

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



Gennet Purcell
Commissioner

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

Re: Report on Examination - **Health Care Casualty Risk Retention Group, Inc.**, as of December 31, 2008

ORDER

An Examination of **Health Care Casualty Risk Retention Group, Inc.** ("Company"), as of December 31, 2008 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("Department").

It is hereby ordered on this 23rd day of June, 2010, 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.

Gennet Purcell
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION
Health Care Casualty
Risk Retention Group, Inc.

AS OF
DECEMBER 31, 2008

NAIC NUMBER 12236

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Washington, D.C.
April 14, 2010

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

Dear Madam:

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

Health Care Casualty Risk Retention Group, Inc.

hereinafter referred to as the “Company” or “HCCR,” at the office of its captive manager, Clarity Group, Inc. (“Clarity”), located at 8600 West Bryn Mawr, Suite 120-N, Chicago, Illinois 60631.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from December 10, 2004 through December 31, 2008, including any material transactions and/or events noted occurring subsequent to December 31, 2008, 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. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2005 through 2008. We placed substantial reliance on the audited financial statements for calendar years 2005 through 2007, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2008. We

obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2008. 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 workpapers.

STATUS OF PRIOR EXAMINATION FINDINGS

This is the first examination of the Company.

HISTORY

General:

HCCR was incorporated as an association captive insurer operating as a risk retention group under the captive laws of the District of Columbia on December 10, 2004 and began writing business in January 2005.

The Company provides claims made medical professional liability coverage to practice groups, physicians and allied health providers affiliated with the five hospital members of the Company. The Company also offers excess medical professional and general liability coverage for the hospital members.

Membership:

HCCR is owned by its members, which include five hospitals and affiliated practice groups and physicians of those hospitals. (Three of the five hospital members are multi-hospital systems. For purposes of this report, all single hospital members and multi-hospital members are referred to commonly as "hospital" or "hospitals".) The Company is authorized to issue voting common stock and non-voting common stock in accordance with the Company's articles of incorporation. Shares of voting common stock are only issued to hospital members. Only hospitals that are shareholders of the Company's affiliated reinsurer, Health Care Casualty Insurance Ltd. ("HCCI"), a Cayman Islands domiciled captive insurance company, are eligible to be members of the Company. These shares have voting rights with one vote per share. Shares of non-voting common stock are issued to practice groups or physicians affiliated with a hospital member and do not have voting rights. Both the voting common stock and the non-voting common stock have a par value of \$0.01 per share.

Two Thousand voting common stock shares were authorized and 500 were issued and outstanding at December 31, 2008. When a hospital joins the RRG, it contributes \$100,000 in cash in exchange for 100 shares of voting common stock, and also contributes \$100,000 in the form of a capital contribution note. As of December 31, 2008, capital contribution notes totaled \$600,000. This included five notes from member hospitals for \$100,000 each, and one note from the Company's affiliated reinsurer, HCCI, for \$100,000. These notes are non-interest bearing

and are payable to the Company upon demand. The Department has approved these capital contribution notes as admitted assets and surplus as regards policyholders.

Ten Thousand non-voting common stock shares were authorized and 150 were issued and outstanding at December 31, 2008. These non-voting shares are issued to practice groups and physician members affiliated with a hospital member. Non-voting shareholders contribute \$100 in exchange for 10 shares of stock.

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, 2008:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Timothy J. McCormick, Chairman New York	Chairman and CEO Unity Health System
Robert Ficken Louisiana	Vice President and CFO Touro Infirmary
Michael Means Florida	Chairman and CEO HealthFirst, Inc.
G. Mark O'Bryant Florida	Chairman and CEO Tallahassee Memorial HealthCare
R. Timothy Rice North Carolina	Chairman and CEO Moses Cone Health System

The following persons were serving as the Company's officers as of December 31, 2008:

<u>Name</u>	<u>Title</u>
Timothy J. McCormick	Chairman
Wayne A. Sinclair	Secretary
Joseph R. Herman	Treasurer
B. Frederick Becker	Assistant Secretary

As of December 31, 2008, the Company did not have a President or a Vice President. See the “Comments and Recommendations” section of this Report, under the caption “Company Officers”, for further comments regarding this condition.

Committees:

As of December 31, 2008, the Company’s board of directors had not established any committees.

Conflicts of Interest:

The Company’s directors and officers did not complete annual conflict of interest disclosure statements during the examination period. Although the Company has adopted a Code of Ethics policy, it does not include a requirement for officers and directors to sign conflict of interest disclosures annually. See the “Comments and Recommendations” section of this Report, under the caption “Conflicts of Interest,” 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 our review, it appears that the minutes documented the board’s review and approval of the Company’s significant transactions and events.

CAPTIVE MANAGER

Clarity Group, Inc. (“Clarity”) is the Company’s captive manager, and provides services including regulatory compliance and financial reporting services, underwriting support, claims administration, policyholder and administrative services, risk management, reinsurance services, and accounting services.

AFFILIATED PARTIES AND TRANSACTIONS

The Company’s hospital members are also the owners of the Company’s affiliated reinsurer, HCCI. Shares of voting common stock in the Company are only issued to hospitals that are shareholders of HCCI. The Company ceded \$5,906,370 of premiums to HCCI in 2008.

FIDELITY BOND AND OTHER INSURANCE

HCCR maintains directors and officers liability coverage in the amount of \$3,000,000. However, during the period under examination, the Company (or its captive manager, Clarity) did not maintain fidelity bond coverage. During the examination, we discussed the lack of fidelity bond coverage with management of the Company and management agreed to ensure the captive manager, Clarity, obtained such coverage. Effective March 1, 2010, Clarity obtained

\$300,000 employee dishonesty coverage which includes the Company as an additional insured. This provides adequate coverage in accordance with NAIC guidelines.

Clarity also maintains professional liability coverage in the amount of \$2,000,000 but such coverage did not include the Company as an additional insured. During the examination, Clarity arranged for the Company to be added as an additional insured.

The Management Agreement between the Company and Clarity effective January 1, 2008 does not include any requirements for Clarity to maintain fidelity or errors & omissions insurance. See the “Comments and Recommendations” section of this Report, under the caption “Management Agreement,” for further comments regarding this condition.

PENSION AND INSURANCE PLANS

The Company has no employees and therefore has no employee pension or insurance plans.

STATUTORY DEPOSITS

As of December 31, 2008, 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, 2008, the Company was licensed in the District of Columbia, and registered as a risk retention group in four states. During 2008, HCCR wrote premiums totaling \$7,964,085. Five Million, Five Hundred Eight Thousand, Eight Hundred Sixty-Three Dollars (69 percent) of the Company’s written premium in 2008 was in Florida, \$2,320,312 (29 percent) in North Carolina, and 1 percent or less in Louisiana and New York.

The Company provides claims made medical professional liability coverage to practice groups, physicians and allied health providers practicing within the healthcare systems of the five hospital shareholders of HCCR. Policies are issued to physician and allied health provider practice groups, or to individual physicians, affiliated with the member hospitals. Policies issued to groups provide coverage for employed physicians and allied health providers in those groups, and may provide coverage for the groups themselves. As of December 31, 2008, the Company had approximately fifteen in-force policies covering approximately 300 physicians and allied health providers. The Company’s policies include basic coverage for professional liability with limits up to \$3,000,000 each incident, \$5,000,000 in the aggregate. Deductibles are offered from \$0 to \$100,000. Under policies issued to groups, the limit of liability (less the deductible) may be shared by the insured group and/or the insured’s employed allied health providers. However, individual separate limits may be purchased for named allied health providers within those groups. According to management of HCCR, the hospitals that are members of HCCR require

individual limits for their voluntary medical staff as well as their employed physicians. For this reason, HCCR does not currently offer shared limits among physicians. Currently, individual separate limits are purchased for named physicians within these groups. All physicians and allied health providers obtaining individual separate limits are issued certificates of coverage. Prospective policyholders and certificate holders are underwritten on a select basis and employment or affiliation with a member hospital does not automatically qualify prospective insureds for coverage. The Company also affords free extended tail liability in the event of death, permanent disability or if a physician over age 55 fully retires after five years of continuous insurance. For retiring physicians under age 55, the physician must have ten years of continuous insurance.

The Company also provides excess hospital professional liability and excess general liability coverage to two hospital members with limits of \$20,000,000 each medical incident and \$20,000,000 in the aggregate. The policies have deductibles of \$4,000,000 for one member and \$3,000,000 for the other, and the policies are fully reinsured to the Company's affiliated reinsurer, HCCI.

During the examination period, the Company made various changes in policy limits, rates, and agreements that had not been filed with or approved by 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.

The Company has no employees and its daily business operations are managed by Clarity subject to a Management Agreement. During the examination period and as of the date of this report, the Company's captive manager, Clarity, is managing the Company's accounting, underwriting, policy issuance, premium billing and collection, claims administration, risk management, and regulatory filings from offices in Chicago, Illinois. The Management Agreement between the Company and Clarity was revised effective January 1, 2008. Based on our review of this revised agreement, we noted the provisions in the agreement regarding reimbursement of expenses by the Company to Clarity could be clarified. See the "Comments and Recommendations" section of this Report, under the caption "Management Agreement" for further comments regarding this condition.

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

Effective January 1, 2005 the Company entered into an excess of loss reinsurance agreement with its affiliate, HCCI, covering physicians professional liability. At December 31, 2008 the reinsurer's liability was \$2,850,000 excess of the Company's retention of \$150,000.

In addition, the Company has obtained facultative reinsurance for 100 percent of the liability and premium under the Company's excess policies issued to its two hospital members.

The total ceded reinsurance premium paid in 2008 under these agreements was \$5,906,370. As of December 31, 2008, the Company reported "Amounts recoverable from reinsurers" totaling \$55,135 (representing amounts recoverable on paid losses), "Other amounts receivable under reinsurance contracts" totaling \$14,854,429 (representing estimated amounts recoverable on unpaid losses), and "Prepaid reinsurance premiums" totaling \$3,473,459 (representing ceded unearned premiums). If the reinsurers are not able to meet their obligations under the treaties, the Company would be liable for any defaulted amounts. The Company retains a letter of credit from HCCI, in the amount of \$8,000,000 at December 31, 2008, as security for amounts due from HCCI. The amount of the letter of credit was increased to \$10,000,000 at December 31, 2009.

Our review of the Company's ceded reinsurance program and contracts disclosed no unusual provisions.

ACCOUNTS AND RECORDS

The primary location of the Company's books and records is at the offices of its captive manager, Clarity, in Chicago, Illinois. The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers. Our examination did not disclose any significant issues with these records.

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 2**, reflect the financial condition of the Company as of December 31, 2008, as determined by this examination:

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

BALANCE SHEET

ASSETS

	<i>December 31, 2008</i>
Bonds	\$ 5,178,648
Cash (\$4,476,211), cash equivalents (\$972,341) and short-term investments (\$0) (NOTE 1)	<u>5,448,552</u>
Subtotals, cash and invested assets	\$ 10,627,200
Investment income due and accrued	50,548
Uncollected premiums and agents' balances in the course of collection	736,082
Reinsurance:	
Amounts recoverable from reinsurers	55,135
Other amounts receivable under reinsurance contracts	14,854,429
Net deferred tax asset	136,394
Aggregate write-ins for other than invested assets:	
Deferred acquisition costs	\$ 28,529
Prepaid reinsurance premiums	3,473,459
Capital contribution receivable (NOTE 2)	600,000
Prepaid expenses	<u>22,500</u>
	<u>\$ 4,124,488</u>
Total	<u>\$ 30,584,276</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<i>December 31, 2008</i>
Losses (NOTE 3)	\$ 12,329,986
Loss adjustment expenses (NOTE 3)	5,447,981
Other expenses (excluding taxes, licenses and fees)	84,341
Taxes, licenses and fees (excluding federal and foreign income taxes)	222,292
Current federal and foreign income taxes	(28,725)
Unearned premiums	4,008,401
Advance premiums	283,740
Ceded reinsurance premiums payable (net of ceding commissions)	7,021,503
 Total Liabilities	 \$ 29,369,519
Common capital stock (NOTE 4)	\$ 0
Capital contribution notes (NOTE 2)	600,000
Gross paid in and contributed surplus	501,500
Unassigned funds (surplus)	113,257
 Surplus as regards policyholders	 \$ 1,214,757
 Total	 \$ 30,584,276

STATEMENT OF INCOME

	<i>2008</i>
UNDERWRITING INCOME	
Premiums earned	\$ 1,855,515
DEDUCTIONS	
Losses incurred	\$ 739,828
Loss adjustment expenses incurred	637,884
Other underwriting expenses incurred	669,208
Total underwriting deductions	\$ 2,046,920
Net underwriting loss	\$ (191,405)
INVESTMENT INCOME	
Net investment income earned	\$ 293,917
Net realized capital gains	4,948
Net investment gain	298,865
Federal and foreign income taxes incurred	\$ 37,679
Net income	\$ 69,781

CAPITAL AND SURPLUS ACCOUNT

Net loss, 2005	\$	(82,568)
Initial surplus: Paid in		501,200
Capital contribution notes		300,000
Net change in surplus as regards policyholders, 2005		718,632
 Surplus as regards policyholders, December 31, 2005	 <u>\$</u>	 <u>718,632</u>
Net income, 2006	\$	10,542
Surplus adjustments: Paid in		202
Capital contribution notes		200,000
Net change in surplus as regards policyholders, 2006		210,744
 Surplus as regards policyholders, December 31, 2006	 <u>\$</u>	 <u>929,376</u>
Net income, 2007	\$	149,652
Surplus adjustments: Paid in		98
Capital contribution notes		100,000
Net change in surplus as regards policyholders, 2007		249,750
 Surplus as regards policyholders, December 31, 2007	 <u>\$</u>	 <u>1,179,126</u>
Net income, 2008	\$	69,781
Change in net unrealized capital gains or (losses)		(34,150)
Net change in surplus as regards policyholders, 2008		35,631
 Surplus as regards policyholders, December 31, 2008	 <u>\$</u>	 <u>1,214,757</u>

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

There were no changes to the Company's surplus as a result of our examination.

COMPARATIVE FINANCIAL POSITION OF THE COMPANY

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

	2008	2007	2006	2005
Assets	\$ 30,584,276	\$ 24,856,351	\$ 17,552,328	\$ 7,945,643
Liabilities	29,369,519	23,677,225	16,622,952	7,227,011
Capital and surplus	1,214,757	1,179,126	929,376	718,632
Gross written premium	7,964,085	8,557,729	7,998,767	5,418,186
Net earned premium	1,855,515	1,570,834	1,124,403	747,035
Net investment income	298,865	365,783	188,597	70,602
Net income (loss)	\$ 69,781	\$ 149,652	\$ 10,542	\$ (82,568)

Note:

Amounts in the preceding financial statements for the years ended December 31, 2005 through December 31, 2007 were taken from the Company's Annual Statements as filed with the Department. Amounts for the year ended December 31, 2008 are amounts per examination.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Cash:

As of December 31, 2008, the Company reported “Cash” totaling \$4,476,211; \$1,590,557 of which was held in one institution. This balance exceeded 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 mitigate this risk in the future.

NOTE 2 – Capital Contribution Notes:

At December 31, 2008, the Company’s surplus as regards policyholders included \$600,000 in capital contribution notes issued to the Company by the Company’s five hospital members and its affiliated reinsurer, HCCI. There are six notes outstanding of \$100,000 each. These notes are non-interest bearing and payable to the Company upon demand. As part of the approval of the Company’s application for licensure and of the Company’s business plan, the Department granted approval to the Company to allow these capital contribution notes as admitted assets and surplus as regards policyholders. Inclusion of the notes as assets and surplus as regards policyholders is not in accordance with GAAP.

NOTE 3 – Losses and Loss Adjustment Expense Reserves:

The Company reported “Losses” and “Loss adjustment expenses” reserves totaling \$17,777,967, 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, 2008. The Company does not discount its loss reserves.

Reserve credits taken as of December 31, 2008 for loss reserve cessions to the Company’s reinsurers totaled \$14,854,429, which were reported as “Other amounts receivable under reinsurance contracts” in the Company’s assets. 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 loss reserves totaled \$2,923,538 as of December 31, 2008.

The methodologies utilized by the Company to compute reserves, and the adequacy of the losses and loss adjustment expenses reserves as of December 31, 2008, 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, 2008, were reasonable and adequate.

NOTE 4 – Common Capital Stock:

Under the applicable laws of the District of Columbia, the Company is required to have a minimum of \$100,000 in "Common capital stock". However, the Company reported "Common capital stock" totaling \$0 in its 2008 Annual Statement. As previously noted in the "Membership" section of this Report, as of December 31, 2008, the Company had 500 shares of voting common stock issued and outstanding and 150 shares of non-voting common stock issued and outstanding. In the Company's application for a certificate of authority from the Department, the Company indicated its intent was to initially capitalize with \$300,000 in capital stock. However, because the par value of the Company's stock was established at \$0.01 per share, management determined, upon initial capitalization, that the value of common stock issued and outstanding would be rounded down to a zero value due to the minimal total par value of the shares. All of the Company's initial capital was recorded as "Gross paid in and contributed surplus" and as "Capital contribution notes". See the "Comments and Recommendations" section of this Report, under the caption "Common Capital Stock," for further comments regarding this condition.

COMMENTS AND RECOMMENDATIONS

Conflicts of Interest:

As indicated in the “Conflicts of Interest” section of this Report, the Company’s directors and officers did not complete annual conflict of interest disclosure statements during the examination period. In addition, although the Company has adopted a Code of Ethics policy, and it requires each employee to sign a Statement of Confidentiality at the time of hire and annually thereafter, it does not require annual conflict of interest disclosures from officers, directors and key employees as required by the D.C. Municipal Regulations (DCMR), section 26-3712.1. **Accordingly, we recommend that the Company amend the Code of Ethics policy to 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.**

Management Agreement:

1. We noted that the Management Agreement between the Company and Clarity is silent with respect to any obligation for Clarity to maintain fidelity or errors & omissions insurance coverage. Since Clarity is handling the company's operating and claims funds, there should be a requirement that Clarity maintain appropriate coverage. After we brought this issue to the Company’s attention, Clarity obtained a binder, effective March 1, 2010, for \$300,000 employee dishonesty coverage. In addition, according to management of HCCR, HCCR is included as an additional insured under this policy. **However, we recommend that the Company amend its management agreement with Clarity to require the maintenance of such coverage.**

2. During our examination, we noted an increase in 2008 from prior years in expenses being charged to the Company for rent allocation. According to management of the Company, the Management Agreement between the Company and its captive manager, Clarity, was revised as of January 1, 2008, and certain provisions in the Agreement regarding certain expenses were modified. However, although the revised Agreement provides for the reimbursement by the Company to Clarity of reasonable costs incurred in connection with certain expenses for services, supplies or equipment used solely for the Company, the Agreement does not specifically provide for rent expenses to be paid by the Company. **We recommend that the Company only pay fees under its Management Agreement as specifically provided for in the Agreement.**

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, which would include changes in rates and limits, require prior approval of the Department. During the period under examination, the Company made a number

of changes without prior notification to, or approval from, the Department. These changes included changes to rates, policy limits, reinsurance coverage, and service provider agreements. Although the Company failed to notify the Department in advance of these changes, the Company ultimately notified the Department of the majority of these changes prior to the start of this financial examination. **We recommend that all future substantive or material changes to the Company's business plan be submitted to the Department for review and approval prior to implementation. Any questions regarding what may or may not constitute a change in 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 are submitted to the Department.**

Common Capital Stock:

As indicated in NOTE 4 in the “Notes to Financial Statements” section of this Report, the Company reported “Common capital stock” totaling \$0 in its 2008 Annual Statement. However, under the applicable laws of the District of Columbia, the Company is required to have a minimum of \$100,000 in “Common capital stock”. During the examination, we discussed with management the requirement to have a minimum of \$100,000 in “Common capital stock”. Management indicated appropriate steps would be taken to record the appropriate amount of “Common capital stock” in the Company’s books and report this amount in future financial filings. **We recommend that in the future, the Company maintain at least the required statutory minimum capital stock of \$100,000.**

