



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



Chester A. McPherson  
Acting Commissioner

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

Re: Report on Examination – **The Surety and Fidelity Association of America**

**ORDER**

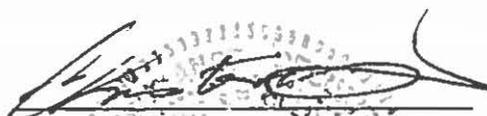
A target Market Conduct Examination of **The Surety and Fidelity Association of America** as of December 31, 2012 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 29<sup>th</sup> day of September, 2014, that the attached target Market Conduct Examination report be adopted and filed as an official record of this Department.

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

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the Association 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.

  
Chester A. McPherson  
Acting Commissioner



GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON MARKET EXAMINATION

THE SURETY & FIDELITY ASSOCIATION OF AMERICA

AS OF

DECEMBER 31, 2012

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Washington, D.C.

July 15, 2014

Honorable Chester McPherson  
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 Commissioner:

In accordance with Section 31-1402 of the District of Columbia Official Code, we have examined the market conduct condition and activities of

**The Surety & Fidelity Association of America**

(Hereinafter called the Association) at its home office located at 1101 Connecticut Avenue, NW Suite 800, Washington, DC 20036, and the following Market Conduct Report on Examination is submitted.

**PURPOSE AND SCOPE OF EXAMINATION**

A multi-state market examination (the “Examination” of The Surety & Fidelity Association of America (“Association” or “SFAA”) was called for the period of January 1, 2006 to December 31, 2012. The Exam was conducted under the oversight of the Advisory Organization Oversight (C) Working Group of the National Association of Insurance Commissioners (NAIC). Washington, DC served as the lead state.

This Market Conduct examination, covering the period from January 1, 2006 to December 31, 2012, including any events noted occurring subsequent to December 31, 2012, was conducted under the association plan of the National Association of Insurance Commissioners (NAIC) by examiners of the District of Columbia Department of Insurance, Securities and Banking (the Department).

The last Market examination of the Company was a limited scope examination, covering the period from January 1, 2000 to December 31, 2005.

Our examination was conducted in accordance with examination policies and standards established by the District of Columbia Department of Insurance, Securities and Banking and Market Conduct procedures recommended by the NAIC; Specifically Chapters 16 and 25 and

Appendix F to Chapter 25 of the 2012 Market Regulation Handbook, and, accordingly, included such tests and 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, 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 report is by Exception.

One primary function of the Association is to create and file statistical plans that conform to insurance regulation standards. The Association has published two statistical plan manuals and is solely responsible for the development and modification of these plans. Member companies and groups and non-member statistical filers submit the statistical information required by plans directly to Insurance Services Office, Inc. (ISO) for processing, ISO's processing is not included in the scope of this examination.

The Association was financially audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Association's financial statements for calendar years 2006 through 2012. We placed substantial reliance on the audited financial statements for calendar years 2006 through 2012. We concentrated our examination efforts on the operations of the Association. We reviewed the Market Conduct Examination of ISO (Insurance Service Operations) and placed substantial reliance on those results.

## **ORGANIZATION PROFILE**

### **General:**

The Association is a voluntary, non-profit, incorporated association of companies engaged in the business of suretyship. It was organized in 1908 to encourage the development of forms and coverage with respect to fidelity, surety and guarantee bonds and forgery insurance and to provide a forum for the discussion of problems of common interest to its members as is more fully set forth in the bylaws.

On October 23, 1947, the Surety Association of America absorbed the personnel and rating functions of the Towner Rating Bureau, Inc. under an amended constitution that authorized the Association to operate as a rating and or advisory organization throughout the United States of America, its territories and possessions. All licenses issued to the Towner Rating Bureau either were transferred to or reissued in the name of The Surety Association of America.

The constitution was amended on June 6, 1996, to make the committee structure more flexible, to more clearly define eligibility to serve on the Board of Directors and to make gender and editorial changes to the document.

On May 3, 2002, the Association's Board of Directors voted to adopt a corporate form of organization. As a result, the Association formed a non-profit District of Columbia corporation.

The Surety Association of America drafted bylaws to replace the constitution of the unincorporated Association. At the annual meeting on May 12, 2005, the members voted in favor of an amendment to the bylaws to allow companies to withdraw only by giving notice of at least 90 days before the beginning of the Association's fiscal year.

On May 18, 2006, general membership of the Association voted to change the name of the Association from The Surety Association of America to The Surety & Fidelity Association of America (SFAA). The bylaws were amended to reflect the new name following the affirmative vote. The District of Columbia Department of Insurance, Securities and Banking approved the name change and issued a revised Certificate on May 26, 2006.

At the Surety & Fidelity Association of America Annual Meeting in May of 2005, President Lynn Schubert announced the formation of The Surety Foundation, a stand-alone educational organization that now serves as the vehicle to fund and administer such former SFAA activities as the Surety and Fidelity Industry Intern and Scholarship program, as well as develop and implement new educational and public service program initiatives.

In establishing this Foundation, the SFAA Board of Directors cited several advantages over continuing to run these programs through the Association. First, the Foundation is a 501(c)(3) tax-exempt status and this status allows tax-deductible contributions to its programs by companies and individuals. Tax deductibility greatly increases the funding that would be available for these programs and, for example, allows the Foundation to expand the scope of the scholarship program beyond funding only minority students. Second, it allows specific scholarships to be designated by contributor, by geographic location, or by school - something that could not be done under the former SFAA arrangement. Third, it allows tax deductibility for endowments, memorial contributions and other gifts.

#### Management:

The Company's Articles of Incorporation and Bylaws provide that the responsibility for the control and management of the affairs, property and interests of the Company is vested in its Board of Directors composed of not less than nine (9) and no more than eighteen (18) members who shall be elected annually by the members. The Bylaws provide that the officers of the Company shall consist of a President, a Secretary, a Treasurer, and such other officers, including a Chairman of the Board of Directors, and one or more Vice Presidents, as the Board of Directors may from time to time deem advisable. The Board of Directors shall elect the officers of the Company at the regular annual meeting of the Board following the annual meeting of the Members.

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

The officers of the Association as of December 31, 2012, were:

Ms. Lynn M. Schubert,	President
Mr. Robert J. Duke,	General Counsel
Ms. Lenore Marema,	VP of Government Affairs
Ms. Joanne S. Brooks	VP and Counsel

**Additional Officer Appointed as of May 2013:**

Ms. Barbara Finnegan Reiff	Director of Operations
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Directors duly elected and serving:

BOARD MEMBERS 2013-2014

Stephen M. Haney - Vice Chair	Ace USA Group Division President - CUO Global Surety
Rosemarie Bonelli	AIG Property Casualty Senior Vice President
Rick Ciullo	Chubb Group of Insurance Companies Chief Operating Officer
John F. Welch	CNA Surety Group President & CEO
Gary T Dunbar	Great American Insurance Companies Divisional President - Bond Division
Robert Thomas	Hanover Insurance Group President, Surety
Ross Fisher	The Hartford Insurance Group Vice President
Harry Crowell	Insko Dico Group
Timothy Mikolajewski - Chair	Liberty Mutual Group President
Brian Beggs	Main Street America Group Vice President - Bond
Larry Taylor President	Merchant's Bonding Company Group
Alan Pavlic	Old Republic Surety Group

	President/COO
John Knox	SureTec Insurance Company President & CEO
Thomas M. Kunkel	Travelers Companies, Inc. (The) Immediate Past Chair, Ex Officio President & CEO - Bond & Financial Products
Andrew Tuma	W.R. Berkley Corporation Group President
Dennis P. Baus	Westfield Group Regional Executive - Surety
Michael Bond	Zurich Surety Executive Vice President, Head of Surety
<b>Reinsurance Representative:</b>	
William D. Cameron	Arch Reinsurance Director Surety

The By-laws provide that the officers of the Association shall consist of a President, a Secretary/Treasurer, and such other officers, including one or more Vice-Presidents. The officers shall be elected by the Board of Directors and shall serve until his/her successor is duly elected and qualified or the officer is removed.

**Committees:**

Executive Board Committee  
Actuarial Advisory Committee  
Bail Bond Advisory Committee  
Commercial Surety Advisory Committee  
Communications Advisory Committee  
Contract Bonds Advisory Committee  
Corporate Counsel Advisory Committee  
Diversity & Human Resources Advisory Committee  
eBusiness Advisory Committee  
Fidelity Advisory Committee  
Fidelity Claims Advisory Committee  
Government Affairs Advisory Committee  
International Advisory Committee  
Statistical Advisory Committee  
Surety Claims Advisory Committee

The Committees provide advice to the Board of Directors, and the Executive Board Committee and Board operate in an oversight function ensuring that the Association and Foundation are operating within the structure and parameters of the Entities. There were no exceptions noted in the examination.

#### Corporate Records:

We reviewed the minutes of the meetings of the board of directors for the period under examination as well as select committees. Based on our review, it appeared that the minutes documented the Association's significant transactions and events, and that the directors approved those transactions and events.

The association has programs to assist the gathering and formulation of the loss information and filing for members at their requests. Our review did not disclose any significant deficiencies in these records.

### **EXECUTIVE SUMMARY**

The Association serves its nationwide members as a statistical agent that collects and reports loss experience, a rating bureau, which develops aggregate loss costs for us by member companies, and a trade organization. In the Associations' mission statement strategies, it identifies the following objectives for its member companies:

1. Establishing positions and policies on fidelity and surety issues;
2. Taking a leadership role in cooperation with related trade associations in directing and coordinating industry legislative and regulatory activities;
3. Acting as a statistical agent and providing assistance to its members in the development of rules, procedures, risk classifications and loss costs for fidelity and surety bonds;
4. Acting as a clearinghouse of information, educating, informing and providing services to its members and the general public to promote the value and use of fidelity and surety bonds.

The loss cost development process is designed to gather industry-wide data and aggregate and disseminate loss information and expenses. The statistical component of the loss cost development process is to assure the public of fairness for rates ultimately developed and charged by members of the Association that opt to use the Association's loss costs when submitting filings with insurance departments.

The scope of the Examination focused on reviewing and testing of the Association's processes and procedures during the examination period, including but not limited to: operations and management; statistical plans; regulatory licenses or other authorization; data receipt and controls; report submissions to regulators; and other data requests as well as compliance with Chapter 25 and its appendix F of the Handbook.

The Association uses another advisory organization for the gathering and organization of data, Insurance Service Offices Inc. (ISO). ISO had a Market Conduct examination completed as of December 31, 2011. The Examiner placed substantial reliance on the results of that examination.

The Examiner prepared an examination work plan using the relevant guidance and standards of the Market Regulation Handbook to confirm that the Organization utilizes consistent procedures for each jurisdiction it operates unless statutory regulation dictates certain other procedures.

### **STATUS OF PRIOR EXAMINATION FINDINGS**

Our examination included a review to determine the current status of the recommendation made in our preceding Report on Examination, which covered the period from January 1, 2000 to December 31, 2005.

During our current examination, none of the recommendations made in our prior Report on Examination were repeated.

### **EXAMINERS METHODOLOGY**

The Examiner conducted interviews with SFAA Officers and Employees. In Addition documentation was reviewed and on site walkthroughs were conducted. This included a high level review of the Associations IT infrastructure and controls consistent with Chapter 25 and Appendix F of Chapter 25.

The Association operates under the stewardship of committees that perform an oversight function. The Committees are very active and submit reports (minutes) to the Executive Board. The examiner reviewed those minutes and found no items of material importance.

Information requests were submitted during the exam and were promptly replied to. No findings were noted during the exam.

### **SUMMARY OF VIOLATIONS**

No violations were identified in this report.

### **SUBSEQUENT EVENTS**

There were no significant events noted.

## **CONCLUSION**

The advisory organization examination is a review of the Association's systems, operations and management for the collection and reporting of statistical data, preparation of loss cost filings and rule and form filings. The purpose is to verify that adequate statistical plans are maintained in accordance with DC Official Code §§31-2707 and 31-2708, check the validity of the systems in place, the internal procedures for preparing rate/loss costs reviews and submissions to insurance departments and companies, including the timeliness and quality of the response. The advisory organization examination is not an examination of the accuracy of the underlying company data reported to the Association. The main purpose of the examination is to look at what the advisory organization does with the data it collects, compiles and reports to the Department of Insurance,

During the Examination nothing of a material nature or any exceptions were noted.

**SIGNATURES**

Respectfully submitted,



Frank J. Ryan JR. CPA, CFE  
Examiner-In-Charge  
District of Columbia Department of  
Insurance, Securities and Banking



Nathaniel Kevin Brown CPA, CFE  
Chief Examiner  
District of Columbia Department of  
Insurance, Securities and Banking

MULTISTATE TARGETED MARKET CONDUCT EXAMINATION

Of

The Surety and Fidelity Association of America

PARTICIPATING REGULATOR ADOPTION

On behalf of the Alaska Division of Insurance, I, Lori Wing-Heier, hereby adopt, agree, and approve The Surety and Fidelity Association of America multistate market conduct examination report covering the period January 1, 2006 through December 31, 2012.

Dated: December 23, 2014



Lori Wing-Heier  
Director  
Division of Insurance  
Department of Commerce, Community &  
Economic Development  
State of Alaska