DISB

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 – **Lone Star Alliance, Inc., a 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 **Lone Star Alliance, Inc., a 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 29th 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

LONE STAR ALLIANCE, INC., A RISK RETENTION GROUP

AS OF

DECEMBER 31, 2017

NAIC NUMBER 15211

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Washington, D.C.
January 24, 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

Lone Star Alliance, Inc., a Risk Retention Group

hereinafter referred to as the "Company" or "LSA RRG".

SCOPE OF EXAMINATION

This full-scope examination, covering the period from July 10, 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 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 unmodified opinions on the Company's financial statements for the calendar years 2014 through 2017. For the year 2013, the Company received an exemption from the Department for an annual audit due to a low volume of written premiums. We placed substantial reliance on the audited financial statements for calendar years 2014 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.

STATUS OF PRIOR EXAMINATION FINDINGS

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

HISTORY

General:

Lone Star Alliance, Inc., a Risk Retention Group (formerly Lone Star Alliance, RRG) was licensed on July 10, 2013 as an association captive insurance company, operating as a risk retention group under the captive insurance laws of the District of Columbia. The Company commenced operations on December 31, 2013.

The Company was initially funded by Texas Medical Liability Trust ("TMLT"), a not-for-profit trust domiciled in Texas, to provide medical professional and general liability insurance to physicians, physician partnerships, ancillary providers, and healthcare facilities in states other than Texas.

Membership:

As a risk retention group, the Company is owned by its member insureds, consisting of physicians, dentists and other ancillary providers. As a mutual insurer, LSA RRG does not issue stock or other certificates of ownership. Each insured is automatically a member of LSA RRG.

Dividends and Distributions:

The Company did not declare or pay any dividends during the period under examination. As further detailed in the "Affiliated Parties and Transactions" section of this Report, the Company paid surplus note interest to TMLT totaling $315,326 during the examination period.

MANAGEMENT AND CONTROL

Board of Directors and Officers:

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

Name and State of Residence	Principal Occupation
Arthur F. Evans, III, M.D. Texas	Retired Physician
John S. Scott, D.O. Texas	Physician US Anesthesia Partners
John V. Sherman, M.D. Texas	Physician Georgetown OBGYN
Joseph S.Valenti, M.D. Texas	Physician Privia Medical Group
Robert D. Donohoe Texas	Chief Executive Officer TMLT
Vincent L. Kasch Texas	Chief Financial Officer TMLT

The following persons were serving as the Company's officers as of December 31, 2017:

Name	Position
Robert D. Donohoe	President
Vincent L. Kasch	Treasurer
Susan D. Mills	Secretary

Committees:

As of December 31, 2017, 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 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 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. ("Willis") was the Company's captive manager for the period August 1, 2013 through November 30, 2017. Effective December 1, 2017, JLT Insurance Management (USA) LLC ("JLT") became the Company's captive manager. Willis and JLT provided regulatory and captive management services to the Company during the examination period.

Affiliated Parties and Transactions:

In January 2014, the Department approved a disclaimer of affiliation from TMLT and in February 2018 the Company filed to withdraw the disclaimer of affiliation with an effective date of December 31, 2017. As of December 31, 2017, the Company is a member of the TMLT holding company system.

TMLT has no ownership interest in the Company; however, TMLT 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, TMLT is the lender to the Company of $3.5 million pursuant to three subordinated surplus note agreements ("Surplus Notes").

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

TMLT provided the initial capitalization of the Company with a $1 million surplus note dated September 3, 2013, which matures on August 1, 2039. The Department approved a second surplus note dated May 27, 2015, in the amount of $1 million that matures on August 1, 2041. The initial surplus note interest rate for both surplus notes is the prime rate as of the date of the issuance of the notes plus one and one-half percent (1.5%) per annum; thereafter the rate changes every three years to the current prime rate plus one and one-half percent (1.5%). A third surplus note was issued on February 28, 2017, with the approval of the Department, in the amount of $1.5 million, resulting in total surplus notes of $3.5 million. The initial interest rate on the $1.5 million surplus note is the prime rate as of the date of the issuance of the note; thereafter, there is an adjustment in rate every three years to the current prime rate. Repayment of the principal amount is due in full on August 1, 2042. No interest or principal on any of the three surplus notes shall be paid without prior approval of the Department. Interest payments, with the Department's approval, were made in 2014, 2015, 2016 and 2017 in the amounts of $43,205, $56,089, $95,000 and $121,032, respectively.

Through an Administration and Management Services Agreement with TMLT, effective July 10, 2013, the Company's daily operations, including underwriting, claims administration, marketing, administrative, and treasury services are managed by TMLT. Compensation for the services provided was seven and one-half percent (7.5%) of gross written premium, payable on a quarterly basis. Effective December 31, 2017, the fee was changed to $650,000 annually.

Effective September 15, 2015, the Company entered into a Management Services Agreement with an affiliate, Management Insurance Services, LLC ("MIS"). Pursuant to the agreement, the Company's daily operations for a certain block of business is managed by MIS. Services provided by MIS include underwriting, claims administration, administrative, and treasury services. Compensation for the services provided is twenty percent (20%) of all direct premium written for the associated business, payable monthly.

Additionally, the Company is a party to a reinsurance agreement with a subsidiary of TMLT, Texas Medical Insurance Company ("TMIC"). See further details 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 all fifty states. During 2017, LSA RRG wrote premiums totaling $20,566,161 in 47 states and the District of Columbia.

The Company offers medical professional liability and general liability coverage on both a claims made and occurrence basis to physicians, physician partnerships, professional medical corporations, other health care practitioners, and health care facilities, with limits up to $1,000,000 per occurrence and $3,000,000 in the aggregate.

In 2015, the Company began writing professional liability coverage for dentists with limits up to $2,000,000 per occurrence and $6,000,000 in the aggregate.

The Company also offers cyber liability coverage, as part of the medical professional liability program, with limits up to $100,000 per occurrence and in the aggregate. In addition, the Company offers employment practices liability coverage with limits up to $50,000 per occurrence and in the aggregate.

During 2017, the Company began offering elective cosmetic surgical procedures coverage to a specific group of physicians. Premiums for this coverage totaled approximately $5,000,000.

All coverages are reinsured through a quota-share reinsurance agreement with TMIC. Certain of the coverages are also reinsured on an excess of loss basis with several commercial reinsurers. See the “Reinsurance” section of this Report for additional details.

The Company has no employees and its daily business operations are managed by TMLT in Austin, Texas. Its captive manager since inception and through November 30, 2017, Willis, in Burlington, Vermont, provided regulatory and captive management services to the Company. JLT began providing regulatory and captive management services effective December 1, 2017.

REINSURANCE

Assumed:

The Company did not assume any business during the examination period.

Ceded:

For the period under examination, the Company was party to a quota-share reinsurance agreement with TMIC. Under the terms of the agreement and corresponding amendments, the Company ceded to TMIC ninety five percent (95%) of premiums and losses during the examination period. As of December 31, 2017, the Company receives a ceding commission of thirty percent (30%). The agreement continues until terminated by either party upon written notice subject to certain provisions in the contract.

Effective September 1, 2013, the Company became party to an existing quota-share reinsurance agreement that includes TMLT and TMIC and several subscribing reinsurers. The original agreement was effective July 1, 2011. The agreement covers policies underwritten and administered by the Company on behalf of NAS Insurance Services, LLC. The business is 100% reinsured.

Effective January 1, 2016, the Company entered into a reinsurance agreement with an affiliate and certain unaffiliated subscribing reinsurers. Reinsurance limits are up to $3,000,000 in excess of $250,000 per event on medical professional liability claims.

Effective January 1, 2016, the Company became party to a catastrophe awards made and common loss umbrella excess reinsurance agreement with its affiliates and certain unaffiliated subscribing reinsurers. Reinsurance limits are $13,000,000 million in excess of $2,000,000 million per occurrence and $26,000,000 in respect of all loss occurrences related to awards made, and/or all common losses.

During 2017, the Company ceded premiums of approximately $19,900,000. As of December 31, 2017, the Company reported as assets “Amount recoverable from reinsurers” totaling approximately $369,000 which represents amounts receivable from reinsurers on paid losses. In addition, the Company reported ceded loss reserves of approximately $23,700,000 and ceded unearned premiums of approximately $6,186,000. 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, 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.

The accompanying Notes to Financial Statements are an integral part of these Financial Statements.

BALANCE SHEET

ASSETS

	December 31, 2017
Bonds	$ 291,865
Cash	5,123,763
Subtotal cash and invested assets	$ 5,415,628
Investment income due and accrued	3,156
Uncollected premiums and agents' balances in the course of collection	1,546,220
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,269,386
Amounts recoverable from reinsurers	368,977
Current federal and foreign income tax recoverable	175,000
Health care and other amounts receivable	75,023
State tax recoverable	9,013
Total assets	$ 9,862,403

LIABILITIES, SURPLUS AND OTHER FUNDS

		December 31, 2017
Losses (**NOTE 1**)	$	751,470
Loss adjustment expenses **(NOTE 1**)		1,186,647
Commissions payable, contingent commissions and other similar charges		8,583
Other expenses (excluding taxes, licenses and fees)		102,405
Taxes, licenses and fees (excluding federal and foreign income taxes)		326,860
Unearned premiums		251,413
Advance premiums		13,173
Ceded reinsurance premiums payable (net of ceding commissions)		2,909,369
Amounts withheld or retained by company for account of others		23,965
Remittances and items not allocated		944,301
Payable to parent, subsidiaries and affiliates		582,652
Total liabilities	$	7,100,838
Surplus notes	$	3,500,000
Unassigned funds		(738,435)
Surplus as regard policyholders	$	2,761,565
Total	$	9,862,403

STATEMENT OF INCOME

		December 31, 2017
UNDERWRITING INCOME		
Net premiums earned	$	638,219
DEDUCTIONS		
Losses incurred		585,486
Loss adjustment expenses incurred		880,324
Other underwriting expenses incurred		(638,708)
Total underwriting deductions	$	827,102
Net underwriting loss	$	(188,883)
INVESTMENT INCOME		
Net investment income earned	$	(102,820)
Net realized capital gains		38
Net loss from agents' or premium balances charged off		(755)
Miscellaneous income		704
Net income before dividends and taxes	$	(291,716)
Federal taxes		-
Net loss	$	(291,716)

SURPLUS ACCOUNT

Initial capital:		
Surplus Note	$	1,000,000
Net loss, 2013		(135,228)
Change in non-admitted assets		(4,167)
Change in provision for reinsurance		(3,000)
Net change in surplus as regards policyholders, 2013		857,605
Surplus as regards policyholders, December 31, 2013	$	857,605
Net loss, 2014		(111,205)
Change in provision for reinsurance		3,000
Net change in surplus as regards policyholders, 2014		(108,205)
Surplus as regards policyholders, December 31, 2014	$	749,400
Net income, 2015		54,374
Change in surplus notes		1,000,000
Net change in surplus as regards policyholders, 2015		1,054,374
Surplus as regards policyholders, December 31, 2015	$	1,803,774
Net loss, 2016		(203,133)
Change in non-admittted assets		(4,175)
Change in surplus notes		1,500,000
Net change in surplus as regards policyholders, 2016		1,292,692
Surplus as regards policyholders, December 31, 2016	$	3,096,466
Net loss, 2017		(291,716)
Change in non-admitted assets		(43,185)
Net change in surplus as regards policyholders, 2017		(334,901)
Surplus as regards policyholders, December 31, 2017	$	2,761,565

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 $751,470 and $1,186,647, 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, we utilized an 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, appeared 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, the following personnel from Eide Bailly LLP, representing the Department, participated in this examination as members of the examination team: Robin Roberts, CFE.

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

Respectfully submitted,

Michael Nadeau

Michael Nadeau, CFE
Examiner-In-Charge
Eide Bailly, LLP

Under the Supervision of,

Christine Afolabi

Christine Afolabi
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 22, 2019

Robert D. Donohoe, President
Lone Star Alliance, Inc., a Risk Retention Group
C/o JLT Insurance Management
1240 Winnowing Way, Suite 102
Mt. Pleasant, SC 29466

RE: Examination of **Lone Star Alliance, Inc., a Risk Retention Group**, as of December 31, 2017

Dear Mr. Donohoe:

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 Lone Star Alliance, Inc., a 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 April 22, 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

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

Enclosure

LONE STAR
ALLIANCE
A RISK RETENTION GROUP

April 16, 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: Lone Star Alliance, Inc., a Risk Retention Group

Mr. O'Donnell:

Please be advised that Lone Star Alliance, Inc., a Risk Retention Group (the "Company") has reviewed the examination report and has found no errors or omissions that need to be brought to the attention of the DISB. Therefore, please accept this as the confirmation that the Company accepts the report as provided.

Sincerely,

Robert Donohoe
President

DISB

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

Stephen C. Taylor
Commissioner

April 26, 2019

Robert D. Donohoe, President
Lone Star Alliance, Inc., a Risk Retention Group
C/o JLT Insurance Management
1240 Winnowing Way, Suite 102
Mt. Pleasant, SC 29466

RE: Examination of **Lone Star Alliance, Inc., a Risk Retention Group** as of December 31, 2017

Dear Mr. Donohoe:

We are in receipt of your response, dated April 16, 2019, regarding the Report on Examination of Lone Star Alliance, Inc., a 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

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures