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

Thomas E. Hampton
Commissioner

BEFORE THE INSURANCE COMMISSIONER OF THE DISTRICT OF COLUMBIA

Re: Report on Examination - **Health Network Providers Mutual Insurance Company, A Risk Retention Group,** as of December 31, 2006

ORDER

An Examination of **Health Network Providers Mutual Insurance Company, A Risk Retention Group,** as of December 31, 2006 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

It is hereby ordered on this 23rd day of July, 2008, 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.

Thomas E. Hampton
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

REPORT ON EXAMINATION

HEALTH NETWORK PROVIDERS MUTUAL INSURANCE COMPANY, A RISK RETENTION GROUP

AS OF

DECEMBER 31, 2006

NAIC NUMBER 11813

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Washington, D.C.
February 7, 2008

Honorable Thomas E. Hampton
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

Health Network Providers Mutual Insurance Company,
A Risk Retention Group

hereinafter referred to as the "Company" or "Health Network", at the office of the captive manager, located at 1800 Second Street, Suite 909, Sarasota, Florida 34236.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from October 27, 2003 through December 31, 2006, including any material transactions and/or events noted occurring subsequent to December 31, 2006, 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 2003 through 2006. We placed substantial reliance on the audited financial statements for calendar years 2003 through 2005, and consequently performed only minimal testing for those

periods. We concentrated our examination efforts on the year ended December 31, 2006. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2006. We placed moderate 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:

The Company was incorporated as an association captive insurer operating as a risk retention group under the captive laws of the District of Columbia on October 27, 2003 and commenced business on the same day.

The Company is organized as a mutual insurance company and was initially capitalized with a $700,000 letter of credit which was subsequently replaced in September 2004 with cash contributions from members. The Company provides "claims made" medical professional liability insurance coverage to physician members of Memorial Hermann Health Network Providers, an independent physician organization located in Texas.

Membership:

The Company is 100 percent owned by its members/policyholders. To be eligible for membership, and to be insured by the Company, a prospective insured must:

1. Possess an unrestricted license to practice medicine in the State of Texas;
2. Be a member in good standing of Memorial Hermann Health Network Providers;
3. Satisfy the Requirements of Membership as set forth in the Company's bylaws; and
4. Meet the Company's underwriting standards.

Each Member is entitled to one vote on matters submitted to Members as provided in the Company's by-laws.

Members are required to make a one-time surplus contribution, called "reserve premium" to contribute to the Company's surplus. Reserve premiums are an obligation of and are payable by the Member upon signing the Participation Commitment Agreement ("Agreement"). The Agreement governs termination of a Member's participation in the program and any related distributions.

The reserve premium contribution requirement is equal to 80 percent of the mature claims made premium applicable to the limits of coverage requested by the Member. After five years from the date of inception of the policy, a terminated Member may receive back 100 percent of the reserve premium. As an option, members may contribute a reserve premium equal to 25 percent of the mature claims made premium. In the event of membership termination, the Member's reserve premium under this option is not returnable under any circumstances, and the Member holds no equity in the Company upon termination of insurance coverage.

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, 2006:

Name and State of Residence	Principal Occupation
Jim F. Waldron, MD Texas	Physician Private Practice
Gregg C. Waddill, III Texas	Chairman Physicians Underwriting Management Group, Inc.
John Van Osdall Texas	President Physicians Underwriting Management Group, Inc.
Richard Garza, MD Texas	Physician Private Practice
William Carter Grinstead III, MD Texas	Physician Cardiology of Houston
Douglas Keith Fernandez, MD Texas	Physician Memorial Katy Gastroenterology

The following persons were serving as the Company's officers as of December 31, 2006:

Name	Title
Jim F. Waldron, MD	President
Gregg C. Waddill, III	Secretary & General Counsel
John Van Osdall	Treasurer

Jon Harkavy Assistant Secretary

Committees:

The Company's by-laws provide that the board of directors may appoint an executive committee comprised of board members. As of December 31, 2006, an executive committee had not been formed. In addition, the following committees had been formed as of December 31, 2006, as required by the Company's by-laws:

1. Underwriting Committee
   Chair, John Van Osdall

2. Claims Committee
   Chair, Gregg C. Waddill, III

3. Performance Improvement Committee
   Chair, Gregg C. Waddill, III

Conflicts of Interest:

Our review of the conflict of interest statements signed by the Company's directors and officers for the period under examination disclosed that there were no conflicts of interest reported that would adversely impact the Company. Furthermore, no additional conflicts of interest were identified during our examination.

Corporate Records:

We reviewed the minutes of the meetings of the shareholders and board of directors for the period under examination. Based on our review, it appears that the minutes documented the board's review and approval of all of the Company's significant transactions and events.

CAPTIVE MANAGER

Risk Services, LLC ("Risk Services") is the Company's captive manager, and provides captive management services including regulatory services and accounting services to the Company. In addition, Risk Services has its own legal counsel on staff that provides basic legal advice to the Company.

AFFILIATED PARTIES AND TRANSACTIONS

The Company does not have any affiliated parties and transactions.

FIDELITY BOND AND OTHER INSURANCE

The program manager, Physicians Underwriting Management Group, Inc. ("PUMGI") has fidelity bond coverage in the amount of $50,000. Health Network is a named insured on the policy. According to NAIC guidelines, coverage for the Company should be in the range of $100,000-$125,000. See the "Comments and Recommendations" section of this Report, under the caption "Fidelity Bond," for further comments regarding this condition.

PENSION AND INSURANCE PLANS

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

STATUTORY DEPOSITS

As of December 31, 2006, the Company did not have 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, 2006, the Company was licensed in the District of Columbia and was registered as a risk retention group in the state of Texas. During 2006, Health Network wrote approximately $2.2 million of premiums, all in Texas.

The Company has no employees. Its daily business operations are managed by PUMGI in Houston, Texas. PUMGI provides all policy and administrative services, including sales, marketing, underwriting, premium billing and collection, loss control, and claims and litigation management to the Company under an underwriting management and claims services agreement.

The Company offers "claims made" coverage to physician members of Memorial Hermann Health Network Providers, located in Texas. The Department has approved maximum coverage limits of $500,000 per occurrence and $1,500,000 per policy aggregate plus coverage of defense costs. The Company currently offers policies with limits of up to $500,000 per occurrence and $1,000,000 per policy aggregate plus coverage of defense costs.

During our examination, we noted that underwriting rates were not consistent with the business plan submitted to the Department. See the "Comments and Recommendations" section of this Report, under the caption "Underwriting Rates and Files" 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

Assumed Reinsurance:

As of December 31, 2006, the Company did not assume any business.

Ceded Reinsurance:

During the examination period, and as of December 31, 2006, the Company maintained excess of loss reinsurance coverage, with various reinsurers each providing a percentage of the coverage under a single treaty. As of December 31, 2006, under terms of the treaty, the reinsurers assume $800,000 in excess of $200,000 of ultimate net loss for each and every claim, each insured. In addition, the Company's treaty includes clash coverage, under which the Company's total retention is $300,000 for multiple losses arising out of one event. The reinsurers' maximum liability under the treaty is limited to 250 percent of the reinsurance premium. The Company's treaty is retrospectively rated, with minimum, maximum, and provisional rates. In 2006, the Company paid reinsurance premiums totaling $761,695.

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

As of December 31, 2006, the Company reported "Deferred reinsurance expense" (i.e., ceded unearned premiums) totaling $324,742, and "Other amounts receivable under reinsurance contracts" (i.e., estimated amounts recoverable from reinsurers on unpaid losses) totaling $1,216,824. The "Deferred reinsurance expense" was reported by the Company as part of "Aggregate write-ins for other than invested assets". If the reinsurers were not able to meet their obligations under the treaty, the Company would be liable for any defaulted amounts.

As previously noted, the Company currently offers policies with limits of $500,000 per occurrence and $1,000,000 in the aggregate per policy, plus coverage of defense costs. We discussed with management whether the Company's treaty provided unnecessary amounts of coverage, given that the treaty covers per occurrence losses up to $1,000,000, but the Company's policies only offer per occurrence coverage up to $500,000. Management indicated it would review the Company's reinsurance program to ensure coverage was appropriate.

ACCOUNTS AND RECORDS

The primary locations of the Company's books and records are at offices of its captive manager, in Sarasota, Florida, and at the offices of its program manager, PUMGI, in Houston, Texas.

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers. During our examination, we noted that the Company was not maintaining complete documentation in its underwriting files. See the "Comments and Recommendations" section of this Report, under the caption "Underwriting Rates and Files," for further comments regarding this condition.

We also noted deficiencies in the Company's claims files and in the claims payment process. See the "Comments and Recommendations" section of this Report, under the caption "Claims Processing", for further comments regarding these conditions.

FINANCIAL STATEMENTS

The following financial statements, prepared in accordance with accounting practices generally accepted in the United States ("GAAP") reflect the financial condition of the Company as of December 31, 2006, as determined by this examination:

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

BALANCE SHEET

ASSETS

	Assets December 31, 2006
Cash ($ 721,260), cash equivalents ($ 0) and short-term investments ($ 3,911,595)	$ 4,632,855
Subtotals, cash and invested assets	$ 4,632,855
Investment income due and accrued	16,043
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	420,977
Reinsurance:	
Other amounts receivable under reinsurance contracts	1,216,824
Net deferred tax asset	76,877
Aggregate write-ins for other than invested assets	489,044
Total	$ 6,852,620

LIABILITIES, SURPLUS AND OTHER FUNDS

	December 31, 2006
Losses **(Note 1)**	$ 2,451,079
Loss adjustment expenses **(Note 1)**	851,741
Other expenses (excluding taxes, licenses and fees)	98,590
Taxes, licenses and fees (excluding federal and foreign income taxes)	11,572
Current federal and foreign income taxes (including $0 on realized capital gains (losses))	27,345
Unearned premiums (after deducting unearned premiums for ceded reinsurance of $0 and including warranty reserves of $0)	819,045
Advance premium	34,894
Ceded reinsurance premiums payable (net of ceding commission)	736,680
Total Liabilities	$ 5,030,946
Gross paid in and contributed surplus	1,785,314
Unassigned funds (surplus)	36,360
Surplus as regards policyholders	$ 1,821,674
Totals	$ 6,852,620

STATEMENT OF INCOME

		2006
UNDERWRITING INCOME		
Premiums earned	$	1,431,046
DEDUCTIONS		
Losses incurred	$	608,230
Loss expenses incurred		472,426
Other underwriting expenses incurred		442,001
Total underwriting deductions	$	1,522,657
Net underwriting (loss)	$	(91,611)
INVESTMENT INCOME		
Net investment income earned	$	167,399
OTHER INCOME		
Net gain (loss) from agents' or premium balances charged off (amount recovered $0, amount charged off $ 17,491)	$	(17,491)
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$	58,297
Federal and foreign income taxes incurred	$	592
Net income	$	57,705

CAPITAL AND SURPLUS ACCOUNT

Initial paid in capital		700,000
Net income, 2003		368
Net change in surplus as regards policyholders, 2003		700,368
Surplus as regards policyholders, December 31, 2003	$	700,368
Net loss, 2004		(43,287)
Paid in capital		557,268
Net change in surplus as regards policyholders, 2004		513,981
Surplus as regards policyholders, December 31, 2004	$	1,214,349
Net income, 2005		21,574
Paid in capital		366,690
Net change in surplus as regards policyholders, 2005		388,264
Surplus as regards policyholders, December 31, 2005	$	1,602,613
Net income, 2006		57,705
Paid in capital		161,356
Net change in surplus as regards policyholders, 2006		219,061
Surplus as regards policyholders, December 31, 2006	$	1,821,674

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:

	2006	2005	2004*	2003*
Assets	$ 6,852,620	$ 4,708,904	$ 2,099,480	$ 1,166,509
Liabilities	5,030,946	3,106,291	885,131	466,141
Capital and surplus	1,821,674	1,602,613	1,214,349	700,368
Gross written premium	2,171,987	2,073,784	1,496,609	0
Net earned premium	1,431,046	1,344,126	581,955	0
Net investment income	167,399	72,419	17,866	444
Net income	$ 57,705	$ 21,574	$ (43,287)	$ 368

Note: Amounts in the preceding financial statements for the years ended December 31, 2003 through 2005 were taken from the Company's Annual Statements as filed with the Department. Amounts for the year ended December 31, 2006 are amounts per examination.

*2003 and 2004 assets and liabilities were reported net of reinsurance, and 2005 and 2006 assets and liabilities were reported gross of reinsurance in accordance with the Department's reporting requirements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Loss and Loss Adjustment Expenses Reserves:

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling $3,302,820. These reserves represent management's best estimate of the amounts necessary to pay all claims and related expenses that have been incurred but are still unpaid as of December 31, 2006. Reserve credits taken as of December 31, 2006 for cessions to its reinsurers total $1,216,824, which was 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 treaty, the Company would be liable for any defaulted amounts. The Company's net loss reserves are $2,085,996.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2006, 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 independent 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, 2006, were reasonable and adequate. However, our actuary also noted a recommendation related to the Company's loss reserves. See the "Comments and Recommendations" section of this Report, under the caption "Loss Reserves", for further comments regarding this recommendation.

COMMENTS AND RECOMMENDATIONS

Fidelity Bond and Other Insurance:

The Company's program manager, PUMGI, has fidelity bond coverage in the amount of $50,000. Health Network is a named insured on the policy. According to NAIC guidelines, coverage for the Company should be in the range of $100,000-$125,000. **We recommend that the Company obtain the recommended level of fidelity bond coverage.**

Underwriting Rates and Files:

1. The Company's application and business plan on file with the Department include specific rates, based on an actuarial rate study, to be charged by the Company. However, during our examination, we noted that the Company was not using these rates, and had not submitted revised rates to the Department. Changes to information filed with the Company's application are required to be filed with the Department. In addition, substantive changes to information in the application and to the Company's business plan, which would include changes in rates, require prior approval of the Department.

   During our examination, we discussed this condition with Management. Management acknowledged that the Company's rates had been updated and the Company was not utilizing the rates it had filed with the Department. Management explained that the Company had lowered its underwriting rates, based upon an actuarial study, in response to newly enacted tort reform in Texas.

   We recommend that the Company obtain pre-approval from the Department for any future changes to its rates. In addition, we recommend that the Company ensure that all revisions to documents previously filed with the department be submitted to the Department. We also recommend that 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.

2. We noted that the rates charged for some policies did not appear consistent with the Company's updated rates, and rating credits at times appeared to be applied in a manner inconsistent with the Company's rating guidelines. In addition, for some policies reviewed, there was a lack of documentation in the files of the individual ratings and premium calculations. Some of the files reviewed contained minimal documentation of the rating factors, credits, debits and other information necessary for a third party reviewer to determine the underwriting process followed and the adherence to the Company's underwriting guidelines.

We recommend that the Company develop and implement procedures to ensure rating and underwriting guidelines are followed, and to ensure underwriting, policy rating, and premium calculations are fully documented.

Claims Processing:

During our review of the Company's claims and claims files, we noted two instances where claims that should have been recorded as 2006 claims were recorded as 2007 claims, and we noted three 2006 claims invoices that were recorded as 2007 transactions. As a result, inaccurate supporting data was used to develop estimates of the Company's loss reserves as of December 31, 2006 and to prepare the Company's 2006 Annual Statement. We also noted instances where the Company's claims files were not always fully documented. We discussed these conditions with management during our examination and management indicated that these conditions were oversights and were not intentional, and management intended to take immediate action to address these issues. We also discussed these conditions with the independent actuary utilized in our examination and we determined that there was no material impact from these conditions that would require any adjustments to the Company's loss reserves or annual statement.

However, the conditions noted indicate weaknesses in the claims process. **We recommend that the Company develop and implement procedures to improve controls over the claims process. Specifically, procedures should be developed and implemented to ensure claims are recorded in the proper year, and supporting data used to develop estimates of the Company's loss reserves and to prepare the Company's Annual and Quarterly Statements is accurate. In addition, procedures should be developed and implemented to ensure claims files are complete and reflect the activity and status of the claim from inception to closure.**

Loss Reserves:

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling $3,302,820. The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2006, 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, we engaged an independent actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary. Although our actuary agreed that the loss reserves reported by the Company as of December 31, 2006 appeared sufficient, our actuary noted that for purposes of estimating loss reserves, there is no tracking by the Company, or the Company's actuary, of the various underwriting credits applied by the Company to various policies. These credits and the changes in them from year to year could have an effect on the calculation of the Company's estimated losses. **We recommend that the Company ensure underwriting credits are appropriately considered in the development of its loss reserves.**

CONCLUSION

Our examination disclosed that as of December 31, 2006 the Company had:

Admitted Assets	$	6,852,620
Liabilities and Reserves		5,030,946
Gross Paid In and Contributed Surplus		1,785,314
Unassigned Funds (Surplus)		36,360
Total Surplus		1,821,674
Total Liabilities, Capital and Surplus	$	6,852,620

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2006, 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.
Terry Corlett, AFE, CIE, FLMI, 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.

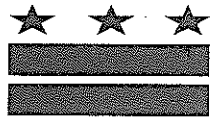
Respectfully submitted,

Pamela C. Woodroffe
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



Thomas E. Hampton
Commissioner

June 18, 2008

Jim F. Waldron, M.D.
President
Health Network Providers Mutual Insurance Company, A Risk Retention Group
C/o Risk Services, LLC
5101 Wisconsin Avenue, Suite 500
Washington, D.C. 20016

Dear Dr.Waldron:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination of the affairs and financial condition of **Health Network Providers Mutual Insurance Company, A Risk Retention Group**, as of December 31, 2006.

Please submit, to my attention, a written response calling attention to any errors or omissions. In addition, if this Report on Examination contains a section entitled "Comments and Recommendations" that discloses certain areas requiring action, the Company shall submit a statement covering the corrective measures which will be taken. If the Company's position on any of these points is contrary to the Examiner's findings, an explanation should be submitted covering each contested comment and/or recommendation.

If there are no errors or omissions to be brought to our attention, and there are no "Comments and Recommendations" requiring a response, please submit a statement that the Company accepts the Report.

All of your comments concerning these matters must be in writing and shall be furnished to this Department within **thirty (30) days from the date of this letter (July 18, 2008).**

Sincerely,

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

Enclosure

Risk Services, LLC

1800 Second Street, Suite 909
Sarasota, FL 34236
(800) 226-0793
(941) 955-0793
Fax (941) 366-1076

July 14, 2008

Mr. P. Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau
Department of Insurance, Securities and Banking
1400 L Street, N.W., Suite 400
Washington, D.C. 20005

Re; Health Network Providers Mutual Insurance Company, A Risk Retention Group; NAIC Company Code: 11813; NAIC Group Code: 0000; FEIN: 27-0061785; D.C. License No. RR001

Dear Mr. O'Donnell:

The following responses are submitted with respect to the comments and recommendations contained in the Report on Examination of the Company for the period January 1, 2003 through December 31, 2006 forwarded by the Risk Finance Bureau on June 18, 2008:

Fidelity Bond and Other Insurance:

- **Recommendation:** *We recommend that the Company obtain the recommended level of fidelity bond coverage.*
- **Response:** The fidelity bond was increased to $100,000 in February, 2008.

Underwriting Rates and Files:

- **Recommendation:** *We recommend that the Company obtain pre-approval from the Department for any future changes to its rates. In addition, we recommend that the Company ensure that all revisions to documents previously filed with the department be submitted to the Department. We also recommend that 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.*

- **Response:** We affirm that all revisions to documents previously filed with the Department have been submitted to the Department. The Company shall seek to secure the approval of the Department prior to implementation of any future changes in rates or substantive or material changes to the Company's business plan as filed with the Department.

- **Recommendation:** *We recommend that the Company develop and implement procedures to ensure rating and underwriting guidelines are followed, and to ensure underwriting, policy rating, and premium calculations are fully documented.*
- **Response:** The Company will implement procedures to to ensure that rating and underwriting guidelines are followed and to ensure that underwriting, policy rating and premium calculations are fully documented. Subsequent to this recommendation a system utilizing an Account Evaluation ???? document was implemented as of January, 2008 for each policy as it is renewed.

Claims Processing:

- **Recommendation:** *We recommend that the Company develop and implement procedures to improve controls over the claims process. Specifically, procedures should be developed and implemented to ensure claims are recorded in the proper year, and supporting data used to develop estimates of the Company's loss reserves and to prepare the Company's Annual and Quarterly Statements is accurate. In addition, procedures should be developed and implemented to ensure claims files are complete and reflect the activity and status of the claim from inception to closure.*
- **Response:** HNPMIC is developing and implementing procedures to improve controls over the claims process. Specifically, procedures are being developed and will be implemented to ensure claims are recorded in the proper year, and supporting data used to develop estimates of the HNPMIC's loss reserves and in preparing the Company's Annual and Quarterly Statements to be accurate. In addition, procedures are being developed and implemented to ensure claims files are complete and reflect the activity and status of the claim from inception to closure. HNPMIC's began using a procedure and records, know as Claim Summary, beginning January 1, 2008 to accomplish these recommendations and have been refining these new procedures to improve them as we work with them to use continuous quality improvement techniques.

Loss Reserves:

- **Recommendation:** *We recommend that the Company ensure underwriting credits are appropriately considered in the development of its loss reserves.*

- **Response:** The Company shall take steps to ensure that underwriting credits are appropriately considered in the development of loss reserves. Subsequent to this recommendation an Account Evaluation document was implemented in January, 2008 for each policy as it is renewed, which will serve as the basis for summarizing credits for actuarial purposes.

Thank you. Should you have any further questions, please don't hesitate to contact me.

Sincerely,

Michael T. Rogers
President
Risk Services, LLC
As Managers for
Health Network Providers Mutual Insurance Company,
A Risk Retention Group

MTR/hr

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

Thomas E. Hampton
Commissioner

July 28, 2008

Jim F. Waldron, M.D.
President
Health Network Providers Mutual Insurance Company, A Risk Retention Group
C/o Risk Services, LLC
2233 Wisconsin Avenue, N.W.
Suite 310
Washington, DC 20007

Dear Dr. Waldron:

We are in receipt of a response dated July 14, 2008, from Michael T. Rogers, President of Risk Services, LLC, as Managers for Health Network Providers Mutual Insurance Company, A Risk Retention Group ("HNP" or "Company"), which addresses the corrective actions taken or to be taken by HNP to comply with the recommendations made in the Report on Examination as of December 31, 2006. The response adequately addresses the recommendations made in the Report.

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, and to each state in which the Company is registered.

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 202-442-7785 if you have any questions.

Sincerely,

P. Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures