



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 – **Sigma Risk Retention Group, Inc.**, as of December 31, 2017

ORDER

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **Sigma Risk Retention Group, Inc.** (the “Company”), as of December 31, 2017 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”).

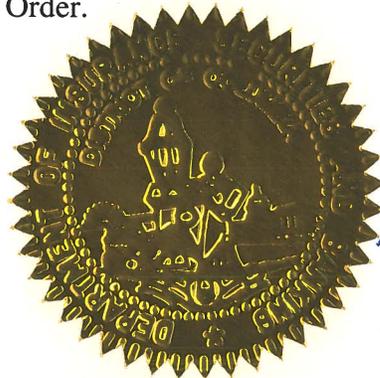
In accord with the provisions of D.C. Official Code § 31-1404(c), it is hereby ordered, on this 18th day of April, 2019, that the attached Financial Condition Examination Report be adopted and filed as an official record of the Department.

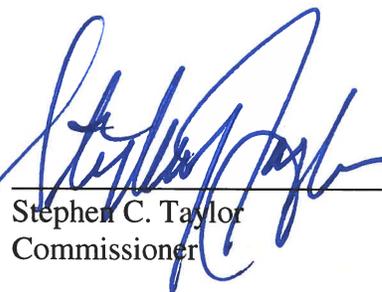
In addition, it is hereby ordered that the Company comply with the recommendations in the attached financial condition examination report.

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

SIGMA RISK RETENTION GROUP, INC.

AS OF

DECEMBER 31, 2017

NAIC NUMBER 13557

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Washington, D.C.
March 5, 2019

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

Sigma Risk Retention Group, Inc.

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

SCOPE OF EXAMINATION

This full-scope examination, covering the period from January 1, 2013 through December 31, 2017, including any material transactions and/or events noted occurring subsequent to December 31, 2017, 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 Generally Accepted 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 2017. We placed substantial reliance on the audited financial statements for calendar years 2013 through 2016, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2017. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2017. 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 findings of non-compliance, 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

A full scope financial examination was conducted by the Department as of December 31, 2012, which covered the period November 13, 2008 through December 31, 2012 ("prior examination"). There were no material adverse findings, significant findings of non-compliance, or material changes in financial statements noted in the prior examination.

HISTORY

General:

Sigma RRG was licensed as an association captive insurance company operating as a risk retention group under the captive insurance laws of the District of Columbia on November 13, 2008 and commenced operations on December 8, 2008.

The Company was formed by the Grane Healthcare Group ("Grane Group") to provide medical professional and general liability coverage to companies in the Grane Group, which are engaged in the development, ownership and management of facilities and businesses which deliver comprehensive healthcare solutions to older adults in the Commonwealth of Pennsylvania.

Membership:

The Company's articles of incorporation authorized the issuance of 10,000 shares of common stock with no par value. As of December 31, 2017, the Company had 7,020 issued and outstanding common stock shares at an issue price of \$500 per share. The Company's stock is owned equally by its member/policyholders, with each member/policyholder owning 135 shares of stock. All member/policyholders are affiliated members of the Grane Group, which is ultimately owned by the following individuals: Richard A. Graciano, Jr. (33.33%), David F. Graciano (33.33%), Ross J. Nese (25.00%) and Jeffrey J. Graciano (8.34%).

Dividends and Distributions:

The Company did not declare or pay any dividends during the period under examination. In 2013 and 2017 the Company requested and obtained approval from the Department to redeem/repurchase outstanding common stock shares in the amounts of \$135,000 and \$270,000 respectively due to the termination of the respective members' insurance policies.

MANAGEMENT AND CONTROL

Board of Directors and Officers:

The Company's directors serving as of December 31, 2017 were as follows:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Richard A. Graciano, Jr. Pennsylvania	Chief Executive Officer Executive Business Advisors, Inc.
Ross J. Nese Pennsylvania	President Executive Business Advisors, Inc.
Jeffrey J. Graciano Pennsylvania	Facility Design Director Executive Business Advisors, Inc.
David J. Kearney Pennsylvania	Chief Financial Officer Practical Administrative Solutions, LP.

The following persons were serving as Sigma RRG's officers as of December 31, 2017:

<u>Name</u>	<u>Position</u>
Richard A. Graciano, Jr.	Chairman and Chief Executive Officer
Ross J. Nese	President
Jeffrey J. Graciano	Vice President
David J. Kearney	Treasurer

Joseph Balestrino

Secretary and General Counsel

Committees:

As of December 31, 2017, the Company's board of directors had established the following committees:

Audit Committee

Richard A. Graciano, Jr.
Ross J. Nese
David J. Kearney
Charles J. Gutshall
Patti Pallito

Investment/Finance Committee

Richard A. Graciano, Jr.
Ross J. Nese
David J. Kearney
Jeffrey Brown

Underwriting Committee

Richard A. Graciano, Jr.
Ross J. Nese
David J. Kearney
Charles J. Gutshall

Conflicts of Interest:

Our review of the conflict of interest statements signed by the Company's 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 for the period under examination. Based on our review, it appeared that the minutes documented the review and approval of the Company's significant transactions and events. However, the Company's board of directors did not meet in the District of Columbia at least one time each year during the period under examination 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:

Aon Insurance Managers (USA), Inc. ("Aon") has been the Company's captive manager since inception and provides regulatory and annual statement preparatory services to the Company.

Affiliated Parties and Transactions:

As previously mentioned in the "History" section of this Report, the Company was formed by the Grane Group to provide medical professional and general liability insurance to its affiliated companies. The Company is equally owned by its members/policyholders. All member/policyholders of the Company are affiliated companies of the Grane Group, which is ultimately controlled by Richard A. Graciano, Jr, David F. Graciano, and Ross J. Nese.

During the period under examination, the Company made four mortgage loans to four individual affiliated companies, totaling \$3 million. The interest rate of the loans varies from 6.53 percent to 7.68 percent. As of December 31, 2017, the Company reported the mortgage loans at a carrying value of \$2,881,982. All mortgage loans were approved by the Department.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, the Company was licensed in the District of Columbia, and was registered and writing business as a risk retention group in Pennsylvania. During 2017, Sigma RRG wrote premiums of approximately \$2.38 million, all in Pennsylvania.

The Company was formed to provide medical professional and general liability coverage to affiliated companies of the Grane Group, which primarily provides healthcare and related services to older adults residing in the Commonwealth of Pennsylvania.

The majority of the Company's policies provide professional liability coverage to members with limits of \$1,000,000 per occurrence and \$3,000,000 in the annual aggregate. For members participating in the Pennsylvania Medical Care Availability and Reduction of Error ("MCARE") Fund, the professional liability policy limits are \$500,000 per occurrence with an annual aggregate of \$1,500,000. The MCARE Fund is a medical liability coverage fund run by the Commonwealth of Pennsylvania. Sigma RRG provides the first \$500,000 layer and the second layer is covered by the MCARE Fund. In addition to the medical professional liability insurance, the Company provides its insureds with general liability coverage with limits of \$1,000,000 per occurrence and \$3,000,000 in the annual aggregate. These coverages are on a claims-made basis. The Company also provides tail coverage on a claims-made basis for medical professional and general liability.

The Company has no employees and its daily business operations are managed by various service providers. During the examination period and as of the date of this report, the Company's captive manager, Aon, managed the Company's regulatory filings and financial reporting from its offices in Washington, DC. Captive Insurance Management Group ("CIMG") performed underwriting services, policy issuance, and MCARE premium billing and collection. Claims administration services and risk management were provided by Dickie, McCamey, & Chilcote, P.C. ("DMC") until February 2015, and are now provided by Gordon & Rees, LLP ("G&R"). CIMG, DMC and G&R are unaffiliated third-party service providers.

REINSURANCE

During the period under examination, the Company did not assume or cede any business. Effective December 2010, the Company was granted approval by the Department to operate without reinsurance, provided that the Company established a custodial account totaling \$750,000. See Note 1 in the "Notes to Financial Statements" section of this report for further comments regarding the custodial account.

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, 2017. The financial statements were prepared in accordance with Generally Accepted Accounting Principles (“GAAP”) 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, 2017</i>
Bonds	\$ 50,840
Common stocks	5,269,192
Mortgage loans on real estate - first liens	2,881,982
Cash (\$6,460,686), cash equivalents (\$1,862,711) and short-term investments (\$0) (NOTE 1)	8,323,397
Subtotals, cash and invested assets	\$ 16,525,411
Investment income due and accrued	\$ 6,335
Deferred premiums, agents' balances and installments booked but deferred and not yet due	\$ 2,223,535
Current federal income tax recoverable	\$ 22,267
Aggregate write-ins for other than invested assets:	
Deferred policy acquisition costs	\$ 44,471
Prepaid expense	7,914
Total aggregate write-ins for other than invested assets	\$ 52,385
Total	\$ 18,829,933

LIABILITIES, SURPLUS AND OTHER FUNDS

	<i>December 31, 2017</i>
Losses (NOTE 2)	\$ 6,405,620
Loss adjustment expenses (NOTE 2)	2,539,142
Other expenses (excluding taxes, licenses, and fees)	70,561
Taxes, licenses and fees (excluding federal and foreign income taxes)	15,000
Net deferred tax liability	67,663
Unearned premiums	2,223,535
Total liabilities	\$ 11,321,521
Common capital stock	\$ 3,510,000
Unassigned funds (surplus)	3,998,412
Surplus as regards policyholders	\$ 7,508,412
Total	\$ 18,829,933

STATEMENT OF INCOME

	<i>2017</i>
UNDERWRITING INCOME	
Premiums earned	\$ 2,416,796
DEDUCTIONS	
Losses incurred	\$ 1,454,957
Loss expenses incurred	726,583
Other underwriting expenses incurred	283,951
Total underwriting expenses	<u>\$ 2,465,491</u>
Net underwriting (loss)	\$ (48,695)
INVESTMENT INCOME	
Net investment income earned	\$ 957,827
Net realized capital gains	137,122
Net investment gain	<u>\$ 1,094,949</u>
Income before dividends and taxes	\$ 1,046,254
Federal taxes	298,670
Net income	<u>\$ 747,584</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2012	\$ 5,461,023
Net income, 2013	\$ 316,435
Capital changes: Paid out	(135,000)
Net change in surplus as regards policyholders, 2013	<u>181,435</u>
Surplus as regards policyholders, December 31, 2013	<u>\$ 5,642,458</u>
Net income, 2014	\$ 615,558
Capital changes: Paid in	202,500
Net change in surplus as regards policyholders, 2014	<u>818,058</u>
Surplus as regards policyholders, December 31, 2014	<u>\$ 6,460,516</u>
Net income, 2015	\$ 251,447
Net change in surplus as regards policyholders, 2015	<u>251,447</u>
Surplus as regards policyholders, December 31, 2015	<u>\$ 6,711,963</u>
Net income, 2016	\$ 251,365
Capital changes: Paid in	67,500
Net change in surplus as regards policyholders, 2016	<u>318,865</u>
Surplus as regards policyholders, December 31, 2016	<u>\$ 7,030,828</u>
Net income, 2017	\$ 747,584
Capital changes: Paid out	(270,000)
Net change in surplus as regards policyholders, 2017	<u>477,584</u>
Surplus as regards policyholders, December 31, 2017	<u>\$ 7,508,412</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 – Cash, Cash Equivalents and Short-Term Investments:

As of December 31, 2017, the Company reported “Cash and cash equivalents” totaling \$8,323,397. Included in this amount was cash of \$750,159 which was held in a custodial account established in 2010 upon request of the Department. Under terms of an “Insurance Company Custodial Agreement” executed with a third-party custodian, the custodian serves as custodian of the funds which are held for the benefit of the Department. Except upon written direction of the Commissioner, withdrawals from the account may not be made if as a result of a withdrawal the balance in the account would fall below \$750,000. Funds in the account must be comprised of cash and cash equivalents. The Company has discretion over the investments in the account within guidelines established by the Department and is entitled to receive investment income on the funds.

NOTE 2 – Loss and Loss Adjustment Expense Reserves:

The Company reported “Losses” and “Loss adjustment expenses” reserves totaling \$6,405,620 and \$2,539,142, 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, 2017.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expense reserves as of December 31, 2017 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, the Department utilized an examination actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company’s actuary. The examination actuary concluded that the methodologies and assumptions utilized by the Company’s independent actuary to compute the reserves, and the amount of the loss reserves reported by the Company as of December 31, 2017, were reasonable and adequate.

SUBSEQUENT EVENTS

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 in the District of Columbia during the period under examination. 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. Although the Company’s board of directors held regular meetings throughout the examination period; all board meetings were held in Pittsburgh, Pennsylvania. **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 Eide Bailly, LLP, representing the Department, participated in this examination as members of the examination team: Michael Nadeau, CFE, CISA and Robin Roberts, CFE.

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

Respectfully submitted,



James Menck, CFE
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 28, 2019

Ross Nese, President
Sigma Risk Retention Group, Inc.
C/o Aon Insurance Managers (USA) Inc.
1120 20th Street NW., Suite 600
Washington DC, 20036

RE: Examination of **Sigma Risk Retention Group, Inc.**, as of December 31, 2017

Dear Mr. Nese:

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 Sigma Risk Retention Group, Inc. (the "Company") as of December 31, 2017.

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 27, 2019. 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

Sigma Risk Retention Group, Inc.

1120 20th Street, NW,
Suite 600
Washington, DC 20036

April 2, 2019

Mr. Sean O'Donnell
Director of Financial Examination - Risk Finance Bureau
District of Columbia Department of Insurance, Securities and Banking
1050 First Street, NE, Suite 801
Washington, DC 20002

RE: Examination of Sigma Risk Retention Group, Inc. as of December 31, 2017

Dear Mr. O'Donnell,

Below please find our response to the draft exam report of Sigma Risk Retention Group, Inc. (Company) as of December 31, 2017.

SUMMARY OF RECOMMENDATIONS

Corporate Records:

As indicated in the "Corporate Records" section of this Report, the Company's board of directors did not meet in the District of Columbia during the period under examination. 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. Although the Company's board of directors held regular meetings throughout the examination period; all board meetings were held in Pittsburgh, Pennsylvania. Accordingly, we recommend that the Company comply with the aforementioned provisions of the D.C. Official Code and D.C. Municipal Regulations.

Company's Response: The Company will hold at least one board meeting in the District of Columbia and maintain meeting minutes of the details of said meeting.

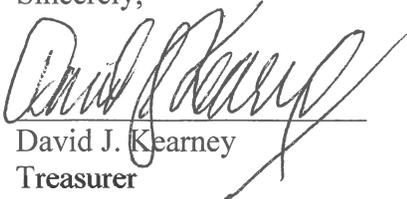
Thank you for your Bureau's efforts with regard to the examination of the Company.

Sigma Risk Retention Group, Inc.

1120 20th Street, NW,
Suite 600
Washington, DC 20036

If you have any questions or concerns, please call me at (412) 963-0700 ext 10192 or email me at dkearney@pas-lp.com.

Sincerely,



David J. Kearney
Treasurer

CC: Each member of the Board of Directors of the Company



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

**Stephen C. Taylor
Commissioner**

April 11, 2019

Ross Nese, President
Sigma Risk Retention Group, Inc.
C/o Aon Insurance Managers (USA) Inc.
1120 20th Street NW., Suite 600
Washington DC, 20036

RE: Examination of **Sigma Risk Retention Group, Inc.**, as of December 31, 2017

Dear Mr. Nese:

We are in receipt of your response, dated April 2, 2019, regarding the Report on Examination of Sigma Risk Retention Group, Inc. (the "Company"), as of December 31, 2017. 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