



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 – **MMIC Risk Retention Group, Inc.**, as of December 31, 2015

ORDER

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **MMIC Risk Retention Group, Inc.** (the “Company”), as of December 31, 2015 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 accordance with the provisions of D.C. Official Code § 31-1404(c), it is hereby ordered, on this 17th day of February, 2017, that the attached Financial Condition Examination Report be adopted and filed as an official record of the Department.

Pursuant to D.C. Official Code § 31-1404(d)(1), this Order is considered a final administrative decision, and may be appealed pursuant to D.C. Official Code § Section 31-4332.

Pursuant to D.C. Official Code § 31-1404(d)(1), 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 D.C. Official Code § 31-1404(e)(1), 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

MMIC RISK RETENTION GROUP, INC.

AS OF

DECEMBER 31, 2015

NAIC NUMBER 14062

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Washington, D.C.
November 3, 2016

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 (“Code”), and with Chapter 14 of Title 31 of the Code, we have examined the financial condition and activities of

MMIC Risk Retention Group, Inc.

hereinafter referred to as the “Company” or “MMIC RRG”

SCOPE OF EXAMINATION

This full-scope examination, covering the period from May 5, 2011 through December 31, 2015, including any material transactions and/or events noted occurring subsequent to December 31, 2015, 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 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 by an independent public accounting firm. The firm expressed an unqualified opinion on the Company's financial statements for the calendar year 2015. For the years 2011 to 2014, the Company received an exemption from the Department for an annual audit due to the low volume of written premiums. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2015. 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:

MMIC Risk Retention Group, Inc. (formerly MMIC RRG, Inc.), was licensed on May 5, 2011 as a mutual captive insurance company, operating as a risk retention group, under the captive insurance laws of the District of Columbia. The Company commenced business on January 1, 2012.

The Company's formation was sponsored by MMIC Group, Inc., now known as Constellation, Inc. ("Constellation"), a mutual insurance holding company organized under Minnesota statutes. MMIC Insurance, Inc., (MMIC), is a stock insurance company wholly owned by Constellation and is a Minnesota state licensed insurance company. MMIC RRG was formed to provide medical professional liability insurance to individual practitioners, practice groups, hospitals or other healthcare facilities in the states where MMIC is not licensed or permitted to write insurance business.

Membership:

As a risk retention group, the Company is owned by its member insureds, consisting of individual and group physicians, and other health care facilities. As a mutual insurer, MMIC RRG

does not issue stock or other certificates of ownership. Each insured is automatically a member of MMIC 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 Directors and Officers:

The Company's directors serving as of December 31, 2015 were as follows:

| <u>Name and State of Residence</u> | <u>Principal Occupation</u> |
|--|---|
| Gerald Michael O'Connell* Minnesota | Vice President, Alternative Risk Transfer of Constellation, Inc. |
| Lori H. Trygg Minnesota | Senior Vice President and General Counsel of Constellation, Inc. |
| Jon Gary Behnken Minnesota | Senior Manager, Business Reporting of Constellation, Inc. |

The following persons were serving as the MMIC RRG's officers as of December 31, 2015:

| <u>Name</u> | <u>Position</u> |
|---------------------------|-----------------|
| Gerald Michael O'Connell* | President |
| Lori H. Trygg | Secretary |
| Jon Gary Behnken | Treasurer |

* In June 2016, Dana D'Arrigo replaced Gerald M. O'Connell as President and Director of the Company.

Committees:

As of December 31, 2015, there were no formal committees of the board of directors. During 2016, the Company notified the Department that the entire board of directors of the Company constitutes the audit committee.

Conflicts of Interest:

In compliance with the District of Columbia Municipal Regulations (DCMR), conflict of interest statements are to be completed annually by all directors, officers, and key employees. Our review of the conflict of interest statements for 2011 through 2015 disclosed there were no conflicts of interest reported that would adversely impact the Company. However, the Company was unable to provide signed conflict of interest statements for all directors and officers for 2013. We discussed this condition with the Company during the examination. Management explained the 2013 statements were inadvertently discarded. Management also indicated that they recognized the importance of maintaining compliance with the DCMR and indicated improved record-keeping procedures would be implemented to ensure all required conflict of interest statements would be available for review upon request by the Department.

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:

Willis Management (Vermont), Ltd. has been the Company's captive manager since inception, providing regulatory services and underwriting authority 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 Constellation but Constellation has no ownership interest in the Company. During the period under examination, the Company has the following transactions with Constellation and MMIC:

Through a Management Agreement effective May 19, 2014, the Company's daily operations, including marketing, underwriting, financial management, risk management and loss prevention, claims handling, and information technology, are managed by Constellation. Compensation for the services provided is \$3,000 annually.

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

The Company was initially capitalized with a letter of credit totaling \$400,000 and a surplus note issued to Constellation in the amount of \$200,000. On May 31, 2013, Constellation infused an additional \$200,000 into the Company and the Company issued a new surplus note in the amount of \$400,000, due on May 31, 2023, at an annual interest rate of six percent (6%). No interest shall be paid without prior approval of the Department. No interest has been expensed or paid since the note's inception. The cumulative unpaid interest is \$85,085 as of December 31, 2015.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2015, the Company was licensed in the District of Columbia, and was registered as a risk retention group in the following states: Alabama, Arizona, Arkansas, Connecticut, Florida, Georgia, Hawaii, Maine, Massachusetts, Mississippi, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Oklahoma, Oregon, Texas, Vermont, Virginia, and Washington. As of December 31, 2015, the Company was writing business only in Arizona, Oklahoma, and Oregon.

The Company offers medical professional liability insurance on a claims made basis and general liability insurance on an occurrence basis with primary limits of \$1,000,000 per claim and \$3,000,000 per policy aggregate to individual physician members and health organization members. The Company also offers medical professional insurance on a claims made basis and general liability insurance on an occurrence basis with limits of \$20,000,000 per claim and \$20,000,000 per policy aggregate, in excess of the primary layer. The excess insurance limits are fully reinsured. Extended reporting coverage and tail coverage endorsements are available for purchase separately.

The Company has no employees. Its daily business operations are managed by Constellation in Minneapolis, Minnesota. Its captive manager, Willis Management (Vermont), Ltd., provides regulatory services and underwriting authority to the Company in Burlington, Vermont.

REINSURANCE

For the period under examination, the Company was a party to a quota-share reinsurance agreement with MMIC. Under the terms of the agreement, the Company ceded ninety five percent (95%) of its premiums and losses of the Company's first \$1 million of net liability in respects of each occurrence, and one hundred percent (100%) of its premiums and losses in excess of \$1 million in respect of each occurrence. The reinsurance agreement covers all policies issued or renewed by the Company classified as medical professional and general liability business written on a claims made or occurrence basis. The Company receives a ceding commission of twenty six percent (26%) of the premiums ceded. The contract is automatically renewed each year until terminated by either party by written notice to the other given at least 60 days prior to the expiration date.

During 2015, MMIC RRG ceded premiums of \$29,583 to MMIC, and as of December 31, 2015, the Company reported estimated reinsurance recoverable on paid and unpaid losses totaling \$0, and ceded unearned premiums totaling \$11,017. 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, 2015. 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.

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

ASSETS

| | <i>December 31, 2015</i> |
|--|--------------------------|
| Cash and short-term investments | \$ 208,200 |
| Uncollected premiums and agents' balances in the course of collection | 3,891 |
| Aggregate write-in for other than invested assets – Letter of credit (NOTE 1) | 400,000 |
| Total | <u>\$ 612,091</u> |

LIABILITIES, SURPLUS AND OTHER FUNDS

| | <i>December 31, 2015</i> |
|---|---|
| Losses (NOTE 2) | \$ 0 |
| Loss adjustment expenses (NOTE 2) | 0 |
| Commissions payable, contingent commissions and other similar charges | 2,864 |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | 15,780 |
| Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$11,017) | <div style="border-top: 1px solid black;">390</div> |
| Total Liabilities | <div style="border-top: 1px solid black; border-bottom: 1px solid black;">\$ 19,034</div> |
| Surplus Notes | 400,000 |
| Gross paid in and contributed surplus | 400,000 |
| Unassigned funds (surplus) | <div style="border-top: 1px solid black;">(206,943)</div> |
| Surplus as regards policyholders | <div style="border-top: 1px solid black; border-bottom: 1px solid black;">\$ 593,057</div> |
| Total | <div style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 612,091</div> |

STATEMENT OF INCOME

| | <i>December 31, 2015</i> |
|---|--------------------------|
| UNDERWRITING INCOME | |
| Premiums earned | \$ 1,033 |
| DEDUCTIONS | |
| Losses incurred | 0 |
| Loss expenses incurred | 0 |
| Other underwriting expenses incurred | 44,848 |
| Total underwriting deductions | \$ 44,848 |
| Net underwriting gain (loss) | \$ (43,815) |
| Federal and foreign income taxes incurred | \$ (14,897) |
| Net loss | \$ (28,918) |

CAPITAL AND SURPLUS ACCOUNT

| | |
|---|-----------------------|
| Initial capital: | |
| Surplus note | \$ 200,000 |
| Letter of credit | <u>400,000</u> |
| Net change in surplus as regards policyholders, 2011 | <u>600,000</u> |
| Surplus as regards policyholders, December 31, 2011 | <u>\$ 600,000</u> |
| Net loss, 2012 | (41,354) |
| Change in non-admitted assets | <u>(21,304)</u> |
| Net change in surplus as regards policyholders, 2012 | <u>(62,658)</u> |
| Surplus as regards policyholders, December 31, 2012 | <u>\$ 537,342</u> |
| Net loss, 2013 | (35,499) |
| Change in non-admitted assets | (12,139) |
| Change in surplus notes | <u>200,000</u> |
| Net change in surplus as regards policyholders, 2013 | <u>152,362</u> |
| Surplus as regards policyholders, December 31, 2013 | <u>\$ 689,704</u> |
| Net loss, 2014 | (34,870) |
| Change in non-admitted assets | <u>(17,963)</u> |
| Net change in surplus as regards policyholders, 2014 | <u>(52,833)</u> |
| Surplus as regards policyholders, December 31, 2014 | <u>\$ 636,871</u> |
| Net loss, 2015 | (28,918) |
| Change in net deferred income tax | 4,058 |
| Change in non-admitted assets | <u>(18,954)</u> |
| Net change in surplus as regards policyholders, 2015 | <u>(43,814)</u> |
| Surplus as regards policyholders, December 31, 2015 | <u>\$ 593,057</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 – Letter of Credit:

As of December 31, 2015, the Company's assets and surplus as regards policyholders included a \$400,000 letter of credit. Inclusion of letters of credit as assets and surplus as regards policyholders is not in accordance with SAP, however letters of credit and surplus notes approved by the Department are allowed as surplus as regards policyholders.

NOTE 2 – Loss and Loss Adjustment Expense Reserves:

The Company reported "Losses" and "Loss adjustment expenses" reserves net of reinsurance totaling \$0 and \$0, 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, 2015. Reserve credits taken as of December 31, 2015, for cessions to the Company's reinsurer totaled \$0.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2015 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 utilized an examination actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary. The examination actuary utilized in our examination concluded that the loss reserves reported by the Company as of December 31, 2015 appeared reasonable.

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.

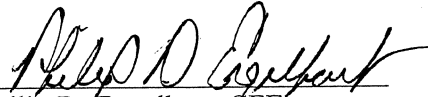
SIGNATURES

In addition to the undersigned, the following examiners representing the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

Thomas Mayberry, CFE, EWM Group, PC
Paul Sliwinski, ARe, EWM Group, PC
Chris Davis, EWM Group, PC
Koye Arulogun, EWM Group, PC
Jenny Jeffers, CISA, AES, Jennan Enterprises
Joanna Latham, CISA, AES, CFE, Jennan Enterprises

The actuarial portion of this examination was completed by David A. Christhlf, ACAS, MAAA, of the Department of Insurance, Securities and Banking.

Respectfully submitted,



Philip D. Engelhart, CFE
Examiner-In-Charge
EWM Group, PC

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

Stephen C. Taylor
Commissioner

January 9, 2017

Dana D'Arrigo
President
MMIC Risk Retention Group, Inc.
C/o Willis Management (Vermont), Ltd
100 Bank Street, Suite 500
Burlington, Vermont 05401

RE: Examination of **MMIC Risk Retention Group, Inc.**, as of December 31, 2015

Dear Mr. D'Arrigo:

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 MMIC Risk Retention Group, Inc. (the "Company") as of December 31, 2015.

Please submit, to my attention, a written response calling attention to any errors or omissions. In addition, if this Report contains a section entitled "Summary of 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 is no "Summary of 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 February 8, 2017. 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



February 8, 2017

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

Re: Report of Examination as of 12/31/15
MMIC Risk Retention Group, Inc., NAIC Company Code – 14062

Dear Mr. O'Donnell:

On behalf of MMIC Risk Retention Group, Inc., I accept the Report of Examination as of 12/31/15.

If you have any questions, please contact me at (952) 838-6803 or dana.d'arrigo@mmicgroup.com. Thank you.

Sincerely,

A handwritten signature in red ink, appearing to read "Dana D'Arrigo". The signature is fluid and stylized, with a large loop at the end.

Dana D'Arrigo
President
MMIC Risk Retention Group, Inc.



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

Stephen C. Taylor
Commissioner

February 9, 2017

Dana D'Arrigo
President
MMIC Risk Retention Group, Inc.
C/o Willis Management (Vermont), Ltd
100 Bank Street, Suite 500
Burlington, Vermont 05401

RE: Examination of **MMIC Risk Retention Group, Inc.**, as of December 31, 2015

Dear Mr. D'Arrigo:

We are in receipt of your response dated February 8, 2017, regarding the Report on Examination of MMIC Risk Retention Group, Inc. (the "Company") as of December 31, 2015. 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