



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 – Coverys RRG, Inc., as of December 31, 2015

ORDER

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **Coverys RRG, 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 accord with the provisions of D.C. Official Code § 31-1404(c), it is hereby ordered, on this 4th day of May, 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 § 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

COVERYS RRG, INC.

AS OF

DECEMBER 31, 2015

NAIC NUMBER 14160

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Washington, D.C.
January 24, 2017

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

Coverys RRG, Inc.

hereinafter referred to as the “Company” or “Coverys RRG”.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from November 14, 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 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 are 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 2013 through 2015. For the years 2011 and 2012, the Company received an exemption from the Department for an annual audit due to no written premiums in 2011 and a low volume of written premiums in 2012. We placed substantial reliance on the audited financial statements for calendar years 2013 through 2014, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2015. 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:

The Company was licensed on November 14, 2011 and commenced business on August 23, 2012, 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 Medical Professional Mutual Insurance Company ("MPMIC"), a mutual insurance company licensed in the Commonwealth of Massachusetts, to provide medical professional liability insurance to hospitals, healthcare systems, healthcare facilities, physician groups and individual practitioners in the State of New York and potentially other states. MPMIC is the ultimate controlling entity of the Coverys holding company system. See further comments regarding MPMIC and the Coverys holding company system in the "Affiliated Parties and Transactions" section of this Report.

Membership:

As a risk retention group, the Company is owned by its member insureds, consisting of hospitals, healthcare systems, healthcare facilities, physician groups and individual practitioners.

As a mutual insurer, Coverys RRG does not issue stock or other certificates of ownership. Each insured is automatically a member of Coverys 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>
Gregg Lee Hanson Boston, Massachusetts	President of MPMIC
Richard Gordon Hayes* Boston, Massachusetts	Sr.VP, CFO and Treasurer of MPMIC
Jose Raul Zorola Boston, Massachusetts	Chief Underwriting Officer of MPMIC

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

<u>Name</u>	<u>Position</u>
Gregg Lee Hanson	President
Jose Raul Zorola	Secretary
Richard Gordon Hayes*	Treasurer

*Richard Gordon Hayes retired as a director and officer of Coverys RRG in June 2016. Joseph Gerald Murphy serves as his replacement.

Committees:

As of December 31, 2015, the Company's board of directors had not established any committees. During 2016, the Company notified the Department that the board of directors had adopted MPMIC's audit committee as its own audit committee.

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 Coverys 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:

Willis Management (Vermont), Ltd. has been the Company's captive manager since inception, providing regulatory and annual statement preparatory services to the Company.

Affiliated Parties and Transactions:

In December 2012, the Company filed and the Department subsequently approved a disclaimer of affiliation from MPMIC. As a result, as of December 31, 2015, the Company was not a member of a holding company system. Subsequently, in May 2016, the Company filed with the Department to withdraw its disclaimer of affiliation and with the Department's approval effective on May 26, 2016, the Company became a member of the Coverys holding company system and MPMIC became the Company's ultimate controlling entity.

MPMIC has no ownership interest in the Company. However, MPMIC has sponsored the Company's formation and has been managing the Company's daily business operations since inception under a management services agreement. In addition, MPMIC is the lender to the Company of \$5 million pursuant to a Subordinated Surplus Note Agreement ("Surplus Note"). Under the Company's bylaws and the Surplus Note agreement, until the Surplus Note is paid in full with interest, MPMIC has the following rights relating to control of the Company: (i) MPMIC has the right to appoint two individuals to the Company's board; and (ii) The Company's CEO may not be dismissed without MPMIC consent.

During the period under examination and up to the date of this Report, the Company has the following transactions with MPMIC:

MPMIC provided the initial capitalization of the Company with a \$500,000 Letter of Credit and a \$200,000 surplus note dated November 14, 2011 which matures on December 1, 2036. In September 2012, MPMIC, with the permission of the Department, cancelled the \$500,000 Letter of Credit and replaced it with an additional surplus note dated August 31, 2012 in the amount of \$4,800,000, resulting in surplus note total of \$5,000,000. The surplus note interest rate is six percent (6%) per annum and repayment of the principal amount is due in full on August 31, 2037. No interest or principal shall be paid without prior approval of the Department. No interest

payments have been made since inception. Unapproved interest of \$1,010,367 has accumulated since inception. Under the terms of the surplus note agreement, MPMIC has certain rights, including the right to appoint two qualified individuals to the Company's board of directors, and the CEO of the Company may not be dismissed without consent of MPMIC, until the surplus note is paid in full with interest.

Through an Administrative and Management Services Agreement effective December 20, 2011 with MPMIC, the Company's daily operations, including marketing, underwriting, policy rating and issuance, billing and premium collection, claims handling, policy administration, actuarial, risk management, investment advisory and general administrative services are managed by MPMIC. Compensation for the services provided is 12 percent of direct written premium, payable on a quarterly basis.

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

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: Arizona, Connecticut, Delaware, Georgia, Idaho, Indiana, Iowa, Maine, Maryland, Massachusetts, Michigan, Montana, Nebraska, New Hampshire, New Jersey, New York, North Dakota, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Texas, Utah, Vermont, Virginia, and Washington. In 2016, the Company became registered in Alabama, West Virginia, Arkansas, Kansas, Kentucky, Louisiana, Minnesota, Missouri, New Mexico, Oklahoma, Tennessee, Texas, and Wyoming. In 2017, the Company became registered in Hawaii and Nevada. As of December 31, 2015, the Company was writing business only in the State of New York.

The Company offers medical professional liability insurance on both a claims made and occurrence basis to hospitals, healthcare systems, healthcare facilities, physician groups and individual practitioners, with limits ranging from \$250,000 per occurrence and \$750,000 in the aggregate to \$2,300,000 per occurrence and \$6,900,000 per policy aggregate. The Company also offers cyber and regulatory liability coverage within the medical professional liability limits. This coverage is one hundred percent reinsured. The Company also offers excess and umbrella coverages, with limits going up to \$25,000,000 per occurrence and \$25,000,000 aggregate, covering the existing medical professional liability and related lines plus sexual misconduct and auto insurance. The excess and umbrella policies are fully reinsured on a facultative basis.

The Company has no employees and its daily business operations are managed by MPMIC in Boston, Massachusetts. Its captive manager, Willis Management (Vermont), Ltd., in Burlington, Vermont, provides regulatory and annual statement preparatory services to the Company.

REINSURANCE

For the period under examination, the Company was party to a quota-share reinsurance agreement with MPMIC. Under the terms of the agreement, the Company ceded to MPMIC ninety five percent (95%) of premiums and losses. The Company receives a ceding commission of thirty percent (30%) of the premiums ceded. The contract is automatically renewed until terminated by either party by written notice to the other given at least 12 months prior to the expiration date.

For the period under examination, the Company was a party to an excess of loss reinsurance agreement with domestic and foreign reinsurers and several Lloyd's of London syndicates whereby the reinsurers assume losses of up to \$1,300,000 in excess of \$1,000,000.

The Company also provides cyber and regulatory liability protection for providers and facilities at no cost up to a limit of \$50,000 for providers and up to \$100,000 for facilities. This coverage is one-hundred percent (100%) reinsured with a Lloyd's of London syndicate. In addition, upon reinsurers' authorization, policyholders can purchase additional limits up to \$5,000,000 for various lines which are reinsured one-hundred percent (100%).

During 2015, Coverys RRG ceded premiums of approximately \$17 million. As of December 31, 2015, the Company reported as assets "Amount receivable from reinsurers" totaling approximately \$64,000 which represents amounts recoverable from reinsurers on paid losses. In addition, the Company reported ceded loss reserves of approximately \$11,423,000 and ceded unearned premiums of approximately \$9,991,000. These amounts are reported as deductions from the respective gross loss reserve and unearned premium reserve liabilities. If the reinsurers were not able to meet their obligations under the treaties, 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.

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BALANCE SHEET

ASSETS

	<i>December 31, 2015</i>
Bonds	\$ 4,535,025
Cash and short-term investments	<u>4,114,689</u>
Subtotals, cash and invested assets	\$ 8,649,714
Investment income due and accrued	22,452
Uncollected premiums and agents' balances in the course of collection	2,384,828
Deferred premiums, agents' balances and installments booked but deferred and not yet due	521,793
Amounts recoverable from reinsurers	64,016
Current federal income tax recoverable	221,821
Net deferred tax asset	36,721
Total	<u>\$ 11,901,345</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<i>December 31, 2015</i>
Losses (Note 1)	\$ 368,034
Loss adjustment expenses (Note 1)	728,799
Commissions payable, contingent commissions and other similar charges	517,209
Other expenses (excluding taxes, licenses and fees)	678,782
Taxes, licenses and fees (excluding federal and foreign income taxes)	302,016
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$9,990,945)	395,769
Advance premiums	212,651
Ceded reinsurance premiums payable (net of ceding commission)	4,128,658
Funds held by company under reinsurance treaties	5,626
Provision for reinsurance	1,657
Aggregate write-ins for liabilities - Loss suspense	<u>8,437</u>
 Total Liabilities	 <u>\$ 7,347,638</u>
Surplus Notes	\$ 5,000,000
Unassigned funds (surplus)	<u>(446,293)</u>
 Surplus as regards policyholders	 <u>\$ 4,553,707</u>
 Total	 <u><u>\$ 11,901,345</u></u>

STATEMENT OF INCOME

	<i>December 31, 2015</i>
UNDERWRITING INCOME	
Premiums earned	\$ 448,358
DEDUCTIONS	
Losses incurred	\$ 287,819
Loss expenses incurred	503,769
Other underwriting expenses incurred	(476,389)
Total underwriting deductions	\$ 315,199
Net underwriting gain (loss)	\$ 133,159
INVESTMENT INCOME	
Net investment income earned	\$ 94,495
Net realized capital gain	8
Net investment gain	\$ 94,503
OTHER INCOME	
Net loss from agents' or premium balances charged off	\$ (12)
Aggregate write-ins for miscellaneous income - Pay in full discount	(260,134)
Total other income	\$ (260,146)
Net loss, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ (32,484)
Federal and foreign income taxes incurred	(1,823)
Net loss	\$ (30,661)

CAPITAL AND SURPLUS ACCOUNT

Initial capital:	
Letter of credit	\$ 500,000
Surplus note	<u>200,000</u>
Net change in surplus as regards policyholders, 2011	<u>700,000</u>
 Surplus as regards policyholders, December 31, 2011	 <u>\$ 700,000</u>
 Net loss, 2012	 (112,618)
Change in net deferred income taxes	20,271
Change in nonadmitted assets	(17)
Change in letter of credit	(500,000)
Change in Surplus Notes	<u>4,800,000</u>
Net change in surplus as regards policyholders, 2012	<u>4,207,636</u>
 Surplus as regards policyholders, December 31, 2012	 <u>\$ 4,907,636</u>
 Net loss, 2013	 (13,068)
Change in net deferred income taxes	9,334
Change in nonadmitted assets	(45,200)
Change in provision for reinsurance	<u>(1,657)</u>
Net change in surplus as regards policyholders, 2013	<u>(50,591)</u>
 Surplus as regards policyholders, December 31, 2013	 <u>\$ 4,857,046</u>
 Net loss, 2014	 (172,359)
Change in net deferred income taxes	63,179
Change in nonadmitted assets	<u>(49,373)</u>
Net change in surplus as regards policyholders, 2014	<u>(158,553)</u>
 Surplus as regards policyholders, December 31, 2014	 <u>\$ 4,698,493</u>
 Net loss, 2015	 (30,661)
Change in net deferred income tax	(21,851)
Change in nonadmitted assets	<u>(92,273)</u>
Net change in surplus as regards policyholders, 2015	<u>(144,785)</u>
 Surplus as regards policyholders, December 31, 2015	 <u>\$ 4,553,707</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 \$368,034 and \$728,799, 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 reinsurers totaled approximately \$11,423,000. These amounts are reported as a deduction from gross loss and loss adjustment expenses reserves. If the reinsurers were unable to meet their obligations under the reinsurance treaties, the Company would be liable for any defaulted amounts.

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 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, 2015 appeared sufficient.

SUBSEQUENT EVENTS

Other than the May 2016 withdraw of the disclaimer of affiliation, which is outlined in the “Affiliated Parties and Transactions” section of this Report, no significant subsequent events were noted as of the date of this Report.

SUMMARY OF RECOMMENDATIONS

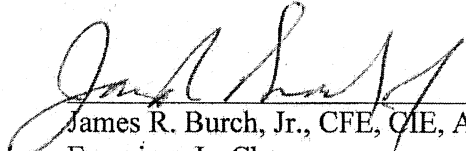
During the examination, no issues warranting recommendations in this examination report were noted.

SIGNATURES

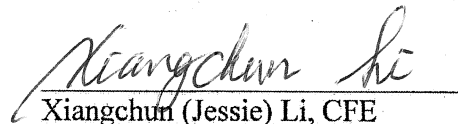
In addition to the undersigned, the following personnel from Eide Bailly LLP, representing the Department, participated in this examination as members of the examination team: James W. Menck, CIE, CFE.

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

Respectfully submitted,


James R. Burch, Jr., CFE, CIE, AMCM
Examiner-In-Charge
Eide Bailly LLP

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

March 31, 2017

Gregg Lee Hanson
President
Coverys RRG, Inc.
C/o Willis Management (Vermont), Ltd
100 Bank Street, Suite 500
Burlington, Vermont 05401

RE: Examination of **Coverys RRG, Inc.**, as of December 31, 2015

Dear Mr. Hanson:

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 Coverys RRG, 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 April 28, 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



Sent electronically captive.filings@dc.gov

April 27, 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
Coverys RRG, Inc. NAIC #14160**

Dear Mr. O'Donnell:

On behalf of Coverys RRG, Inc., I accept the Report of Examination as of 12/31/2015.

I can be reached at (800) 225-6168 if additional information would be helpful.

Regards,

A handwritten signature in black ink, appearing to be "Gregg L. Hanson", with a long horizontal line extending to the right.

Gregg L. Hanson
President



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

Stephen C. Taylor
Commissioner

April 28, 2017

Gregg Lee Hanson
President
Coverys RRG, Inc.
C/o Willis Management (Vermont), Ltd
100 Bank Street, Suite 500
Burlington, Vermont 05401

RE: Examination of **Coverys RRG, Inc.**, as of December 31, 2015

Dear Mr. Hanson:

We are in receipt of your response dated April 27, 2017, regarding the Report on Examination of Coverys RRG, 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