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

Stephen C. Taylor  
Commissioner

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

Re: Report on Examination – **CMIC Risk Retention Group** as of December 31, 2017

**ORDER**

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **CMIC Risk Retention Group** (the “Company”), as of December 31, 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 12th day of June, 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

CMIC RISK RETENTION GROUP

AS OF

DECEMBER 31, 2017

NAIC NUMBER 13756

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Washington, D.C.  
April 29, 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

### **CMIC Risk Retention Group**

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

### **SCOPE OF EXAMINATION**

This full-scope examination, covering the period from January 1, 2015 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”).

Our examination of the Company was one of two coordinated financial condition examinations conducted of companies in the CMIC Group by the State of Connecticut and by the Department. The examination of the Connecticut-domiciled company, Connecticut Medical Insurance Company (“CMIC”), will be issued by the Connecticut Insurance Department under separate cover.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. (“Handbook”) and the policies and standards established by the Department. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles.

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

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

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2015 through 2017. We placed substantial reliance on the audited financial statements for calendar years 2015 and 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.

### **STATUS OF PRIOR EXAMINATION FINDINGS**

A full scope financial examination was conducted by the Department as of December 31, 2014, which covered the period of March 1, 2010 through December 31, 2014. There were no material adverse findings, significant findings of non-compliance, or material changes in financial statements.

### **HISTORY**

#### **General:**

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

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

### Membership:

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

### Dividends and Distributions:

The Company did not declare or pay any dividends during the period under examination. For the years 2015 to 2017, the Company paid a total of \$195,000 to CMIC for interest on a surplus note issued to CMIC. All interest payments were pre-approved by the Department.

## **MANAGEMENT AND CONTROL**

### Board of Director 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>
Edmund S. Schiavoni, Jr., M.D., Chairman New Hampshire	Physician Southern NH Internal Medicine Associates
James W. Pellegrini, M.D. Massachusetts	Director and Treasurer of CMIC
John B. Hornby, M.D. Connecticut	Director and President of CMIC

The Company's officers serving as the December 31, 2017 were as follows:

<u>Name</u>	<u>Position</u>
Edmund S. Schiavoni, Jr, M.D.	President
Denise A. Funk*	Chief Executive Officer & Vice President
John B. Hornby, M.D.	Vice President
Emmanuel Zervos*	Secretary
James W. Pellegrini, M.D.	Treasurer

\*Denise A. Funk and Emmanuel Zervos retired as officers of CMIC RRG in January 2018. Stephen J. Gallant and Michael P. Conneely serve as their replacements.

### Committees:

As of December 31, 2017, the CMIC RRG's board of directors has established the following committee:

#### *Audit/Finance Committee:*

James W. Pellegrini, M.D.  
Stewart E. Bober, M.D.  
Mark A. D'Agostino, M.D.  
Paul E. Darcy, M.D.  
John B. Hornby, M.D.

### Conflicts of Interest:

In compliance with the D.C. Municipal Regulations (DCMR), conflict of interest statements are to be completed annually by all directors, officers, and key employees. However, the Company's policy regarding completion of conflict of interest statements by directors, officers, and key employees requires completion of conflict of interest statements every three years. Therefore, directors, officers, and key employees did not complete conflict of interest statements annually as required by the DCMR. We discussed this situation with the Company during the examination and management indicated that they relied on the Company's captive manager for guidance regarding this requirement and management was unaware of the requirement to complete conflict of interest statements annually. Management indicated they are now aware of the annual requirement and recognize the importance of maintaining compliance with the DCMR and indicated that effective in 2019 the conflict of interest policy was revised to require annual completion of conflict of interest statements by all directors, officers, and key employees.

### Corporate Records:

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

### Captive Manager:

USA Risk Group served as the Company's captive manager during the period of examination, and up to December 11, 2018, providing regulatory and annual statement preparatory services to the Company. The Company requested and received approval from the Department to become self-managed effective December 12, 2018.

### Affiliated Parties and Transactions:

In February 2013, the Company requested, and the Department approved a disclaimer of affiliation from CMIC. As a result, as of December 31, 2017, the Company was not a member of a holding company system. Subsequently, in January 2019, the Company filed with the

Department to withdraw its disclaimer of affiliation and with the Department's approval the Company became a member of the CMIC holding company system and CMIC became the Company's ultimate controlling entity. CMIC has no ownership interest in the Company. However, as previously indicated in the "History" section of this Report, CMIC has sponsored the Company's formation.

