Government of the District of Columbia
Muriel Bowser, Mayor
Department of Insurance, Securities and Banking

DISB

Chester A. McPherson
Acting Commissioner

BEFORE THE INSURANCE COMMISSIONER OF THE DISTRICT OF COLUMBIA

Re: Report on Examination - **AEGIS Healthcare Risk Retention Group, Inc.** as of December 31, 2013

ORDER

An Examination of **AEGIS Healthcare Risk Retention Group, Inc.** as of December 31, 2013 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

It is hereby ordered on this Sixth day of May, 2015, 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 recommendation 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.

Chester A. McPherson
Acting Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

REPORT ON EXAMINATION

AEGIS Healthcare Risk Retention Group, Inc.

AS OF

DECEMBER 31, 2013

NAIC NUMBER 12252

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Washington, D.C.
March 4, 2015

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

AEGIS Healthcare Risk Retention Group, Inc.

hereinafter referred to as the "Company" or "AEGIS".

SCOPE OF EXAMINATION

This full-scope examination, covering the period from January 1, 2009 through December 31, 2013, including any material transactions and/or events noted occurring subsequent to December 31, 2013, was conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department"). The last examination was completed as of December 31, 2008 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 2009 through 2013. We placed substantial reliance on the audited financial statements for calendar years 2009 through 2012, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2013. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2013. 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 changes in financial statements.

The examination disclosed a finding regarding the Company's non-compliance with its conflict of interest policy. See the "Comments and Recommendations" section of this Report, under the caption "Conflicts of Interest" for comments regarding this finding.

STATUS OF PRIOR EXAMINATION FINDINGS

A full scope financial examination was conducted by the Department as of December 31, 2008, which covered the period April 30, 2004 through December 31, 2008. In the Report on the prior examination, dated January 29, 2010, the Department noted two exception conditions and related recommendations. Our examination included a review to determine the current status of the two recommendations in the prior exam report, and determined that the Company had not satisfactorily addressed one of these recommendations pertaining to conflicts of interest. See the "Comments and Recommendations" section of this report for comments regarding this condition.

HISTORY

General:

AEGIS was incorporated on August 5, 2004 and commenced business October 1, 2004 as a risk retention group in the District of Columbia under the District's captive insurance laws.

The Company was formed to provide professional liability and general liability insurance coverage to Aegis Healthcare Business Solutions, Inc. ("Aegis Solutions") and the long-term care facilities that are members of Mid-Atlantic LifeSpan ("LifeSpan"), a trade association for long-term care facilities in the State of Maryland.

Effective in 2011, insured members of the Company are no longer required to be members of LifeSpan.

Membership:

The Company was initially capitalized with $475,000 in letters of credit and $25,000 in cash through the issuance of common stock shares to its members.

The Company is authorized to issue five million two thousand (5,002,000)* shares of common stock to its policyholders/members consisting of:

a) 1,000 shares of class A common stock, par value $1.00 per share;*
b) 5,000,000 shares of class B common stock, par value $0.40 per share;*
c) 100 shares of class C common stock, par value $1.00 per share.*

(* It is noted that the sum of the three categories of common stock shares does not equal five million two thousand as stated in the Company's Articles of Incorporation. During the prior examination, this discrepancy was discussed with the Company and Management indicated they would resolve the inconsistency by amending the Articles of Incorporation. As of the date of this report, the Company is waiting on approval from one Shareholder to amend the Articles of Incorporation to change the authorized shares to 5,001,100.)

According to the Company's Stock Subscription Agreement, each policyholder/member must purchase one share of class A common stock. In addition, each policyholder/member must purchase class B common stock shares equal to one-third of the initial annual policy premium. Payment for class A and class B shares shall be made in the form of letters of credit issued by a bank acceptable to the Company for the benefit of the Commissioner of the Department. The outstanding share of class C common stock (as indicated in the table below) is solely owned by Aegis Healthcare Business Solutions, Inc.

The holders of class A common stock have the right to appoint five of the Company's six directors. The holders of class B common stock do not have the right to appoint any of the Company's directors, but do have dividend participation rights. AEGIS Solutions, as holder of the only outstanding share of class C common stock, has the right to elect the remaining one director. Additionally, all holders of class A and class C common stock are entitled to vote on all matters submitted to a vote at a meeting of shareholders. Class B shareholders do not have any voting rights.

Every three years, the outstanding shares of class B stock are reallocated among the class B shareholders based on the ratio of each shareholder's premium to the total Company premium. The shareholders' letters of credit are then revised to correspond with the new number of shares outstanding.

Subject to approval of the Department and the Company's board of directors, all classes of common stock shareholders may redeem their shares upon termination of their insurance coverage with the Company. However, class A and B shareholders forfeit their capital contributions if the termination occurs within four years of obtaining insurance coverage with the Company.

As of December 31, 2013, the Company has issued the following shares of common stock: 12 shares of Class A common stock, 377,022 shares of Class B common stock and 1 share of Class C common stock.

Dividends and Distributions:

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

MANAGEMENT

Board of Directors and Officers:

The Company's directors serving as of December 31, 2013 were as follows:

Name and State of Residence	Principal Occupation
Keith Gibb, Chair Maryland	President Brooke Grove Foundation
Isabella Firth Maryland	President Mid-Atlantic LifeSpan
John H. Horine Maryland	Administrator College Manor, Inc.
William Holman, Jr. Maryland	President Charles County Nursing & Rehabilitation Center
Darrell Duggins Maryland	Vice President Finance Carroll Lutheran Village
Troy Raines Maryland	Administrator Lions Center for Rehabilitation and Extended Care

Effective April 17, 2014 and December 15, 2014, the board of directors was expanded to add Mary Jean Herron and Keith T. Spillane, respectively.

The Company’s officers serving as of December 31, 2013 were as follows:

Name	Title
Isabella Firth	President
Darrell Duggins	Treasurer
Keith Gibb	Chairman
William Holman, Jr.	Secretary
Price Poore	Assistant Treasurer

Committees:

As of December 31, 2013, the Company’s board of directors has established the following committees:

Investment Committee
Darrell Duggins – Chair
Keith Gibb
Mary Jean Herron
William Holman
Paul Miller

Finance & Audit Committee
Darrell Duggins – Chair
Keith Gibb
Mary Jean Herron
Paul Miller

Underwriting Committee
Keith Gibb – Chair
Darrell Duggins
Isabella Firth
William Holman
John Horine
Paul Miller
Troy Raines

Marketing Committee
Keith Gibb – Chair
Isabella Firth
William Holman
John Horine
Paul Miller
Troy Raines

Claims Committee
William Holman – Chair
Darrell Duggins
Isabella Firth
Keith Gibb
Paul Miller

Risk Management Committee
Patricia Younger – Chair
John Burleigh
Deb Churchey
John Horine
Karen Howes
Andrew Jackson
Barbara Leasure
Jeffrey Metz
Dorothy Poole
Susan Push
Glenn Scherer
Theresa Snyder

Conflicts of Interest:

The Company has adopted a "Business Conduct Code & Ethics" policy ("Code"), which includes a conflicts of interest policy. Under the Code, the Company's directors and officers are required to annually sign conflict of interest statements. Our review disclosed there were no conflicts of interest reported that would adversely impact the Company. However, the Company was unable to provide conflict of interest statements for 2011. 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 review and approval of the Company's significant transactions and events.

CAPTIVE MANAGER

Riggs, Counselman, Michaels & Downes ("RCM&D") has been the Company's captive manager since incorporation and provides services that include records retention, financial reporting, regulatory compliance and other management services.

FIDELITY BOND AND OTHER INSURANCE

The Company does not have any employees and does not carry fidelity bond coverage. However, the Company maintains directors and officers liability coverage, with $1,000,000 per occurrence and aggregate limits. The Company's captive manager, RCM&D, maintains professional liability coverage in the amount of $5,000,000, as well as an excess policy covering up to $15,000,000. 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, 2013, the Company was licensed in the District of Columbia and was registered as a risk retention group in Maryland. One hundred percent of the Company's 2013 premium ($1,660,495) was written in Maryland.

The Company provides claims-made coverage to members via assessable policies, with the exception of AEGIS Solutions for which the policies are non-assessable. Limits are offered up to $1 million per occurrence and $3 million aggregate per policy. In addition, the Company offers optional excess coverage up to $5 million in excess of $1 million per claim. To manage its risks under its policies, the Company participates in an excess of loss reinsurance treaty under which it retains $250,000 ultimate net loss for each and every claim. See the "Reinsurance" section of this report for further comments regarding the Company's reinsurance.

The Company has no employees and its daily business operations are managed by various third party service providers. During the examination period and as of the date of this report, the Company's captive manager, RCM&D, provided the Company with regulatory filings services, program management and business consulting services at its offices in Baltimore, Maryland. Claims handling functions are provided to the Company by RCM&D Self-Insured Services Company, Inc. ("SISCO"), an affiliate of RCM&D, in Baltimore, Maryland, under an agreement effective September 1, 2004. Neither RCM&D nor SISCO are affiliates of the Company.

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, 2013 are determined by this examination.

	2013	2012	2011	2010	2009
Total admitted assets	$ 3,132,071	$ 3,287,563	$ 3,329,338	$ 2,860,311	$ 2,471,660
Total liabilities	$ 1,633,860	$ 2,087,426	$ 2,181,158	$ 1,488,981	$ 1,250,089
Total capital and surplus	$ 1,498,211	$ 1,200,137	$ 1,148,180	$ 1,371,330	$ 1,221,571
Net cash from operations	$ (58,991)	$ 270,773	$ 80,191	$ 339,365	$ 70,951
Total adjusted risk-based capital	$ 1,498,211	$ 1,200,137	(a)	(a)	(a)
Authorized control level risk-based capital	$ 238,768	$ 288,520	(a)	(a)	(a)
Gross written premium	$ 1,660,495	$ 1,602,095	$ 1,560,866	$ 1,623,842	$ 1,694,355
Ceded premiums written	$ 683,424	$ 712,378	$ 946,035	$ 646,213	$ 705,929
Premiums earned	$ 977,071	$ 889,717	$ 614,831	$ 977,629	$ 988,426
Net underwriting gain (loss)	$ 445,450	$ (44,740)	$ (373,698)	$ 158,657	$ 167,024
Net investment income	$ 11,602	$ 28,642	$ 37,212	$ 92,053	$ 73,020
Net realized capital gains (losses)	$ (77)	$ 126,456	$ -	$ 24,372	$ (205)
Net income (loss)	$ 302,286	$ 85,093	$ (224,149)	$ 182,735	$ 164,047
Net underwriting gain (loss) to PHS	29.7%	-3.7%	-32.5%	11.6%	13.7%
Net written premium to PHS	65.2%	74.1%	53.5%	71.3%	80.9%
Losses and LAE incurred	$ 127,611	$ 509,803	$ 585,488	$ 522,283	$ 412,138
Other underwriting expenses incurred	$ 404,010	$ 424,653	$ 403,041	$ 296,689	$ 409,264
Net loss ratio	13.1%	57.3%	95.2%	53.4%	41.7%
Expense ratio	41.3%	47.7%	65.6%	30.3%	41.4%

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

REINSURANCE

Effective January 1, 2011 the Company entered into two excess of loss treaties with various approved reinsurers for a 36-month period and extending over three contract periods, expiring on January 1, 2014. The reinsurance treaties can be cancelled by either party giving notice in writing to the other party 90 days prior to the treaties' anniversary dates.

Under the first excess of loss treaty, the Company cedes $750,000 in excess of $250,000 each and every loss each insured for its primary insurance policies. The Company pays the reinsurers a quarterly deposit premium which is the greater of 25 percent of primary direct written premiums or a minimum premium that varies by contract period. The ceded minimum premium is the greater of 20 percent of direct written premium or $250,000, and ceded premiums can be increased to a maximum of 42.5 percent of direct written premiums based on actual reinsured losses for 2013 and 39.5 percent for the years before.

Under the second excess of loss treaty, the Company cedes the risk from $1 million up to $5 million in excess of $1 million each and every loss each insured for its excess insurance policies. The Company cedes 100 percent of the risk of its excess policies to the reinsurers; however, the maximum recoverable by the Company under the treaty is capped at $8 million. The cost of this excess reinsurance is 100 percent of the direct excess premiums less commissions and premium taxes. Payments are made to the reinsurers quarterly after the end of each quarter.

Effective January 1, 2014, the Company entered in to similar excess reinsurance contracts that will expire January 1, 2017. Prior to January 1, 2011, the Company had similar reinsurance agreements in place. All reinsurance treaties were approved by the Department. Our review of the Company's reinsurance treaties disclosed no unusual terms.

At December 31, 2013, the Company reported $268,000 recoverable from reinsurers related to loss reserves. If the reinsurers were not able to meet their obligations under the treaties, the Company would be liable for any defaulted amounts.

ACCOUNTS AND RECORDS

The primary location of the Company's books and records is at the offices of its captive manager, RCM&D, in Baltimore, Maryland.

The Company's general accounting records consist of an automated general ledger and various subsidiary ledgers. Our examination did not disclose any significant deficiencies within these records.

STATUTORY DEPOSITS

As of December 31, 2013, 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 are prepared in accordance with accounting practices generally accepted in the United States ("GAAP"), except for the conditions described in **NOTE 1.** These financial statements reflect the financial condition of the Company as of December 31, 2013, as determined by this examination:

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

BALANCE SHEET

ASSETS

		December 31, 2013
Bonds	$	1,465,365
Common stocks		191,081
Cash ($383,962), cash equivalents ($0) and short-term investments ($225,836)		609,798
Subtotals, cash and invested assets	$	2,266,244
Investment income due and accrued		9,489
Current federal and foreign income tax recoverable and interest thereon		15,650
Net deferred tax asset		37,688
Aggregate write-ins for other than invested assets:		
Letters of credit **(NOTE 1)**		798,000
Prepaid expenses		5,000
Total	$	3,132,071

LIABILITIES, SURPLUS AND OTHER FUNDS

		December 31, 2013
Losses **(NOTE 2)**	$	1,355,145
Loss adjustment expenses **(NOTE 2)**		110,500
Other expenses (excluding taxes, licenses and fees)		40,986
Taxes, licenses and fees (excluding federal and foreign income taxes)		16,270
Unearned premiums		(189,011)
Ceded reinsurance premiums payable (net of commissions)		299,970
Total Liabilities	$	1,633,860
Common capital stock		150,822
Gross paid in and contributed surplus		629,985
Unassigned funds (surplus)		717,404
Surplus as regards policyholders	$	1,498,211
Total	$	3,132,071

STATEMENT OF INCOME

		2013
UNDERWRITING INCOME		
Premiums earned	$	977,071
DEDUCTIONS		
Losses incurred	$	72,611
Loss expenses incurred		55,000
Other underwriting expenses incurred		404,010
Total underwriting deductions	$	531,621
Net underwriting gain	$	445,450
INVESTMENT INCOME		
Net investment income earned	$	11,602
Net realized capital losses		(77)
Net investment gain	$	11,525
Net income after dividends to policyholders, after capital gains and before all other federal and foreign income taxes	$	456,975
Federal and foreign income taxes incurred		154,689
Net income	$	302,286

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2008	$	1,024,101
Net income, 2009		164,047
Change in net unrealized capital gains or (losses)		53,506
Surplus adjustments: Paid in		(20,083)
Net change in surplus as regards policyholders, 2009		197,470
Surplus as regards policyholders, December 31, 2009	$	1,221,571
Net income, 2010		182,735
Change in net unrealized capital gains or (losses)		(17,322)
Aggregate write-ins for gains and losses		(15,654)
Net change in surplus as regards policyholders, 2010		149,759
Surplus as regards policyholders, December 31, 2010	$	1,371,330
Net loss, 2011		(224,149)
Change in net unrealized capital gains or (losses)		997
Capital changes: Paid in		(8,002)
Surplus adjustments: Paid in		8,004
Net change in surplus as regards policyholders, 2011		(223,150)
Surplus as regards policyholders, December 31, 2011	$	1,148,180
Net income, 2012		85,093
Change in net unrealized capital gains or (losses)		(37,361)
Capital changes: Paid in		4,991
Surplus adjustments: Paid in		9,896
Aggregate write-ins for gains and losses		(10,662)
Net change in surplus as regards policyholders, 2012		51,957
Surplus as regards policyholders, December 31, 2012	$	1,200,137
Net income, 2013		302,286
Change in net unrealized capital gains or (losses)		(4,212)
Net change in surplus as regards policyholders, 2013		298,074
Surplus as regards policyholders, December 31, 2013	$	1,498,211

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 – Letters of Credit:

At December 31, 2013, the Company's assets included $798,000 in letters of credit in the possession of the District of Columbia Insurance Commissioner. Under the Captive Laws of the District of Columbia, letters of credit approved by the Department are allowed as admitted assets. Inclusion of the letters of credit as assets is not in accordance with GAAP.

NOTE 2 – Loss and Loss Adjustment Expense Reserves:

The Company reported "Losses" and "Loss adjustment expenses" reserves (net of ceded loss reserves) totaling $1,355,145 and $110,500, 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, 2013. Reserve credits taken as of December 31, 2013 amounted to approximately $268,000. If the reinsurers are unable to meet their obligations, the Company will be liable for this amount. The Company does not discount its reserves.

The methodologies utilized by the Company to compute reserves, and the adequacy of the losses and loss adjustment expenses reserves as of December 31, 2013, 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 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

Conflicts of Interest:

As indicated in the "Conflicts of Interest" section of this report, the Company's "Business Conduct Code & Ethics" policy ("Code") requires the Company's directors and officers to sign conflict of interest statements annually. In addition, the D.C. Municipal Regulations, section 26-3712, require that such statements from officers, directors and key employees be filed annually with the board of directors. However, the Company was unable to provide completed conflict of interest statements for 2011. In addition, as mentioned in the "Status of Prior Examination Findings" section of this report, the prior examination noted a similar issue. **Therefore, we again recommend that the Company ensure its officers and directors complete conflict of interest statements and file such statements with the board of directors on an annual basis in compliance with its own Code, as well as with the abovementioned section of the D.C. Municipal Regulations.**

CONCLUSION

Our examination disclosed that as of December 31, 2013 the Company had:

Admitted Assets	$	3,132,071
Liabilities and Reserves		1,633,860
Common Capital Stock		150,822
Gross Paid in and Contributed Surplus		629,985
Unassigned Funds (Surplus)		717,404
Total Surplus		1,498,211
Total Liabilities, Capital and Surplus	$	3,132,071

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2013, 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.

<u>**SIGNATURES**</u>

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, CFE, Lewis & Ellis, Inc.
Lindsey Pittman, CFE, 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
Muriel Bowser, Mayor
Department of Insurance, Securities and Banking

DISB

Chester A. McPherson
Acting Commissioner

April 2, 2015

Isabella Firth
President
AEGIS Healthcare Risk Retention Group, Inc.
C/o Riggs, Counselman, Michaels & Downes, Inc.
555 Fairmount Ave.
Baltimore, MD 21286

RE: Examination of **AEGIS Healthcare Risk Retention Group, Inc.**, as of December 31, 2013

Dear Ms. Firth:

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 AEGIS Healthcare Risk Retention Group, Inc. ("Company") as of December 31, 2013.

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.

The response must be in writing and shall be furnished to this Department by May 1, 2015. 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

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

Enclosure

AEGIS HEALTHCARE RISK RETENTION GROUP, INC.

1401 Eye Street, N.W., Suite 600
Washington, DC 20005

April 23, 2015

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau
D.C. Department of Insurance, Securities and Banking
810 First Street, NE, Suite 701
Washington, DC 20002

Dear Mr. O'Donnell,

This letter is in response to the April 2, 2015 final draft of the Report on Examination of the affairs and financial condition of AEGIS Healthcare Risk Retention Group, Inc. ("Company") as of December 31, 2013. The Company's response to the Comments and Recommendations section is provided below.

1. <u>Conflicts of Interest</u>

   Finding:

   As indicated in the "Conflicts of Interest" section of this report, the Company's "Business Conduct Code & Ethics" policy ("Code") requires the Company's directors and officers to sign conflict of interest statements annually. In addition, the D.C. Municipal Regulations, section 26-3712, require that such statements from officers, directors and key employees be filed annually with the board of directors. However, the Company was unable to provide completed conflict of interest statements for 2011. In addition, as mentioned in the "Status of Prior Examination Findings" section of this report, the prior examination noted a similar issue.

   Recommendation:

   Therefore, we again recommend that the Company ensure its officers and directors complete conflict of interest statements and file such statements with the board of directors on an annual basis in compliance with its own Code, as well as with the abovementioned section of the D.C. Municipal Regulations.

   Response:

   The Company has instituted a checklist for renewals and agreements that began on January 1, 2014 to ensure discrepancies such as the one above does not occur in the future. The Conflict of Interest statements are listed as an annual requirement to be distributed to the Officers and Directors at the December renewal Board meeting each year. This has been satisfactorily completed for 2012, 2013, and 2014. In addition, it should be noted that when the above error occurred, the Company was under management by a different RCM&D program administrator. As mentioned above, the new program administrator has put controls in place to prevent this from occurring again in the future.

Additionally, in the last sentence of the second paragraph on page 9 under the "Reinsurance" section, Aegis would like to clarify that the maximum rate for 2013 was 39.5 percent. All other years under examination had a maximum rate of 42.5 percent. We also noted an error on page 17 of the report under the "Conflicts of Interest" section. In the third sentence that begins with "However", the word "able" should be deleted.

All other information contained within the final draft examination has been deemed accurate.

Please let me know if there is anything further needed or if you have any questions.

Sincerely,

Isabella Firth
President
AEGIS Healthcare Risk Retention Group, Inc.

Government of the District of Columbia
Muriel Bowser, Mayor
Department of Insurance, Securities and Banking

Chester A. McPherson
Acting Commissioner

May 6, 2015

Isabella Firth
President
AEGIS Healthcare Risk Retention Group, Inc.
C/o Riggs, Counselman, Michaels & Downes, Inc.
555 Fairmount Ave.
Baltimore, MD 21286

RE: Examination of **AEGIS Healthcare Risk Retention Group, Inc.**, as of December 31, 2013

Dear Ms. Firth:

We are in receipt of your response dated April 23, 2015, regarding the Report on Examination of AEGIS Healthcare Risk Retention Group, Inc. ("Company") as of December 31, 2013. The response is deemed adequate. We have made two corrections to the report per the company's request.

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

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures