



**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 – MICA 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 **MICA 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”).

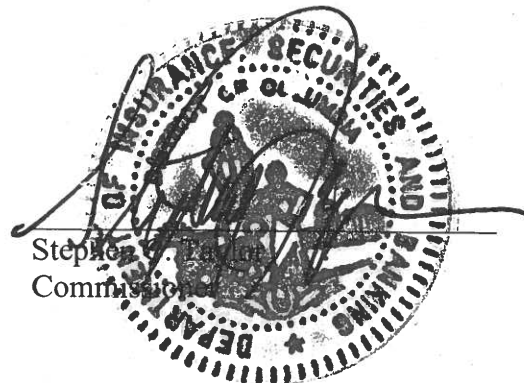
In accord with the provisions of D.C. Official Code § 31-1404(c), it is hereby ordered, on this 14<sup>th</sup> day of March, 2019, that the attached Financial Condition Examination Report be adopted and filed as an official record of the Department.

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.



GOVERNMENT OF THE DISTRICT OF COLUMBIA  
DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

MICA RISK RETENTION GROUP, INC.

AS OF

DECEMBER 31, 2017

NAIC NUMBER 15527

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Washington, D.C.  
January 16, 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

**MICA Risk Retention Group, Inc.**

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

**SCOPE OF EXAMINATION**

This full-scope examination, covering the period from March 21, 2014 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 MICA Group by the State of Arizona and by the Department. The report on the examination of the Arizona-domiciled company, Mutual Insurance Company of Arizona (“MICA”), will be issued by the Arizona Department of Insurance under separate cover.

MICA RRG received its certificate of authority on March 21, 2014 and its first examination “as of” date was scheduled for December 31, 2018. The Company has not written or earned premiums since inception and has no loss or loss adjustment reserves as of December 31, 2017. It was deemed beneficial to participate in the group examination and accelerate the “as of” date in order to match that of the group examination.

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 by an independent public accounting firm for the calendar years ending December 31, 2014 and 2015 and the firm expressed unqualified opinions on the Company's financial statements. For the years 2016 and 2017, the Company received an exemption from the Department for an annual audit due to no written premiums. We placed substantial reliance on the audited financial statements for calendar years 2014 through 2015, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2017.

### **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:**

MICA RRG was licensed on March 21, 2014 as a mutual captive insurance company, operating as a risk retention group under the captive insurance laws of the District of Columbia. The Company has not yet commenced business.

The Company was sponsored by MICA, a mutual insurance company domiciled in Arizona, to provide medical professional liability insurance to medical professionals in Arizona, Colorado, Utah, Idaho, Wyoming, Montana, Nevada and potentially other states. MICA is the ultimate controlling entity of the MICA holding company system. See further comments regarding MICA

and the MICA 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 medical professionals. As a mutual insurer, MICA RRG does not issue stock or other certificates of ownership. As of December 31, 2017, the Company has not started writing business and therefore there are no members.

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 interest to MICA on its surplus note in 2014 and 2015 in the amount of \$7,917 and \$47,500, respectively.

**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>
Edward G. Marley Arizona	Chief Financial Officer of MICA
Ronald E. Malpiedi Arizona	Vice President and Chief Operating Officer of MICA
Mary K. Hedin* Arizona	Vice President of Underwriting, MICA

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

<u>Name</u>	<u>Position</u>
Ronald E. Malpiedi	President
Edward G. Marley	Secretary and Treasurer

\*Mary K. Hedin resigned as a director of MICA RRG in August 2018. Timothy J. Friers serves as her replacement.

### Committees:

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

#### *Audit Committee*

Edward G. Marley

Ronald E. Malpiedi

Mary K. Hedin\*

### 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, due to an oversight, the Company was unable to provide signed conflict of interest statements for its directors, officers and key employees for 2015. We discussed this situation with the Company during the examination. Management indicated they recognized the importance of maintaining compliance with the DCMR and indicated improved record-keeping procedures would be implemented to ensure all required conflict of interest statements would be available for review upon request by the Department.

### Corporate Records:

We reviewed the minutes of the meetings of the board of directors and members for the period under examination. Based on the minutes, the Company's board of directors met in the District of Columbia at least one time each year, except that the minutes of the District of Columbia board meeting for year 2014 did not state if that meeting was held in the District of Columbia in compliance with section 31-3931.11(d) of the D.C. Official Code and with D.C. Municipal Regulations 3709.1 and 3709.2. We discussed this situation with the Company during the examination and management indicated they recognized the importance of compliance with the annual District of Columbia meeting requirement. In addition, 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:

MICA has managed the Company since inception.

### Affiliated Parties and Transactions:

As previously indicated in the "History" section of this report, MICA RRG is a member of the MICA holding company system. The ultimate controlling entity in the MICA group of companies is Mutual Insurance Company of Arizona.

MICA has no ownership interest in the Company. However, MICA 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, MICA is the lender to the Company of one million dollars (\$1,000,000) pursuant to a Subordinated Surplus Note Agreement (“Surplus Note”). Under the Company’s bylaws and the Surplus Note, until the Surplus Note is paid in full, with interest, MICA has the following rights relating to control of the Company: (i) MICA has the right to appoint no less than one third (1/3) of all members to the Company’s board; and (ii) The Company’s CEO and the third party administrator providing services to the Company may not be dismissed without MICA’s consent.

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

MICA provided the initial capitalization of the Company with a \$1,000,000 surplus note dated May 1, 2014 which matures on August 1, 2038. The Surplus Note has an annual interest rate of prime plus one and one-half percent (1.5%) and is subject to readjustment each fifth anniversary of the initial date of issuance. The readjustment is subject to a minimum of four percent (4%) and a maximum of ten percent (10%). No interest or principal shall be paid without prior approval of the Department. Interest payments, with the Department’s approval, were made in 2014 and 2015 in the amounts of \$7,917 and \$47,500, respectively.

Through a Management Agreement effective July 1, 2016 with MICA, the Company’s daily operations are managed by MICA. Compensation for the services provided is waived for the first three years of the term of the agreement.

Effective July 1, 2016, the Company entered into a Services Agreement with MICA. Pursuant to the agreement, MICA provides services including but not limited to marketing, underwriting, premiums and claims administration and policy rating and issuance.

In addition, the Company is a party to a reinsurance agreement with MICA. 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 the following states: Arizona, Colorado, Idaho, Montana, Nevada, Oregon, Texas, Utah, Washington and Wyoming. As of December 31, 2017, the Company had not commenced writing business.

The Company offers medical professional liability on a claims made basis to physicians, physician groups, medical facilities, nurse practitioners and other medical professionals, with limits up to \$5 million per occurrence and \$15 million aggregate per policy period. The Company also provides Meddefense/Cyber liability protection up to a limit of \$100,000 per claim and \$100,000 in the aggregate.

The Company has no employees and its daily business operations are managed by MICA in Phoenix, Arizona.



## **REINSURANCE**

For the period under examination, the Company was party to a quota-share reinsurance agreement with MICA. Under the terms of the agreement, the Company ceded to MICA ninety five percent (95%) of premiums and losses. The Company receives a ceding commission of eighteen percent (18%) of the premiums ceded. The contract is automatically renewed until terminated by either party by written notice to the other given at least 12 months prior to the expiration date.

Effective January 1, 2016, the Company was party to a common loss excess reinsurance agreement with foreign reinsurers and several Lloyd's of London syndicates whereby the reinsurers assume losses of up to \$18 million excess \$2 million in any one common loss and in the aggregate.

The Company also provides Medefense/Cyber liability protection up to a limit of \$100,000 per claim and \$100,000 in the aggregate. Effective January 1, 2017, the Company reinsures ninety-eight percent (98%) of this coverage through two layers of reinsurance. The Company cedes first under a quota share reinsurance agreement with several Lloyd's of London syndicates whereby the reinsurers assume sixty percent (60%) of losses on limits up to \$100,000. The Company then cedes 95% of losses under its quota-share reinsurance agreement with MICA.

As of December 31, 2017, the Company has not written any business. There are no ceded premiums, receivables from reinsurers, ceded loss reserves or ceded unearned premiums.

## **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

	<i>December 31, 2017</i>
Bonds	\$ 149,637
Cash	<u>632,270</u>
Subtotal cash and invested assets	\$ 781,907
Investment income due and accrued	188
Total	<u><u>\$ 782,095</u></u>

### LIABILITIES, SURPLUS AND OTHER FUNDS

	<i>December 31, 2017</i>
Taxes, licenses and fees (excluding federal and foreign income taxes)	<u>\$ 18,860</u>
Total liabilities	<u>\$ 18,860</u>
Surplus notes	\$ 1,000,000
Unassigned funds (surplus)	<u>(236,765)</u>
Total surplus	<u>\$ 763,235</u>
Total liabilities and surplus	<u><u>\$ 782,095</u></u>

**STATEMENT OF INCOME**

	<i>December 31, 2017</i>
DEDUCTIONS	
Other underwriting expenses incurred	30,159
Total underwriting expenses	\$ 30,159
Underwriting loss	\$ (30,159)
INVESTMENT INCOME	
Net investment income earned	\$ 2,351
Income before dividends and taxes	\$ (27,808)
Federal taxes	-
Net loss	<u>\$ (27,808)</u>

## **SURPLUS ACCOUNT**

Initial surplus:	
Surplus note	\$ 1,000,000
Net loss, 2014	(54,271)
Change in net deferred income tax	17,858
Change in nonadmitted assets	<u>(17,858)</u>
Net change in surplus, 2014	<u>945,729</u>
 Total surplus, December 31, 2014	 <u>\$ 945,729</u>
 Net loss, 2015	 (102,926)
Change in net deferred income tax	34,995
Change in nonadmitted assets	<u>(34,995)</u>
Net change in surplus, 2015	<u>(102,926)</u>
 Total surplus, December 31, 2015	 <u>\$ 842,803</u>
 Net loss, 2016	 (51,189)
Change in net derred income tax	18,168
Change in nonadmitted assets	<u>(18,168)</u>
Net change in surplus, 2016	<u>(51,189)</u>
 Total surplus, December 31, 2016	 <u>\$ 791,614</u>
 Net loss, 2017	 (27,808)
Change in net unrealized capital loss	(571)
Change in net deferred income tax	(21,300)
Change in nonadmitted assets	<u>21,300</u>
Net change in surplus, 2017	<u>(28,379)</u>
 Total surplus, December 31, 2017	 <u><u>\$ 763,235</u></u>

## **ANALYSIS OF EXAMINATION CHANGES TO SURPLUS**

There were no changes to the Company's surplus as a result of our examination.

### **SUBSEQUENT EVENTS**

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

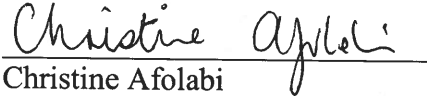
### **SUMMARY OF RECOMMENDATIONS**

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

## SIGNATURES

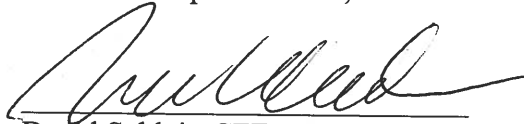
In addition to the undersigned, Rebecca Davis, PIR, from the Department, participated in this examination.

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**

March 6, 2019

Ronald Malpiedi, President  
MICA Risk Retention Group, Inc.  
2602 E. Thomas Rd.  
Phoenix, AZ 85016

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

Dear Mr. Malpiedi:

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 MICA 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 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



March 7, 2019

Sean O'Donnell  
Director of Financial Examination  
1050 First Street, NE, Suite 801  
Washington, DC 2002

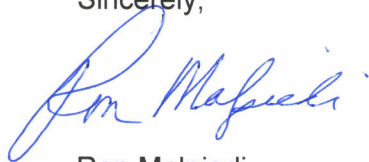
Re: Examination of MICA Risk Retention Group, Inc., as of December 31, 2017

Dear Mr. O'Donnell,

We have reviewed the MICA Risk Retention Group, Inc. draft examination and we have not found any errors or omissions that need to be brought to the attention of the department.

The Company accepts the report.

Sincerely,



Ron Malpiedi  
President



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

**Stephen C. Taylor**  
**Commissioner**

March 7, 2019

Ronald Malpiedi  
President  
MICA Risk Retention Group, Inc.  
2602 E. Thomas Rd  
Phoenix, AZ 85016

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

Dear Mr. Malpiedi:

We are in receipt of your response, dated March 7, 2019, regarding the Report on Examination of MICA 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