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

The Company was initially capitalized by the issuance of a surplus note to CMIC in the amount of \$3,250,000. The note is dated April 1, 2010 and matures on April 1, 2035. Interest is due quarterly on the last day of each calendar quarter with the final payment of any accrued and unpaid interest to be concurrent with the payment of principal on April 1, 2035. The interest rate is 2 percent per annum for the first ten years; thereafter the interest rate is to be reset for each of the next five-year periods at the five-year Treasury Bill rate on the note's anniversary date until the principal is paid. No interest shall be paid without prior approval of the Department. Interest expensed in 2017 was \$65,000, and total interest paid since the note's inception is \$487,500. All interest payments have been approved by the Department.

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

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

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

As of December 31, 2017, the Company was licensed in the District of Columbia, and was registered as a risk retention group in the following states: Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, South Carolina, Vermont and Virginia. As of December 31, 2017, the Company was writing in all licensed and registered states except Delaware, New York, South Carolina and Vermont.

The Company offers medical professional liability insurance on a claims made basis with limits up to \$2,300,000 per claim and \$6,900,000 per policy aggregate to individual physician members and health organization members. Extended reporting coverage and tail coverage endorsements are available for purchase separately. The Company also offers commercial general liability insurance to its members on an occurrence basis with limits up to \$2,000,000 per claim and \$6,000,000 per policy aggregate; offers health care organizations excess professional and umbrella liability coverage with limits up to \$10,000,000; and offers cyber liability coverage for medical records at no cost up to a limit of \$100,000. Additional cyber coverage limits of \$1,000,000 are also offered by the Company, at a cost.



The Company has no employees. During the period under examination, USA Risk Group provided regulatory and annual statement preparatory services to the Company. Effective December 12, 2018, the Company became self-managed.

### **REINSURANCE**

During the period under examination, the Company was party to a quota-share reinsurance agreement with CMIC. Under the terms of the agreement, the Company ceded to CMIC 95 percent of its premiums and losses up to \$3,000,000 per claim. The reinsurance agreement covers all lines except cyber liability insurance. The Company receives a ceding commission of 33.3 percent of the premiums ceded. The contract is automatically renewed until terminated by either party by written notice to the other given at least 12 months prior to the effective date of termination. All losses above \$3,000,000 are 100 percent reinsured under various excess of loss reinsurance agreements.

As previously noted in the “Territory and Plan of Operation” section of this report, the Company also provides cyber liability coverage for medical records at no cost up to a limit of \$100,000. Additional coverage limits of \$1,000,000 are offered by the Company, at a cost. This additional coverage is 100 percent reinsured with several Lloyd's of London syndicates. The Company receives a 17.5 percent ceding commission on this business.

During 2017, the Company ceded premiums of approximately \$5.8 million, and as of December 31, 2017, the Company reported estimated reinsurance recoverable on unpaid losses and ceded unearned premiums totaling approximately \$17.2 million and \$3.4 million, respectively. If the reinsurers were not able to meet the 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, 2017. The financial statements were prepared in accordance with Statutory Accounting Principles (“SAP”) prescribed or permitted by the Department. Management is responsible for the preparation and fair presentation of these financial statements. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

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

### ASSETS

	<b>December 31, 2017</b>
Bonds	\$ 3,440,530
Cash	<u>849,421</u>
Subtotal cash and invested assets	\$ 4,289,951
Investment income due and accrued	21,307
Uncollected premiums and agents' balances in the course of collection	3,776,658
Amounts recoverable from reinsurers	488,581
Total	<u><u>\$ 8,576,497</u></u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

	<b>December 31, 2017</b>
Losses ( <b>NOTE 1</b> )	\$ 727,996
Loss adjustment expenses ( <b>NOTE 1</b> )	907,000
Other expenses (excluding taxes, licenses and fees)	422,381
Taxes, licenses and fees (excluding federal and foreign income taxes)	149,424
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$3,437,478)	984,920
Advance premium	156,980
Ceded reinsurance premiums payable (net of ceding commission)	<u>2,992,724</u>
Total liabilities	<u>\$ 6,341,425</u>
Surplus notes	\$ 3,250,000
Unassigned funds (surplus)	<u>(1,014,928)</u>
Surplus as regards policyholders	<u>\$ 2,235,072</u>
Total	<u><u>\$ 8,576,497</u></u>

## STATEMENT OF INCOME

	<b>December 31, 2017</b>
<b>UNDERWRITING INCOME</b>	
Net premiums earned	\$ 257,567
<b>DEDUCTIONS</b>	
Losses incurred	518,127
Loss adjustment expenses incurred	866,746
Other underwriting expenses incurred	(549,729)
Total underwriting expenses	\$ 835,144
Underwriting gain (loss)	\$ (577,577)
<b>INVESTMENT INCOME</b>	
Net investment income earned	1,854
Net realized capital gain	982
Net investment gain	\$ 2,836
<b>OTHER INCOME</b>	
Finance and service charges not included in premiums	(25,014)
Net loss before dividends and taxes	\$ (599,755)
Federal and foreign income taxes incurred	-
Net loss	\$ <u>(599,755)</u>

### **CAPITAL AND SURPLUS ACCOUNT**

Surplus as regards policy, December 31, 2014	\$ 2,742,428
Net loss, 2015	<u>(100,173)</u>
Net change in surplus as regards policyholders, 2015	<u>(100,173)</u>
Surplus as regards policyholders, December 31, 2015	\$ <u>2,642,255</u>
Net income, 2016	<u>192,572</u>
Net change in surplus as regards policyholders, 2016	<u>192,572</u>
Surplus as regards policyholders, December 31, 2016	\$ <u>2,834,827</u>
Net loss, 2017	<u>(599,755)</u>
Net change in surplus as regards policyholders, 2017	<u>(599,755)</u>
Surplus as regards policyholders, December 31, 2017	\$ <u><u>2,235,072</u></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 \$727,996 and \$907,000, respectively. These net 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 expenses 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 appeared to be sufficient. In addition, as part of our review, we relied upon an independent examination actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company’s actuary. The examination actuary utilized in our examination concluded that the loss reserves reported by the Company as of December 31, 2017, were reasonable.

### **SUBSEQUENT EVENTS**

No significant subsequent events were noted as of the date of this Report.

### **SUMMARY OF RECOMMENDATIONS**

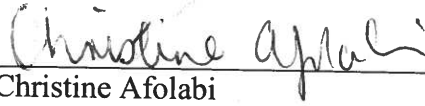
During the examination, no issues warranting recommendations in this examination report were noted.

## SIGNATURES

In addition to the undersigned, Surayuth Bunyasrie, CFE, of the Department, participated in this examination.

The actuarial portion of this examination was completed by David Christhif, ACAS, MAAA representing the Department, and Wanchin Chou, FCAS, MAAA and Qing He, FCAS, MAA of the Connecticut Insurance Department.

Respectfully submitted,



Christine Afolabi  
Examiner-In-Charge  
District of Columbia Department of Insurance,  
Securities and Banking

Under the Supervision of,



David Schleit, 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 15, 2019

Edmund S. Schiavoni, Jr., M.D., President  
CMIC Risk Retention Group  
80 Glastonbury Blvd.  
Glastonbury, CT 06033

RE: Examination of **CMIC Risk Retention Group**, as of December 31, 2017

Dear Dr. Schiavoni:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination ("Report") of the affairs and financial condition of CMIC Risk Retention Group (the "Company") as of December 31, 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 June 5, 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](mailto:sean.odonnell@dc.gov).

Sincerely,

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

Enclosure



Risk  
Retention  
Group

May 31, 2019

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

Re: Examination of CMIC Risk Retention Group, as of December 31, 2017

Dear Mr. O'Donnell:

We are in receipt of your letter dated May 15, 2019, along with the draft copy of the Report on Examination of CMIC Risk Retention Group as of December 31, 2017.

We have no comments or corrections to any of the information and as there are no recommendations requiring our responses, we are providing this letter to state that we accept the report as provided.

We thank you and your team for their professionalism, communication and assistance throughout the exam process. We also appreciate the assistance in working through the change in Affiliate status of CMIC Risk Retention Group and Connecticut Medical Insurance Company.

Sincerely,

Edmund S. Schiavoni, Jr., M.D., President  
CMIC Risk Retention Group



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

**Stephen C. Taylor**  
Commissioner

June 7, 2019

Edmund S. Schiavoni, Jr., M.D., President  
CMIC Risk Retention Group  
80 Glastonbury Blvd.  
Glastonbury, CT 06033

RE: Examination of **CMIC Risk Retention Group** as of December 31, 2017

Dear Dr. Schiavoni:

We are in receipt of your response, dated May 31, 2019, regarding the Report on Examination of CMIC Risk Retention Group, (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