



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



Chester A. McPherson
Acting Commissioner

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

Re: Report on Examination - **DuBois Medical Risk Retention Group**, as of December 31, 2012

ORDER

An Examination of **DuBois Medical Risk Retention Group**, 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 2nd day of June, 2014, that the attached financial condition 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 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.


Chester A. McPherson
Acting Commissioner



GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

DuBois Medical Risk Retention Group

AS OF

DECEMBER 31, 2012

NAIC NUMBER 11842

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Washington, D.C.
April 18, 2014

Honorable Chester A. 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 Acting Commissioner McPherson:

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

DuBois Medical Risk Retention Group

hereinafter referred to as the “Company” or “DuBois”.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from January 1, 2008 through December 31, 2012, including any material transactions and/or events noted occurring subsequent to December 31, 2012, was conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”). The last examination was completed as of December 31, 2007 by the Department.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (“Handbook”) and the policies and standards established by the Department. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with applicable accounting principles, annual statement instructions, and compliance with domestic jurisdiction laws and regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. 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 2008 through 2012. We placed substantial reliance on the audited financial statements for calendar years 2008 through 2011, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2012. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2012. We placed reliance on the work of the auditor and directed our efforts, to the extent practical, to those areas not covered by the firm's work papers.

SUMMARY OF SIGNIFICANT FINDINGS

The results of this examination disclosed no material adverse findings, significant non-compliance findings, or material changes in financial statements.

STATUS OF PRIOR EXAMINATION FINDINGS

A full scope financial examination was conducted by the Department as of December 31, 2007, which covered the period September 5, 2003 through December 31, 2007. In the Report on the prior examination, dated March 23, 2009, the Department noted seven exception conditions and related recommendations. Our current examination included a review to determine the current status of the seven recommendations in the prior exam report, and determined that the Company had satisfactorily addressed these recommendations.

HISTORY

General:

DuBois was licensed as an association captive insurance company under the captive laws of the District of Columbia on September 5, 2003, operating as risk retention group, and commenced business on the same day. The Company was organized for the purpose of enabling the DuBois Regional Medical Center ("DRMC") and related entities to access the state of Pennsylvania's MCare program, which provides excess medical malpractice coverage to Pennsylvania entities that insure primary layers of medical malpractice coverage with qualified insurers, which include risk retention groups.

The Company offers aggregate professional liability coverage (claims-made medical malpractice) with a limit of \$500,000 per occurrence and \$2,500,000 in aggregate to its controlling member, DRMC, and related entities. The coverage is for the hospital and related entities, but not for individual physicians. The Company also offers commercial general liability insurance to DRMC and related entities on an occurrence basis with \$500,000 per occurrence and \$1,000,000 aggregate coverage. The Company is only registered in the state of Pennsylvania, where it wrote 100 percent of its premium in 2012.

In 2012, the Company provided stop-loss coverage to DRMC for employee health insurance coverage. This policy provided coverage of \$500,000 for claims in excess of \$250,000 with an annual aggregate limit of \$1,500,000.

Membership:

The Company is authorized to issue Class A and Class B membership certificates in accordance with the Company's articles of incorporation. DRMC is the sole member holding the Class A voting and participating certificates. Seven other entities each hold ten shares each of Class B limited voting, non-participating certificates. All of these entities, except for the Free Medical Clinic of DuBois, are wholly or majority owned by DRMC.

The Company does not have a shareholder subscription agreement since only one entity owns the voting and participating certificates. Class A and Class B membership certificates have a \$100 par value. 3,000 Class A certificates were authorized and 2,000 were issued and outstanding at December 31, 2012. 1,000 Class B certificates were authorized and 70 were issued and outstanding at December 31, 2012. The Company records the Class B shares as "Preferred stock".

Dividends and Distributions:

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

MANAGEMENT

Board of Directors and Officers:

The Company's directors serving as of December 31, 2012 were as follows:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Raymond A. Graeca, Chairman Pennsylvania	President DuBois Regional Medical Center
Brian S. Kline Pennsylvania	Treasurer DuBois Regional Medical Center
John S. Sutika Pennsylvania	Secretary DuBois Regional Medical Center
Gregory J. Volpe Pennsylvania	Risk Manager DuBois Regional Medical Center

The Company's officers serving as of December 31, 2012 were as follows:

<u>Name</u>	<u>Title</u>
Raymond A. Graeca	President
Brian S. Kline	Treasurer
John S. Sutika	Secretary
Gregory J. Volpe	Risk Manager

Committees:

As of December 31, 2012, the Company's board of directors has established the following committees:

Audit Committee:
Raymond A. Graeca, Chair
John S. Sutika

Investment Committee:
Brian S. Kline, Chair
Gregory J. Volpe

Conflicts of Interest:

The Company has adopted a "Code of Business Conduct and Ethics" ("Code") which includes guidance for disclosure of conflicts of interest, and requires officers, directors, and employees of the Company to annually certify compliance with the code. However, we noted that the Company's officers and directors did not sign conflict of interest statements for 2009 or 2010. We discussed this situation with the Company during the examination. Management explained the 2009 and 2010 statements were inadvertently not completed. Management also indicated that they recognized the importance of annually certifying compliance with the Code and indicated improved record-keeping procedures have been implemented to ensure all required conflict of interest statements continue to be completed and are available for review upon request by the Department.

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

From inception of the Company through May 30, 2013, McCarran Ferguson Captive Management Company, Inc. ("McCarran Ferguson") was the Company's captive manager, and provided services including records retention, regulatory compliance and other management services. Subsequent to the examination period, the Company ceased using McCarran Ferguson as the Captive Manager and entered into a contract, effective June 1, 2013, with Intercorp, Inc., to function as the Company's captive manager. This change was approved by the Department.

AFFILIATED PARTIES AND TRANSACTIONS

The Company pays DRMC, which holds all of the Class A voting certificates, for administrative expenses, including accounting. Payments to DRMC were \$12,000 in 2012. All premium revenue is derived from DRMC and its related entities. The Company's board of directors consists of officers and directors of DRMC.

FIDELITY BOND AND OTHER INSURANCE

Dubois RRG maintains fidelity coverage with a \$500,000 per loss limit. The Company's claims administrator, Inservco Insurance Services, Inc., maintains errors and omissions coverage in the amount of \$2,000,000, as well as excess errors and omissions coverage of \$3,000,000. This provides adequate coverage based on NAIC guidelines and contractual requirements.

PENSION AND INSURANCE PLANS

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

TERRITORY AND PLAN OF OPERATION

As of December 31, 2012, the Company was licensed in the District of Columbia and was registered as a risk retention group in Pennsylvania. \$1,092,263 (100 percent) of the Company's written premium in 2012 was in Pennsylvania.

The Company writes one annual policy which offers claims-made institutional medical malpractice coverage to DRMC and related entities (i.e., coverage is for the hospital and related entities, not for individual physicians). The policy includes basic coverage of \$500,000 per occurrence and \$2,500,000 aggregate annually. The policy also includes commercial general liability insurance to DRMC and related entities on an occurrence basis with \$500,000 per occurrence and \$1,000,000 aggregate coverage.

In 2012, the Company provided stop-loss coverage to DRMC for employee health insurance coverage. This policy provided coverage of \$500,000 for claims in excess of \$250,000 with an annual aggregate limit of \$1,500,000.

The Company has no employees and its daily business operations are managed by its controlling member, DRMC, in DuBois, Pennsylvania. During the period of examination, the Company's captive manager, McCarran Ferguson, managed the Company's accounting, record retention, regulatory compliance and other management services in Washington, D.C. Claim administration, risk management and consulting services are provided by Inservco Insurance Services, Inc. in Harrisburg, Pennsylvania.

COMPARATIVE FINANCIAL POSITION OF THE COMPANY

The financial position of the Company and its loss experience for the years under examination is presented in the following table, which is prepared from information contained in the Company's annual statements filed with the Department. The amounts reported in the table for the year ended December 31, 2012 are determined by this examination.

	2012	2011	2010	2009	2008
Total admitted assets	\$ 8,800,904	\$ 7,367,908	\$ 6,373,569	\$ 5,526,797	\$ 4,134,972
Total liabilities	\$ 2,427,082	\$ 3,223,927	\$ 2,744,079	\$ 2,831,314	\$ 2,341,804
Total capital and surplus	\$ 6,373,822	\$ 4,143,981	\$ 3,629,490	\$ 2,695,483	\$ 1,793,168
Net cash from operations	\$ 128,260	\$ 1,036,056	\$ 393,849	\$ 886,158	\$ 649,961
Total adjusted risk-based capital	\$ 6,373,822	(1)	(1)	(1)	(1)
Authorized control level risk-based capital	\$ 574,459	(1)	(1)	(1)	(1)
Gross written premium	\$ 1,092,263	\$ 1,050,000	\$ 1,050,000	\$ 1,050,000	\$ 1,050,000
Ceded premiums written	\$ -	\$ -	\$ -	\$ -	\$ -
Premiums earned	\$ 1,087,798	\$ 1,050,000	\$ 1,050,000	\$ 1,050,000	\$ 1,015,693
Net underwriting gain	\$ 1,405,452	\$ 346,178	\$ 317,602	\$ 268,565	\$ 264,530
Net investment income	\$ 215,954	\$ 208,833	\$ 164,121	\$ 119,553	\$ 120,233
Net realized capital gains (losses)	\$ 13,366	\$ (15,426)	\$ (158,414)	\$ -	\$ (1,228,099)
Net income (loss)	\$ 1,634,772	\$ 539,585	\$ 323,309	\$ 388,118	\$ (838,908)
Net underwriting gain to PHS	22.1%	8.4%	8.8%	10.0%	14.8%
Net written premium to PHS	17.1%	25.3%	28.9%	39.0%	58.6%
Losses and LAE incurred	\$ (486,548)	\$ 531,803	\$ 565,343	\$ 599,472	\$ 562,879
Other underwriting expenses incurred	\$ 168,894	\$ 172,019	\$ 167,055	\$ 181,963	\$ 188,284
Net loss ratio	-44.7%	50.6%	53.8%	57.1%	55.4%
Expense ratio	15.5%	16.4%	15.9%	17.3%	18.5%

⁽¹⁾ The Company was not required to calculate and file risk-based capital for these years.

REINSURANCE

With the Department's approval, the Company has not maintained reinsurance coverage for either the institutional medical malpractice or the general liability since inception.

ACCOUNTS AND RECORDS

The primary locations of the Company's books and records were at the offices of its captive manager, McCarran Ferguson, in Washington, D.C.; and at the offices of its controlling member, DRMC, in DuBois, Pennsylvania.

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers. Our examination disclosed no significant deficiencies in these records.

STATUTORY DEPOSITS

As of December 31, 2012, 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.

FINANCIAL STATEMENTS

The following financial statements, prepared in accordance with accounting practices generally accepted in the United States (“GAAP”). These financial statements reflect the financial condition of the Company as of December 31, 2012, 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, 2012</i>
Common stocks	\$ 7,434,861
Cash (\$251,626), cash equivalents (\$0) and short-term investments (\$0)	<u>251,626</u>
Subtotals, cash and invested assets	\$ 7,686,487
Uncollected premiums (NOTE 1)	696,297
Receivables from parent, subsidiaries and affiliates (NOTE 1)	383,517
Aggregate write-ins for other than invested assets: Prepays	34,603
Total	<u>\$ 8,800,904</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<i>December 31, 2012</i>
Losses (NOTE 2)	\$ 1,469,754
Loss adjustment expenses (NOTE 2)	112,445
Other expenses (excluding taxes, licenses and fees) (NOTE 1)	97,518
Taxes, licenses and fees (excluding federal and foreign income taxes)	22,484
Unearned premiums (NOTE 1)	<u>724,881</u>
Total Liabilities	<u>\$ 2,427,082</u>
Common capital stock	\$ 200,000
Preferred capital stock	7,000
Gross paid in and contributed surplus	2,130,000
Unassigned funds (surplus)	<u>4,036,822</u>
Surplus as regards policyholders	<u>\$ 6,373,822</u>
Total	<u><u>\$ 8,800,904</u></u>

STATEMENT OF INCOME

	<i>2012</i>
UNDERWRITING INCOME	
Premiums earned	\$ 1,087,798
DEDUCTIONS	
Losses incurred	\$ (586,219)
Loss expenses incurred	99,671
Other underwriting expenses incurred	<u>168,894</u>
Total underwriting deductions	<u>\$ (317,654)</u>
Net underwriting gain	\$ 1,405,452
INVESTMENT INCOME	
Net investment income earned	\$ 215,954
Net realized capital gains	<u>13,366</u>
Net investment gain	\$ 229,320
Net income	<u><u>\$ 1,634,772</u></u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2007	\$ 2,061,420
Net loss, 2008	\$ (838,908)
Change in net unrealized capital gains or (losses)	70,656
Surplus adjustments: Paid in	500,000
Net change in surplus as regards policyholders, 2008	(268,252)
Surplus as regards policyholders, December 31, 2008	\$ 1,793,168
Net income, 2009	388,118
Change in net unrealized capital gains or (losses)	513,197
Capital changes: Paid in	1,000
Net change in surplus as regards policyholders, 2009	902,315
Surplus as regards policyholders, December 31, 2009	\$ 2,695,483
Net income, 2010	323,309
Change in net unrealized capital gains or (losses)	610,698
Net change in surplus as regards policyholders, 2010	934,007
Surplus as regards policyholders, December 31, 2010	\$ 3,629,490
Net income, 2011	539,585
Change in net unrealized capital gains or (losses)	(25,094)
Net change in surplus as regards policyholders, 2011	514,491
Surplus as regards policyholders, December 31, 2011	\$ 4,143,981
Net income, 2012	1,634,772
Change in net unrealized capital gains or (losses)	595,069
Net change in surplus as regards policyholders, 2012	2,229,841
Surplus as regards policyholders, December 31, 2012	\$ 6,373,822

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Audit Adjustments:

Subsequent to the filing of the 2012 annual statement, the Company noted several adjustments to its 2012 financial statements, which were reflected in the 2012 audited financial statements. Specifically:

- a) The Company's "Uncollected premiums" were decreased by \$655,179. This adjustment also decreased "Unearned premiums" by the same amount.
- b) The Company's "Receivable from parent, subsidiaries and affiliates" was decreased by \$81,005

These adjustments did not impact the Company's surplus or net income as of December 31, 2012 and accordingly, for purposes of our examination, are not reflected in these financial statements.

NOTE 2 – Loss and Loss Adjustment Expense Reserves:

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling \$1,469,754 and \$112,445, respectively. 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, 2012.

The methodologies utilized by the Company to compute reserves, and the adequacy of the losses and loss adjustment expenses reserves as of December 31, 2012, were reviewed as part of our examination. As part of our review, we relied on the work performed by the Company's independent actuary, who concluded that the Company's reserves appeared to be sufficient. In addition, as part of our examination of the Company's reserves, we engaged an examination actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary. The examination actuary utilized concluded that the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary appeared sufficient and that reserves as reported in the Company's financial statements are reasonable and adequate.

COMMENTS AND RECOMMENDATIONS

During the examination, no issues warranting comments or recommendations in this examination report were noted.

CONCLUSION

Our examination disclosed that as of December 31, 2012 the Company had:

Admitted Assets	\$	8,800,904
Liabilities and Reserves		2,427,082
Common Capital Stock		200,000
Preferred Capital Stock		7,000
Gross Paid in and Contributed Surplus		2,130,000
Unassigned Funds (Surplus)		4,036,822
Total Surplus		6,373,822
Total Liabilities, Capital and Surplus	\$	8,800,904

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2012, 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:

Amy Carter, AFE, Lewis & Ellis, Inc.
Lisa Marteney, CFE, CISA, AES, Lewis & Ellis, Inc.

The actuarial portion of this examination was completed by Kristine M. Fitzgerald, ACAS, MAAA, FCA and Steven P. Lattanzio, FCAS, MAAA, FCA of Actuarial & Technical Solutions, Inc.

Respectfully submitted,



Sarah Lucibello, CFE
Examiner-In-Charge
Lewis & Ellis, 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
Vincent C. Gray, Mayor
Department of Insurance, Securities and Banking



Chester A. McPherson
Acting Commissioner

May 13, 2014

Raymond A. Graeca
President
DuBois Medical Risk Retention Group
C/o Intercorp Inc.
1438-F West Main Street
Ephrata, PA 17522-1345

RE: Examination of **DuBois Medical Risk Retention Group**, as of December 31, 2012

Dear Mr. Graeca:

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 DuBois Medical Risk Retention Group (“Company”) as of December 31, 2012.

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.

The response must be in writing and shall be furnished to this Department by June 13, 2014. 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

DuBois Medical Risk Retention Group

1200 G. St. NW Suite 800
Washington D.C. 2005

May 27, 2014

Mr. Sean O'Donnell
Director of Financial Examination, Risk Finance Bureau
810 First Street, NE, Suite 701
Washington, DC 20002

Dear Mr. O'Donnell,

DuBois Medical Risk Retention Group is in receipt of the draft copy of the Report on Examination of the affairs and financial condition of DuBois Medical Risk Retention Group as of December 31, 2012.

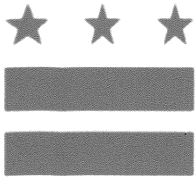
We have not found any errors or omissions in the report and are in agreement with the report. Thus, the management of company hereby accepts the report.

We do appreciate the great working relationship with the department and the outside firm performing the examination. Everyone has been a pleasure to work with and we do appreciate your ongoing support and guidance.

Respectfully,



Raymond A. Graeca, President
DuBois Medical Risk Retention Group



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



Chester A. McPherson
Acting Commissioner

June 2, 2014

Raymond A. Graeca
President
DuBois Medical Risk Retention Group
C/o Intercorp Inc.
1438-F West Main Street
Ephrata, PA 17522-1345

RE: Examination of **DuBois Medical Risk Retention Group**, as of December 31, 2012

Dear Mr. Graeca:

We are in receipt of your response dated May 27, 2014, regarding the Report on Examination of DuBois Medical Risk Retention Group (“Company”) as of December 31, 2012. 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 jurisdiction in which the Company is registered and to the National Association of Insurance Commissioners.

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

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

Sincerely,

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures