



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

Stephen C. Taylor  
Commissioner

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

Re: Report on Examination – **CMIC Risk Retention Group** as of December 31, 2014

**ORDER**

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **CMIC Risk Retention Group** (the “Company”), as of December 31, 2014 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“Department”). The Department reported on the financial condition of the Company in the attached Report on Examination (“Financial Condition Examination Report”).

In accord with the provisions of D.C. Official Code § 31-1404 (c), it is hereby ordered, on this 22nd day of February, 2016, that the attached Financial Condition Examination Report be adopted and filed as an official record of the 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, the Company shall, within 30 days of the issuance of the adopted Financial Condition Examination Report, file affidavits executed by each of the Directors of the Company wherein each of the Directors shall state under oath that they have received a copy of the adopted Financial Condition Examination Report and this order.

Pursuant to Section 31-1404(e) (1) of the D.C. Official Code, the Department will continue to hold the content of the above-referenced report as private and confidential information for a period of 10 days from the date of this Order.

  
Stephen C. Taylor  
Commissioner

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



REPORT ON EXAMINATION

CMIC RISK RETENTION GROUP

AS OF

DECEMBER 31, 2014

NAIC NUMBER 13756

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Washington, D.C.  
November 23, 2015

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

Dear Commissioner Taylor:

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

### **CMIC Risk Retention Group**

hereinafter referred to as the “Company” or “CMIC RRG”, located at the office of the Company’s captive manager, 2386 Airport Road, Barre, VT, 05641.

### **SCOPE OF EXAMINATION**

This full-scope examination, covering the period from March 1, 2010 through December 31, 2014, including any material transactions and/or events noted occurring subsequent to December 31, 2014, was conducted by the District of Columbia Department of Insurance, Securities and Banking (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, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, pursuant to Section 31-1404(a) of the District of Columbia Official Code and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the company.

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 2010 through 2014. We placed substantial reliance on the audited financial statements for calendar years 2010 through 2013, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2014. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2014. 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**

This is the first full scope financial examination of the Company.

### **HISTORY**

#### **General:**

The Company was incorporated on March 1, 2010 and commenced business on April 1, 2010 as an association captive insurance company, operating as a risk retention group under the captive insurance laws of the District of Columbia.

The Company was sponsored by Connecticut Medical Insurance Company ("CMIC") to provide medical professional liability insurance to individual practitioners, practice groups, hospitals or other healthcare facilities initially in one or more states in close proximity to CMIC's existing territory of Connecticut and Massachusetts.

#### **Membership:**

As a risk retention group, the Company is owned by its member insureds, consisting of individual and group physicians, dentists, health care professionals, hospitals, and other health care facilities. As a mutual insurer, CMIC RRG does not issue stock or other certificates of ownership. Each insured is automatically a member of CMIC RRG.

Dividends and Distributions:

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

**MANAGEMENT AND CONTROL**

Board of Director and Officers:

The Company's directors serving as of December 31, 2014 were as follows

| <u>Name and State of Residence</u>                | <u>Principal Occupation</u>  |
|---|--|
| Sultan Ahamed, MD - Chairman<br>Connecticut       | Director and President of CMIC;<br>Physician, The William W. Backus Hospital |
| John Brian Hornby, MD<br>Connecticut              | Director and Treasurer of CMIC;<br>Physician, Lawrence Memorial Hospital     |
| David Bernard Kalayjian, MD<br>Connecticut        | Director of CMIC;<br>Physician, Orthopedic Associates of<br>Middletown       |
| Edmund Stephen Schiavoni Jr., MD<br>New Hampshire | Physician<br>Southern NH Internal Medicine Associates                        |

The following persons were serving as the CMIC RRG's officers as of December 31, 2014:

| <u>Name</u>                 | <u>Position</u>                          |
|-----------------------------|--|
| Sultan Ahamed, MD           | President                                |
| David Bernard Kalayjian, MD | Secretary                                |
| John Brian Hornby, MD       | Treasurer                                |
| Denise Funk                 | Chief Executive Officer & Vice President |
| Emmanuel Zervos             | Chief Financial Officer & Vice President |

Committees:

As of December 31, 2014, the Company's board of directors has established the following committee:

Audit Committee:

Sultan Ahamed, MD - Chairman  
David Bernard Kalayjian, MD  
John Brian Hornby, MD  
Edmund Stephen Schiavoni Jr., MD

Conflicts of Interest:

The Company has an established procedure for the disclosure of any material interests or affiliations on the part of its directors and officers. Our review of the conflict of interest statements signed by the CMIC RRG directors and officers for the period under examination disclosed no conflicts that would adversely affect the Company. Furthermore, no additional conflicts of interest were identified during our examination.

Corporate Records:

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

Captive Manager:

USA Risk Group has been the Company's captive manager since inception, providing regulatory and annual statement preparatory services to the Company.

Affiliated Parties and Transactions:

The Company is not a member of a holding company group. As previously indicated in the "History" section of this report, the Company's formation was sponsored by CMIC but CMIC has no ownership interest in the Company. During the period under examination, the Company has the following transactions with CMIC:

Through a Management and Services Agreement effective January 1, 2011, the Company's daily operations, including underwriting and marketing, risk management, claim administration, accounting, premium billing and collection, cash and disbursement, are managed by CMIC. Compensation for the services provided is 3.33 percent of direct written premium ceded to CMIC and due within 30 days from the end of the month such premium is ceded.

In addition, the Company is party to a reinsurance agreement with CMIC. See details in the "Reinsurance" section of this Report.

The Company was initially capitalized by the issuance of a surplus note to CMIC in the amount of \$3,250,000. The note is dated April 1, 2010 and matures on April 1, 2035. Interest is due quarterly on the last day of each calendar quarter with the final payment of any accrued and unpaid interest to be concurrent with the payment of principal on April 1, 2035. The interest rate is 2 percent per annum for the first ten years; thereafter the interest rate is to be reset for each of

the next five-year periods at the five-year Treasury Bill rate on the note's anniversary date until the principal is paid. No interest shall be paid without prior approval of the Department. Interest expensed in 2014 was \$65,000, and total interest paid since the note's inception is \$292,500. All interest payments have been approved by the Department.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2014, the Company was licensed in the District of Columbia, and was registered as a risk retention group in the following states: Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, Pennsylvania, Rhode Island and Vermont. As of December 31, 2014, the Company was writing in all licensed and registered states except Delaware and New Jersey.

The Company offers medical professional liability insurance on a claims made basis with the limits of \$2,000,000 per claim and \$6,000,000 per policy aggregate to individual physician members and health organization members. Extended reporting coverage and tail coverage endorsements are available for purchase separately. The Company also offers commercial general liability insurance to its members on an occurrence basis with limits \$2,000,000 per claim and \$6,000,000 per policy aggregate. In addition, the Company offers health care organizations excess professional and umbrella liability coverage with limits up to \$10,000,000. However, there were no excess and umbrella policies sold during the period under examination.

The Company has no employees. Its daily business operations are managed by CMIC in Connecticut. Its captive manager, USA Risk Group, provides regulatory and annual statement preparatory services to the Company in Barre, Vermont.

### **REINSURANCE**

For the period under examination, the Company was party to a quota-share reinsurance agreement with CMIC. Under the terms of the agreement, the Company ceded to CMIC 95 percent of its premiums and losses up to \$2,000,000 per claim. The reinsurance agreement covers all lines except cyber liability insurance. The Company receives a ceding commission of 33.3 percent of the premiums ceded. The contract is automatically renewed until terminated by either party by written notice to the other given at least 180 days prior to the expiration date.

The Company also provides cyber liability protection for medical records at no cost up to a limit of \$100,000. This coverage is 100 percent reinsured with several Lloyd's of London syndicates. The Company receives a 15 percent commission on this ceded business.

During 2014, CMIC RRG ceded premiums of approximately \$1.5 million to CMIC, and as of December 31, 2014, the Company reported estimated reinsurance recoverable on unpaid losses, and ceded unearned premiums, totaling approximately \$3.05 million and \$303,000, respectively. If the reinsurer was not able to meet its obligations under the treaty, the Company would be liable for any defaulted amounts.



## **FINANCIAL STATEMENTS**

The following financial statements are based on the Annual Statement filed by the Company with the Department and present the financial condition of the company for the period ending December 31, 2014. The financial statements were prepared in accordance with Statutory Accounting Principles (“SAP”) prescribed or permitted by the Department. Management is responsible for the preparation and fair presentation of these financial statements. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

| <b><u>STATEMENT</u></b>                    | <b><u>PAGE</u></b> |
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## BALANCE SHEET

### ASSETS

|   | <i>December 31, 2014</i> |
|---|--------------------------|
| Bonds   | \$ 2,816,997             |
| Cash and short-term investments                                       | <u>579,025</u>           |
| Subtotals, cash and invested assets                                   | \$ 3,396,022             |
| Investment income due and accrued                                     | 9,597                    |
| Uncollected premiums and agents' balances in the course of collection | 222,210                  |
| Total   | <u>\$ 3,627,829</u>      |

**LIABILITIES, SURPLUS AND OTHER FUNDS**

|  | <i>December 31, 2014</i>       |
|--|--------------------------------|
| Losses ( <b>Note 1</b> )   | \$ 197,751                     |
| Loss adjustment expenses ( <b>Note 1</b> )   | 49,437                         |
| Other expenses (excluding taxes, licenses and fees)                                | 119,979                        |
| Taxes, licenses and fees (excluding federal and foreign income taxes)              | 24,200                         |
| Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$0) | 302,908                        |
| Ceded reinsurance premiums payable (net of ceding commission)                      | <u>191,126</u>                 |
| <br>Total Liabilities  | <br>\$ <u>885,401</u>          |
| Surplus Notes  | 3,250,000                      |
| Unassigned funds (surplus)   | <u>(507,572)</u>               |
| <br>Surplus as regards policyholders   | <br>\$ <u>2,742,428</u>        |
| <br>Total  | <br><u><u>\$ 3,627,829</u></u> |

# STATEMENT OF INCOME

|   | <i>December 31, 2014</i> |
|---|--------------------------|
| UNDERWRITING INCOME   |                          |
| Premiums earned   | \$ (79,244)              |
| DEDUCTIONS  |                          |
| Losses incurred   | 134,579                  |
| Loss expenses incurred  | 82,812                   |
| Other underwriting expenses incurred  | (99,694)                 |
| Total underwriting deductions   | \$ 117,697               |
| Net underwriting gain(loss)   | \$ (196,941)             |
| INVESTMENT INCOME   |                          |
| Net investment income earned  | \$ (18,227)              |
| Net realized capital gain   | 0                        |
| Net investment loss   | \$ (18,227)              |
| Net loss, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | \$ (215,168)             |
| Federal and foreign income taxes incurred   | \$ 0                     |
| Net loss  | \$ (215,168)             |

### **CAPITAL AND SURPLUS ACCOUNT**

|  |                     |
|--|---------------------|
| Net loss, 2010                                       | \$ (83,936)         |
| Change in Surplus Notes                              | <u>3,250,000</u>    |
| Net change in surplus as regards policyholders, 2010 | <u>3,166,064</u>    |
| Surplus as regards policyholders, December 31, 2010  | <u>\$ 3,166,064</u> |
| Net loss, 2011                                       | <u>(56,047)</u>     |
| Net change in surplus as regards policyholders, 2011 | <u>(56,047)</u>     |
| Surplus as regards policyholders, December 31, 2011  | <u>\$ 3,110,017</u> |
| Net loss, 2012                                       | <u>(93,849)</u>     |
| Net change in surplus as regards policyholders, 2012 | <u>(93,849)</u>     |
| Surplus as regards policyholders, December 31, 2012  | <u>\$ 3,016,168</u> |
| Net loss, 2013                                       | <u>(58,572)</u>     |
| Net change in surplus as regards policyholders, 2013 | <u>(58,572)</u>     |
| Surplus as regards policyholders, December 31, 2013  | <u>\$ 2,957,596</u> |
| Net loss, 2014                                       | <u>(215,168)</u>    |
| Net change in surplus as regards policyholders, 2014 | <u>(215,168)</u>    |
| Surplus as regards policyholders, December 31, 2014  | <u>\$ 2,742,428</u> |

### **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 – Loss and Loss Adjustment Expense Reserves:**

The Company reported “Losses” and “Loss adjustment expenses” reserves net of reinsurance totaling \$197,751 and \$49,437, 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, 2014.

Reserve credits taken as of December 31, 2014, for cessions to the Company’s reinsurer totaled approximately \$3.05 million. These amounts are reported as a deduction from gross loss and loss adjustment expenses reserves. If the reinsurer was unable to meet its obligations under the reinsurance treaty, the Company would be liable for any defaulted amounts. The Company’s net loss reserves total \$247,188.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2014 were reviewed as part of our examination. As part of our review, we relied on the Company’s actuary, who concluded that the reserves on the Company’s books 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 actuary. The independent actuary utilized in our examination concluded that the loss reserves reported by the Company as of December 31, 2014 appeared sufficient.

## **SUBSEQUENT EVENTS**

We noted no significant subsequent events as of the date of this report.

## **SUMMARY OF RECOMMENDATIONS**

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

## SIGNATURES

In addition to the undersigned, the following personnel from Eide Bailly LLP, representing the Department, participated in this examination as members of the examination team: Emilie Brady, CFE, AIE, MCM.

The actuarial portion of this examination was completed by Daniel A. Reppert, FCAS, MAAA, of Financial Risk Analysts, LLC.

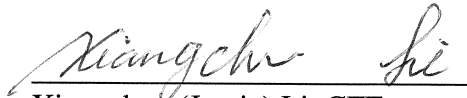
Respectfully submitted,



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Ryan Havick, CFE  
Examiner-In-Charge  
Eide Bailly LLP

Under the Supervision of,



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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**

**Stephen C. Taylor**  
Commissioner

February 16, 2016

Sultan Ahamed, MD  
President  
CMIC Risk Retention Group  
C/o USA Risk Group  
2386 Airport Road  
Barre, VT 05641

RE: Examination of **CMIC Risk Retention Group** as of December 31, 2014

Dear Mr. Ahamed:

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 CMIC Risk Retention Group (the "Company") as of December 31, 2014.

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 March 8, 2016. 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](mailto:sean.odonnell@dc.gov).

Sincerely,

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

Enclosure





February 17, 2016

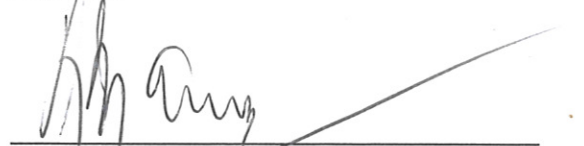
Sean O'Donnell, Director of Financial Examination  
Department of Insurance, Securities and Banking  
810 First Street, NE, Suite 701  
Washington, DC 20002

RE: Examination of CMIC Risk Retention Group as of December 31, 2014

Dear Mr. O'Donnell:

After reviewing your Department's examination report of CMIC Risk Retention Group, we find no further errors or omissions. We accept the report as it was presented to us in accordance with your letter dated February 16, 2016.

Sincerely,



\_\_\_\_\_ Date

Sultan Ahamed, MD, MBA  
President  
CMIC Risk Retention Group



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

**Stephen C. Taylor**  
**Commissioner**

February 19, 2016

Sultan Ahamed, MD  
President  
CMIC Risk Retention Group  
C/o USA Risk Group  
2386 Airport Road  
Barre, VT 05641

RE: Examination of **CMIC Risk Retention Group** as of December 31, 2014

Dear Mr. Ahamed:

We are in receipt of your response dated February 17, 2016, regarding the Report on Examination of CMIC Risk Retention Group (the "Company") as of December 31, 2014. 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 District of Columbia 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.

Pursuant to Section 31-1404(d)(1) of the District of Columbia Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each of the Company's directors 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