Respectfully submitted,



Mary Packard, CFE, CPA
Examiner-in-charge
Noble Consulting Services, Inc.



Blase Francis Abreo, CFE
Insurance Examination Supervisor
Alabama Department of Insurance