Company Officers:

As indicated in the “Management” section of this Report, as of December 31, 2008, the Company did not have a President or a Vice President. However, the Company’s by-laws require there be a President and at least one Vice President. In addition, Section 29-101.43(a) of the D.C. Official Code requires the Company to have a President. **We recommend that the Company comply with its by-laws, and with the aforementioned provision of the DC Official Code, and ensure the officers of the Company include a President and a Vice President.**

CONCLUSION

Our examination disclosed that as of December 31, 2008 the Company had:

Admitted Assets	\$ 30,584,276
Liabilities and Reserves	29,369,519
Common Capital Stock	0
Capital Contribution Notes	600,000
Contributed Surplus	501,500
Unassigned Funds (Surplus)	113,257
Total Surplus	1,214,757
Total Liabilities, Capital and Surplus	\$ 30,584,276

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2008, 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.
John G. Gantz, 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
Examiner-In-Charge
Collins Consulting, Inc.

Under the Supervision of,



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



Gennet Purcell
Commissioner

June 8, 2010

R. Timothy Rice, Chairman
Health Care Casualty Risk Retention Group, Inc.
C/o Clarity Group, Inc
8725 West Higgins Road, Suite 810
Chicago IL, 60631

Dear Mr. Rice:

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 **Health Care Casualty Risk Retention Group, Inc.**, as of December 31, 2008.

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 responses to each of the recommendations included in the “Comments and Recommendations” section of this Report. These responses should indicate the Company’s agreement or disagreement with each recommendation, as well as a summary of the corrective measures which will be taken by the Company for each recommendation. If the Company disagrees with any of these 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 lead to the recommendations.

The response must be in writing and shall be furnished to this Department by June 25, 2010. 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
Director of Financial Examination,
Risk Finance Bureau

Enclosure



Matching Execution with Healthcare's Vision

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DEPARTMENT OF SECURITIES AND INSURANCE
BANKING

June 21, 2010

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau
Government of the District of Columbia
810 First Street NW
Suite 610
Washington, DC 20002

Re: **Health Care Casualty Risk Retention Group, Inc. ("HCCR")**
NAIC Number 12236

Dear Mr. O'Donnell:

We refer to your letter of June 8, 2010 with a draft Report on Examination of the Company as of December 31, 2008. We offer the following in response to the comments and recommendations on pages 16 and 17:

Conflicts of Interest:

As indicated in the "Conflicts of Interest" section of this Report, the Company's directors and officers did not complete annual conflict of interest disclosure statements during the examination period. In addition, although the Company has adopted a Code of Ethics policy, and it requires each employee to sign a Statement of Confidentiality at the time of hire and annually thereafter, it does not require annual conflict of interest disclosures from officers, directors and key employees as required by the D.C. Municipal Regulations (DCMR), section 26-3712.1. **Accordingly, we recommend that the Company amend the Code of Ethics policy to 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.**

Company response:

The Company amended its Code of Ethics to include Conflict of Interest. During a recent Board of Directors meeting each director reviewed and approved the amended Code of Ethics and signed a Conflict of Interest statement. This will become an annual event to be completed on the day of the Company's Annual General Meeting.

Sean O'Donnell
June 21, 2010
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Management Agreement:

1. We noted that the Management Agreement between the Company and Clarity is silent with respect to any obligation for Clarity to maintain fidelity or errors & omissions insurance coverage. Since Clarity is handling the company's operating and claims funds, there should be a requirement that Clarity maintain appropriate coverage. After we brought this issue to the Company's attention, Clarity obtained a binder, effective March 1, 2010, for \$300,000 employee dishonesty coverage. In addition, according to management of HCCR, HCCR is included as an additional insured under this policy.

However, we recommend that the Company amend its management agreement with Clarity to require the maintenance of such coverage.

2. During our examination, we noted an increase in 2008 from prior years in expenses being charged to the Company for rent allocation. According to management of the Company, the Management Agreement between the Company and its captive manager, Clarity, was revised as of January 1, 2008, and certain provisions in the Agreement regarding certain expenses were modified. However, although the revised Agreement provides for the reimbursement by the Company to Clarity of reasonable costs incurred in connection with certain expenses for services, supplies or equipment used solely for the Company, the Agreement does not specifically provide for rent expenses to be paid by the Company. **We recommend that the Company only pay fees under its Management Agreement as specifically provided for in the Agreement.**

Company response:

In addition to securing \$300,000 employee dishonesty coverage and including the Company as an additional insured, Clarity added the Company as an additional insured to its professional liability insurance policy. The Management Agreement will be amended to require Clarity to maintain fidelity and errors & omissions insurance coverage. The amendment will also be made more specific related to types of expenses to be reimbursed.

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, which would include changes in rates and limits, require prior approval of the Department. During the period under examination, the Company made a number 17 of changes without prior notification to, or approval from, the Department. These changes included changes to rates, policy limits, reinsurance coverage, and service provider agreements. Although the Company failed to notify the

Sean O'Donnell
June 21, 2010
Page 3 of 4

Department in advance of these changes, the Company ultimately notified the Department of the majority of these changes prior to the start of this financial examination. **We recommend that all future substantive or material changes to the Company's business plan be submitted to the Department for review and approval prior to implementation. Any questions regarding what may or may not constitute a change in 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 are submitted to the Department.**

Company response:

While we have been diligent in advising the Department of changes to the Company's operations we admit that the timing of said notification was often after the fact. We understand and agree to report all future substantive or material changes to the Department for review and, when required, approval prior to implementation. We are also reviewing past communication to ascertain that all revisions to documents have been filed with the Department.

Common Capital Stock:

As indicated in NOTE 4 in the "Notes to Financial Statements" section of this Report, the Company reported "Common capital stock" totaling \$0 in its 2008 Annual Statement. However, under the applicable laws of the District of Columbia, the Company is required to have a minimum of \$100,000 in "Common capital stock". During the examination, we discussed with management the requirement to have a minimum of \$100,000 in "Common capital stock". Management indicated appropriate steps would be taken to record the appropriate amount of "Common capital stock" in the Company's books and report this amount in future financial filings. **We recommend that in the future, the Company maintain at least the required statutory minimum capital stock of \$100,000.**

Company response:

At the recent Annual General Meeting the Company by-laws were amended to change the par value of voting common stock to \$250.00 per share which results in Common capital stock of \$125,000.

Sean O'Donnell
June 21, 2010
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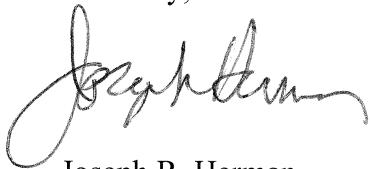
Company Officers:

As indicated in the "Management" section of this Report, as of December 31, 2008, the Company did not have a President or a Vice President. However, the Company's by-laws require there be a President and at least one Vice President. In addition, Section 29-101.43(a) of the D.C. Official Code requires the Company to have a President. **We recommend that the Company comply with its by-laws, and with the aforementioned provision of the DC Official Code, and ensure the officers of the Company include a President and a Vice President.**

Company response:

The Company's Chairman will add the title of President and the Treasurer will add the title of Vice President.

Sincerely,



Joseph R. Herman
Senior Vice President

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



Gennet Purcell
Commissioner

June 23, 2010

R. Timothy Rice, Chairman
Health Care Casualty Risk Retention Group, Inc.
C/o Clarity Group, Inc.
8725 West Higgins Road, Suite 810
Chicago IL, 60631

Dear Mr. Rice:

We are in receipt of a response, dated June 21, 2010, from Joseph R. Herman, Senior Vice President, Clarity Group, Inc., regarding the Report on Examination of **Health Care Casualty Risk Retention Group, Inc.** ("Company"), as of December 31, 2008. The response is deemed adequate.

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 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 202-535-1169 if you have any questions.

Sincerely,

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures