



**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 – **COPIC, a Risk Retention Group**, as of December 31, 2016

ORDER

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **COPIC, a Risk Retention Group** (the “Company”) as of December 31, 2016 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”).

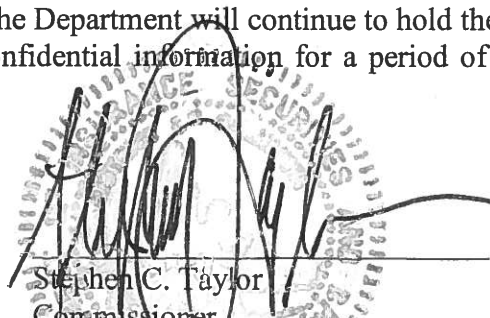
In accord with the provisions of D.C. Official Code § 31-1404(c), it is hereby ordered, on this 7th day of JUNE, 2018, that the attached Financial Condition Examination Report be adopted and filed as an official record of the Department.

In addition, it is hereby ordered that the Company comply with the recommendation in the attached financial condition examination report.

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

COPIC, a RISK RETENTION GROUP

AS OF

DECEMBER 31, 2016

NAIC NUMBER 14906

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Washington, D.C.
May 17, 2018

Honorable Stephen C. Taylor
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
1050 First Street, NE, Suite 801
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

COPIC, a Risk Retention Group

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

SCOPE OF EXAMINATION

This full-scope examination, covering the period from December 1, 2012 through December 31, 2016, including any material transactions and/or events noted occurring subsequent to December 31, 2016, 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. The 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 2016. For the year 2012, the Company requested and received an exemption from the Department from all financial filings, including audited financial statements, due to having no written premiums during 2012. We placed substantial reliance on the audited financial statements for calendar years 2013 through 2015, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2016. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2016. 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 or material changes in financial statements. However, one compliance-related finding was noted. See the "Summary of Recommendations" section of this report for further details regarding this finding.

STATUS OF PRIOR EXAMINATION FINDINGS

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

HISTORY

General:

COPIC RRG was incorporated as a mutual captive insurer operating as a risk retention group under the captive laws of the District of Columbia on December 1, 2012, and commenced business on October 14, 2014.

The Company was sponsored by COPIC Trust ("the Trust"), a Colorado health care trust, primarily to provide medical professional liability insurance to individual practitioners, practice groups, hospitals or other healthcare facilities initially in several states. COPIC RRG initially registered with the states of Arizona, Hawaii, Texas and Colorado and as of December 31, 2016, the Company was registered in twenty (20) states.

The Trust was the sole sponsor of the Company and provided initial surplus of \$600,000 under a Subordinated Surplus Note Agreement ("surplus note") to form and capitalize the Company. As of December 31, 2016, the surplus note was increased to \$1,050,000. The Trust is the ultimate controlling entity of the COPIC holding company system. See further comments regarding the

Trust and the COPIC 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 of December 31, 2016, the Company reported approximately 130 members. As a mutual insurer, COPIC RRG does not issue stock or other certificates of ownership. Each insured is automatically a member of the Company.

Dividends and Distributions:

The Company did not declare or pay any dividends during the period under examination. For the years 2013 to 2016, the Company paid a total of \$66,904 to the Trust for interest on the surplus note issued to the Trust. All interest payments were pre-approved by the Department.

MANAGEMENT AND CONTROL

Board of Directors and Officers:

The Company’s directors serving as of December 31, 2016 were as follows:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Steven Adams Rubin, Chairman Denver, CO	President of COPIC Trust
Matthew Fleishman, M.D. Denver, CO	Physician, Diagnostic Radiologist
Theodore Joseph Clarke, M.D.* Golden, CO	Chairman & CEO of COPIC Trust

The following persons were serving as COPIC RRG’s officers as of December 31, 2016:

<u>Name</u>	<u>Position</u>
Steven Adams Rubin	President
Mark Anthony Fogg	Secretary
Theodore Joseph Clarke, M.D.*	Treasurer

*Effective August 25, 2017, Ellen Broxmeyer was elected to replace Theodore Joseph Clarke, M.D. as a member of the board of directors, and Niles Allen Cole replaced Theodore Joseph Clarke, M.D. as Treasurer.

Committees:

As of December 31, 2016, the Company's board of directors had not established any committees. The Company has designated its full board of directors to serve as the 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 for 2012 through 2016 disclosed that there were no conflicts of interest reported that would adversely impact 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. However, the Company did not meet in the District of Columbia at least one time during 2016 as required by section 31-3931.11(d) of the D.C. Official Code. See further comments regarding this condition in the "Summary of Recommendations" section of this Report.

Captive Manager:

USA Risk Group of Vermont, Inc. (USA Risk) served as the Company's captive manager from the Company's inception to May 30, 2017, providing regulatory and annual statement preparatory services to the Company. The Company changed its captive manager effective June 1, 2017 to Advantage Insurance Management (USA) LLC.

Affiliated Parties and Transactions:

In August 2015, the Company filed and the Department approved a disclaimer of affiliation from the Trust. As a result, as of December 3, 2016, the Company was not a member of a holding company system. Subsequently, in September 2017, the Company filed with the Department to withdraw its disclaimer of affiliation and with the Department's approval, effective on September 17, 2017, the Company became a member of the COPIC holding company system and the Trust became the Company's ultimate controlling entity.

The Trust has no ownership interest in the Company. However, the Trust 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, the Trust is the lender to the Company of \$1,050,000 pursuant to a surplus note. Under the Company's bylaws, until the surplus note is paid in full with interest, the Trust has the right to appoint one third (1/3) of the members to the Company's board of directors.

During the period under examination and up to the date of this Report, the Company had the following transactions with the Trust and the COPIC Group:

The Trust provided the initial capitalization of the Company with a \$600,000 surplus note dated December 1, 2012 which matures on August 15, 2032. In May 2014 and September 2016, the Trust amended the surplus note to increase the principle amount by \$350,000 and \$100,000 respectively. As of December 31, 2016, the total amount of the surplus note was \$1,050,000, with an annual interest rate of two percent (2%) payable in quarterly installments subject to approval of the Department. During 2016, the Company paid \$19,500 as interest on the surplus note.

Effective January 1, 2013, the Company entered into a Service Agreement with the Trust. The agreement was subsequently amended in 2015 and again in 2017. Under the terms of the Service Agreement, the Trust manages the Company's daily business operations, providing underwriting, rating, accounting and financial reporting, claims administration, loss prevention, safety, and other program management services to the Company. The Company currently pays seven and half percent (7.5%) of its written premiums to the Trust for the services provided.

The Company has entered into a series of reinsurance agreements with COPIC Insurance Company, a wholly owned subsidiary of the Trust. See further details in the "Reinsurance" section of this Report.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2016, the Company was licensed in the District of Columbia and was registered to write business in 20 states. During 2016, the Company wrote premiums totaling \$267,627.

The Company offers medical professional liability and commercial general liability insurance to individual practitioners, practice groups, hospitals and other healthcare facilities with limits of \$1 million for each incident and \$3 million in the aggregate. Limits up to \$5 million for each incident and \$7 million in the aggregate are available for individual physicians. In addition, the Company offers umbrella limits to health care facility insureds with limits up to \$10 million, for which facilities must maintain minimum underlying limits of \$1 million for each incident and \$3 million in the aggregate in order to become eligible to purchase the umbrella policy. The Company, through quota share and excess reinsurance contracts, limits its exposure to \$12,500 per occurrence. See the "Reinsurance" section of this report for additional information regarding the Company's reinsurance coverage.

COPIC RRG has no employees. Its daily business operations are currently managed by the Trust in Denver, Colorado and by its captive manager, Advantage Insurance Management (USA) LLC in Burlington, Vermont.

REINSURANCE

Effective October 1, 2012, the Company entered into quota share and excess reinsurance agreements with COPIC Insurance Company. These two agreements were subsequently amended in 2014 and 2017. Under the terms of the quota share and excess reinsurance agreements, as of December 31, 2016, the Company retains five percent (5%) of losses up to \$250,000, resulting in a maximum retention of \$12,500 per occurrence. The Company cedes one-hundred percent (100%) of losses in excess of \$250,000 per occurrence. COPIC Insurance Company is rated A (Excellent) by A.M. Best.

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, 2016. 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, 2016</i>
Cash and short-term investments	\$ <u>637,053</u>
Subtotals, cash and invested assets	\$ 637,053
Uncollected premiums and agents' balances in the course of collection	106,501
Aggregate write-ins for other-than-invested assets Prepayments and other receivables	1,500
Total	\$ <u><u>745,054</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<i>December 31, 2016</i>
Losses (Note 1)	\$ 2,000
Loss adjustment expenses (Note 1)	7,000
Other expenses (excluding taxes, licenses and fees)	23,781
Taxes, licenses and fees (excluding federal and foreign income taxes)	21,203
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$145,000)	11,401
Payable to parent, subsidiaries and affiliates	<u>\$ 19,609</u>
Total Liabilities	<u>\$ 84,994</u>
Surplus notes	1,050,000
Unassigned funds (surplus)	<u>\$ (389,940)</u>
Surplus as regards policyholders	660,060
Total	<u><u>\$ 745,054</u></u>

STATEMENT OF INCOME

	<i>December 31, 2016</i>
UNDERWRITING INCOME	
Premiums earned (Note 2)	\$ (2,691)
DEDUCTIONS	
Losses incurred	\$ 1,457
Loss expenses incurred	7,000
Other underwriting expenses incurred	59,246
Total underwriting deductions	\$ 67,703
Net underwriting loss (Note 2)	\$ (70,394)
INVESTMENT INCOME	
Net investment income earned (Note 2)	\$ (19,500)
Net investment gain	\$ (19,500)
Net loss before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(89,894)
Net loss, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(89,894)
Net loss (Note 2)	\$ (89,894)

CAPITAL AND SURPLUS ACCOUNT

Initial capitalization -Surplus note 2012:	\$ 600,000
Surplus as regards policyholders, December 31, 2012	<u>\$ 600,000</u>
Net loss, 2013 (Note 2)	<u>(74,767)</u>
Net change in surplus as regards policyholders, 2013	<u>(74,767)</u>
Surplus as regards policyholders, December 31, 2013	<u>\$ 525,233</u>
Net loss, 2014 (Note 2)	(99,216)
Change in surplus notes	350,000
Aggregate write-ins for losses in surplus	<u>(42,543)</u>
Net change in surplus as regards policyholders, 2014	<u>208,241</u>
Surplus as regards policyholders, December 31, 2014	<u>\$ 733,474</u>
Net loss, 2015 (Note 2)	(110,300)
Aggregate write-ins for losses in surplus	<u>(934)</u>
Net change in surplus as regards policyholders, 2015	<u>(111,234)</u>
Surplus as regards policyholders, December 31, 2015	<u>\$ 622,240</u>
Net loss, 2016 (Note 2)	(89,894)
Change in surplus notes	100,000
Cumulative effect of changes in accounting principles	29,342
Aggregate write-ins for losses in surplus	<u>(1,628)</u>
Net change in surplus as regards policyholders, 2016	<u>37,820</u>
Surplus as regards policyholders, December 31, 2016	<u>\$ 660,060</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 \$2,000 and \$7,000, 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, 2016.

Reserve credits taken as of December 31, 2016 for cessions to the Company’s reinsurer totaled \$71,000. This amount is a deduction from gross loss and loss adjustment expense reserves. If the reinsurer was unable to meet the 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, 2016 were reviewed as part of our examination. As part of our review, we relied on the Company’s appointed 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 appointed actuary. The examination actuary utilized in our examination concluded that the loss reserves reported by the Company as of December 31, 2016 appeared sufficient.

NOTE 2 – 2016 and Prior Year Losses:

The Company reported “Net underwriting loss” and “Net loss” for 2016 totaling \$70,394 and \$89,894, respectively, and for the years 2013 to 2015, the Company reported net underwriting losses and total net losses in each year. In addition, for 2016, the Company reported “Net investment income earned” totaling negative \$19,500, resulting from interest paid on its surplus note. The primary reasons for the 2016 and prior year losses are the low amount of earned premiums in each year, and the payment of surplus note interest in each year as previously described in the “Dividends and Distributions” section of this report. Despite these losses, and because of additional surplus note infusions in 2014 and 2016, the Company continues to maintain acceptable levels of surplus and to otherwise meet the financial requirements for risk retention groups. The Company’s sponsor, the Trust, has demonstrated a commitment to providing adequate capital support to the Company through surplus note infusions and management of the Company has indicated the future continuing commitment of the Trust to ensure the future surplus adequacy of the Company. For the year ending December 31, 2017, the Company reported improved results, reporting a net underwriting gain of \$45,734 and net income of \$27,569. Management attributes the improved results to increased earned premiums and a reduction of underwriting expenses and management expects this trend of increased profitability to continue in future years. The Department has closely monitored the financial condition of the Company since inception and will continue to do so in future periods.

SUBSEQUENT EVENTS

Other than events subsequent to December 31, 2016 as already noted in this report, we noted no significant subsequent events as of the date of this report.

SUMMARY OF RECOMMENDATIONS

Corporate Records:

As indicated in the “Corporate Records” section of this Report, the Company’s board of directors did not meet at least one time in the District of Columbia during 2016. Section 31-3931.11(d) of the D.C. Official Code and D.C. Municipal Regulations 3709.1 and 3709.2 require the board of directors of a captive insurer to meet at least one time each year in the District. A meeting of the board of directors shall be deemed to have taken place in the District if notice of the meeting delineates a location physically located in the District at which at least one director, officer, assistant officer, official of an approved captive manager, or approved captive attorney is physically present. However, based on documentation provided by the Company during the examination, the Company did not meet during 2016 in the District of Columbia. **Accordingly, we recommend that the Company comply with the aforementioned provisions of the D.C. Official Code and D.C. Municipal Regulations.**

SIGNATURES

In addition to the undersigned, the following personnel from Lewis & Ellis Inc. representing the Department, participated in this examination as members of the examination team: David Palmer, CFE, Mario Ascic, CFE. Phil Schmoyer, CISA.

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

Respectfully submitted,

Lindsey Pittman

Lindsey J. Pittman, CFE
Examiner-In-Charge
Lewis & Ellis, Inc.

Under the Supervision of,

Xiangchun Li

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

May 30, 2018

Steven Adams Rubin
President
COPIC, a Risk Retention Group
C/o Advantage Insurance Management (USA) LLC
27 Main Street, 1st Floor
Burlington, VT 05401

RE: Examination of **COPIC, a Risk Retention Group**, as of December 31, 2016

Dear Mr. Rubin:

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 COPIC, a Risk Retention Group, (the "Company") as of December 31, 2016.

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 June 13, 2018. The signed response should be on company's letterhead and sent electronically via e-mail to me, in an adobe "pdf" format, to sean.odonnell@dc.gov.

Sincerely,

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

Enclosure



Administrative Office:
7351 E. Lowry Blvd., Ste 400
Denver, CO 80230

June 6, 2018

Sean O'Donnell
Director of Financial Examination - Risk Finance Bureau
D.C. Department of Insurance, Securities and Banking
1050 First Street, NE, Suite 801
Washington, D.C. 20002
Email: sean.odonnell@dc.gov

Dear Mr. O'Donnell,

This letter is in response to your department's May 30, 2018 Report on Examination of COPIC, a Risk Retention Group ("the RRG") as of December 31, 2016.

We accept the single recommendation in the Summary of Recommendations instructing the RRG to meet at least once per year in the District of Columbia. The missed 2016 meeting was made up in January 2017.

Further, we accept the report as written. We will share it with our members and Board of Directors at this year's annual meetings. We will also submit it to other states upon their request.

Thank you.

Regards,

Steve Rubin, President

Cc: Christina Kindstedt, Advantage Insurance Management (USA) LLC
Joe Holahan, Morris Manning and Martin, LLP



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

Stephen C. Taylor
Commissioner

June 6, 2018

Steven Adams Rubin
President
COPIC, a Risk Retention Group
C/o Advantage Insurance Management (USA) LLC
27 Main Street, 1st Floor
Burlington, VT 05401

RE: Examination of **COPIC, a Risk Retention Group**, as of December 31, 2016

Dear Mr. Rubin:

We are in receipt of your response, dated June 6, 2018, regarding the Report on Examination of COPIC, a Risk Retention Group (the "Company") as of December 31, 2016. 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