



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

Karima Woods
Acting Commissioner

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

Re: Report on Examination – **AEGIS Healthcare Risk Retention Group, Inc.**, as of
December 31, 2018

ORDER

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **AEGIS Healthcare Risk Retention Group, Inc.**, (the “Company”), as of December 31, 2018 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 10th day of June 2020, that the attached Financial Condition Examination Report be adopted and filed as an official record of the Department.

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.



Dana Sheppard

Dana Sheppard
Associate Commissioner,
Risk Finance Bureau

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



REPORT ON EXAMINATION

AEGIS Healthcare Risk Retention Group, Inc.

AS OF

DECEMBER 31, 2018

NAIC NUMBER 12252

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Washington, D.C.
April 17, 2020

Honorable Karima Woods
Acting Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
1050 First Street, NE, Suite 801
Washington, D.C. 20002

Dear Acting Commissioner Woods:

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

AEGIS Healthcare Risk Retention Group, Inc.

hereinafter referred to as the “Company” or “AEGIS”.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from January 1, 2014 through December 31, 2018, including any material transactions and/or events noted occurring subsequent to December 31, 2018, 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 examination an adjustment was identified, the impact of such adjustment is 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 2014 through 2018. We placed substantial reliance on the audited financial statements for calendar years 2014 through 2017, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2018. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2018. 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 examination was conducted by the Department as of December 31, 2013, which covered the period of January 1, 2009 through December 31, 2013. In the Report on the prior examination, dated March 4, 2015, the Department noted one exception condition and related recommendation. Our examination included a review to determine the current status of the recommendation in the prior exam report and determined that the Company had satisfactorily addressed the recommendation pertaining to conflicts of interest.

HISTORY

General:

AEGIS was incorporated on August 5, 2004 and commenced business October 1, 2004 as a risk retention group in the District of Columbia under the District's captive insurance laws.

The Company was formed to provide professional liability and general liability insurance coverage to Aegis Healthcare Business Solutions, Inc. ("Aegis Solutions") and the long-term care facilities that are members of Mid-Atlantic LifeSpan ("LifeSpan"), a trade association for long-term care facilities in the State of Maryland.

Effective in 2011, insured members of the Company are no longer required to be members of LifeSpan.

Membership:

The Company was initially capitalized with \$525,000 in letters of credit and \$125,000 in cash through the issuance of common stock shares to its policyholders/members. Additional letters of credit have been contributed by members since inception of the Company.

The Company is authorized to issue to 5,001,100 common stock shares, consisting of:

- a) 1,000 shares of class A common stock, par value \$1.00 per share;
- b) 5,000,000 shares of class B common stock, par value \$0.40 per share;
- c) 100 shares of class C common stock, par value \$1.00 per share.

According to the Company's Stock Subscription Agreement, each policyholder/member must purchase one share of class A common stock. In addition, each policyholder/member must purchase class B common stock shares equal to one-third of the initial annual policy premium. Payment for class A and class B shares shall be made in the form of letters of credit issued by a bank acceptable to the Company for the benefit of the Commissioner of the Department. The outstanding share of class C common stock is solely owned by Aegis Solutions.

The holders of class A common stock have the right to appoint five of the Company's six directors. The holders of class B common stock do not have the right to appoint any of the Company's directors but do have dividend participation rights. AEGIS Solutions, as holder of the only outstanding share of class C common stock, has the right to elect the remaining one director. Additionally, all holders of class A and class C common stock are entitled to vote on all matters submitted to a vote at a meeting of shareholders. Class B shareholders do not have any voting rights.

Every three years, the outstanding shares of class B stock are reallocated among the class B shareholders based on the ratio of each shareholder's premium to the total Company premium. The shareholders' letters of credit are then revised to correspond with the new number of shares outstanding.

Subject to approval of the Department and the Company's board of directors, all classes of common stock shareholders may redeem their shares upon termination of their insurance coverage with the Company. However, class A and B shareholders forfeit their capital contributions if the termination occurs within four years of obtaining insurance coverage with the Company.

As of December 31, 2018, the Company has issued the following shares of common stock: 13 shares of Class A common stock, 385,869 shares of Class B common stock and 1 share of Class C common stock.

Dividends and Distributions:

The Company did not declare or pay any dividends during the period under examination.

MANAGEMENT AND CONTROL

Board of Directors and Officers:

The Company's directors serving as of December 31, 2018 were as follows:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Keith W. Gibb, Chair* Maryland	President Brooke Grove Foundation
Andrea Dwyer Maryland	President/CEO Sagepoint Senior Living
Troy Raines Maryland	Administrator Lions Center for Rehabilitation and Extended Care
Keith T. Spillane Maryland	Vice President, Finance Roland Park Place
Paul Miller Maryland	Senior VP of Operations and Products LifeSpan Network
Eric R. Turnbaugh* Maryland	Chief Financial Officer Keswick Multi-Care Center
Steven D. Powell Maryland	VP Finance and Technology Carroll Lutheran Village, Inc.

*Effective May 6, 2019, Keith W. Gibb retired and was replaced by Steven D. Powell as Chair; and Dennis K. Hunter was appointed as a Director. Effective December 12, 2019, Eric R. Turnbaugh was replaced by Michele Lagana as a Director.

The Company's officers serving as of December 31, 2018 were as follows:

<u>Name</u>	<u>Position</u>
Keith W. Gibb*	President
Steven D. Powell*	Treasurer
Eric R. Turnbaugh*	Secretary
Kimberly Anderson	Assistant Treasurer

*Effective May 6, 2019, Keith W. Gibb retired and was replaced by Steven D. Powell as President; and Keith T. Spillane replaced Steven Powell as Treasurer. Effective December 12, 2019, Eric R. Turnbaugh was replaced by Dennis K. Hunter as Secretary.

Committees:

As of December 31, 2018, the Company's board of directors has established the following committees:

Investment Committee

Eric R. Turnbaugh – Chairman
Keith W. Gibb
Paul Miller
Keith T. Spillane
Kimberly Anderson

Finance & Audit Committee

Steven D. Powell – Chairman
Keith W. Gibb
Paul Miller
Keith T. Spillane
Eric R. Turnbaugh
Kim Anderson

Underwriting Committee

Keith W. Gibb – Chairman
Paul Miller
Troy Raines
Angela Stoddard

Marketing Committee

Keith W. Gibb – Chairman
Paul Miller
Troy Raines
Angela Stoddard

Claims Committee

Keith T. Spillane – Chairman
Keith W. Gibb
Steven D. Powell
Eric R. Turnbaugh
Diana Nesbitt

Risk Management Committee

Vacant – Chairman
Glenn Scherer
Sally Kweti
Dottie Hobbs
Shelly Shuman
Susan Arcadia
Steven D. Powell
Peter Panos
Cassie Evering
John Horine
Jeff Metz
Claire Braswell
Kathy Graning
Troy Raines
Michelle Rosenheim
Andrew Jackson
John Burleigh
Theresa Snyder
Denise McCann
Nancy Connelly
Denise Shope

Conflicts of Interest:

In compliance with the District of Columbia Municipal Regulations (DCMR), conflict of interest statements are to be completed annually by all directors and officers. Our review of the conflict of interest statements for 2014 through 2018 disclosed there were no conflicts of interest reported that would adversely impact the Company.

Corporate Records:

We reviewed the minutes of the meetings of the board of directors and shareholders 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:

Riggs, Counselman, Michaels & Downes ("RCM&D") has been the Company's captive manager since incorporation and provides services that include records retention, financial reporting, regulatory compliance and other management services. In addition, RCM&D provides insurance agency and reinsurance brokerage services to the Company.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2018, the Company was licensed in the District of Columbia and was registered as a risk retention group in Maryland. One hundred percent of the Company's 2018 premium (\$1,981,779) was written in Maryland.

The Company provides claims-made coverage to members via assessable policies, except for AEGIS Solutions for which the policies are non-assessable. Limits are offered up to \$1 million per occurrence and \$3 million aggregate per policy. In addition, the Company offers optional excess coverage up to \$10 million in excess of \$1 million per claim. To manage its risks under its policies, the Company participates in an excess of loss reinsurance treaty under which it retains \$250,000 ultimate net loss for each and every claim.

Effective January 1, 2014, the Company also provides information security and privacy insurance with breach response services to insureds, at no additional charge, ranging from \$250,000 to \$1 million per claim for information security and privacy and \$25,000 to \$1 million per claim for breach response services. This coverage is 100% reinsured such that Aegis has no net retention.

See the "Reinsurance" section of this report for further comments regarding the Company's reinsurance.

The Company has no employees and its daily business operations are managed by third party service providers. During the examination period and as of the date of this report, the Company's captive manager, RCM&D, provided the Company with regulatory filings services, program management and business consulting services at its offices in Baltimore, Maryland. Claims

handling functions are provided to the Company by RCM&D Self-Insured Services Company, Inc. (“SISCO”), an affiliate of RCM&D, in Baltimore, Maryland. Neither RCM&D nor SISCO are affiliates of the Company.

REINSURANCE

Effective January 1, 2017 the Company entered into two excess of loss treaties with various approved reinsurers. The first treaty has a term of 36 months, extending over three contract periods and expiring on January 1, 2020. The second treaty has a term of 12 months, renewing annually. The reinsurance treaties can be cancelled by either party giving notice in writing to the other party 90 days prior to the treaties’ anniversary dates.

Under the first excess of loss treaty, the Company cedes \$750,000 in excess of \$250,000 each and every claim each insured for its primary insurance policies. The Company pays the reinsurers a quarterly deposit premium with a minimum annual premium that varies by contract period. In the first year the provisional premium rate is twenty five percent (25%) of the Gross Net Written Premium Income. For the second and third annual period, the provisional premium is adjustable to a mutually agreed upon provisional rate based on terms outlined in the treaty.

Under the second excess of loss treaty, the Company cedes all amounts in excess of \$1 million up to \$10 million ultimate net loss each and every claim

All reinsurance treaties were approved by the Department. Our review of the Company’s reinsurance treaties disclosed no unusual terms.

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, 2018. The financial statements were prepared in accordance with Generally Accepted Accounting Principles prescribed or permitted by the Department. Management is responsible for the preparation and fair presentation of these financial statements. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

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BALANCE SHEET

ASSETS

	December 31, 2018
Bonds	\$ 711,030
Common stocks	572,556
Cash (\$813,677), cash equivalents (\$0) and short-term investments (\$0)	813,677
Subtotal cash and invested assets	\$ 2,097,263
Investment income due and accrued	\$ 4,885
Uncollected premiums in course of collection	14,272
Reinsurance:	
Other amounts receivable under reinsurance contracts	139,011
Current federal income tax recoverable and interest thereon	27,298
Net deferred tax asset	234,360
Aggregate write-ins for other-than-invested assets:	
Letters of credit (NOTE 1)	\$ 2,714,000
Prepaid expenses	44,663
Total aggregate write-ins for other-than-invested assets	\$ 2,758,663
Total assets	\$ 5,275,752

LIABILITIES, SURPLUS AND OTHER FUNDS

	December 31, 2018
Losses (NOTE 2)	\$ 1,630,390
Loss adjustment expenses (NOTE 2)	358,841
Commissions payable	4,502
Other expenses (excluding taxes, licenses and fees)	94,630
Taxes, licenses and fees (excluding federal and foreign income taxes)	5,333
Ceded reinsurance premiums payable (net of ceding commissions)	554,843
Total liabilities	\$ 2,648,539
Common capital stock	\$ 154,362
Gross paid in and contributed surplus	2,560,638
Unassigned funds	(87,787)
Surplus as regards policyholders	\$ 2,627,213
Total	\$ 5,275,752

STATEMENT OF INCOME

	December 31, 2018
UNDERWRITING INCOME	
Net premiums earned	\$ 976,670
DEDUCTIONS	
Losses incurred	\$ 652,170
Loss adjustment expenses incurred Other	178,809
underwriting expenses incurred	428,473
Total underwriting expenses	\$ 1,259,452
Underwriting gain (loss)	\$ (282,782)
INVESTMENT INCOME	
Net investment income earned	\$ 28,275
Net realized capital gains (losses)	(3,770)
Net investment gain	\$ 24,505
Loss before dividends and taxes	\$ (258,277)
Federal and foreign income taxes incurred	(54,392)
Net Loss	\$ (203,885)

CAPITAL AND SURPLUS ACCOUNT

Total capital and surplus, December 31, 2013	\$ 1,498,210
Net income, 2014	\$ 112,062
Change in net unrealized capital gains	3,637
Surplus Adjustment: Paid In	1,400,000
Net change in surplus, 2014	1,515,698
Total capital and surplus, December 31, 2014	\$ 3,013,908
Net loss, 2015	\$ (311,128)
Change in net unrealized capital losses	(12,958)
Net change in surplus, 2015	(324,086)
Total capital and surplus, December 31, 2015	\$ 2,689,823
Net loss, 2016	\$ (378,841)
Change in net unrealized capital gains	4,640
Capital changes: paid in	3,540
Surplus adjustment: paid In	(13,540)
Net change in surplus, 2016	(384,201)
Total capital and surplus, December 31, 2016	\$ 2,305,622
Net loss, 2017	\$ (79,098)
Change in net unrealized capital gains	19,682
Surplus adjustment: paid In	526,000
Audit adjustment to federal Income tax expense	88,167
Net change in surplus, 2017	554,751
Total capital and surplus, December 31, 2017	\$ 2,860,373
Net loss, 2018	\$ (203,885)
Change in net unrealized capital losses	(40,802)
Change in net deferred income tax	11,527
Net change in surplus, 2018	(233,160)
Total capital and surplus, December 31, 2018	\$ 2,627,213

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 – Letters of Credit:

At December 31, 2018, the Company's assets included \$2,714,000 in letters of credit in the possession of the District of Columbia Insurance Commissioner. Under the Captive Laws of the District of Columbia, letters of credit approved by the Department are allowed as admitted assets. Inclusion of the letters of credit as assets is not in accordance with GAAP.

NOTE 2 – Loss and Loss Adjustment Expenses Reserves:

The Company reported "Losses" and "Loss adjustment expenses" reserves net of reinsurance totaling \$1,630,390 and \$358,841, 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, 2018.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expense reserves as of December 31, 2018 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, 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, 2018, were reasonable and adequate.

SUBSEQUENT EVENTS

We noted no significant subsequent events 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: James Menck, CFE, and Ryan Havick, CFE.

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

Respectfully submitted,



Michael Nadeau, 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

Karima Woods
Acting Commissioner

Via E-mail

May 20, 2020

Steven D. Powell, President
AEGIS Healthcare Risk Retention Group, Inc.
C/o RCM&D
555 Fairmount Ave.
Baltimore, MD 21286

RE: Examination of AEGIS Healthcare Risk Retention Group, Inc., as of December 31, 2018

Dear Mr. Powell:

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 AEGIS Healthcare Risk Retention Group, Inc. (the "Company"), as of December 31, 2018.

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 11, 2020. The signed response should be on the 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

AEGIS HEALTHCARE RISK RETENTION GROUP, INC.

1401 Eye Street, N.W., Suite 600
Washington, DC 20005

June 9, 2020

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

Via email: sean.odonnell@dc.gov

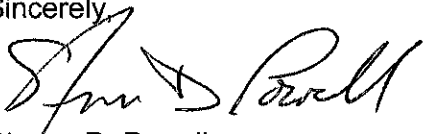
Re: Examination of AEGIS Healthcare Risk Retention Group, Inc., as of December 31, 2018

Dear Mr. O'Donnell,

The draft examination report of AEGIS Healthcare Risk Retention Group, Inc., as of December 31, 2018 has been reviewed for accuracy, errors, or omissions. We only call one spelling error to your attention for correction on the Statement of Income. The second to last line for "Federal and foreign income taxes incurred" should correct "incme" to "income". Other than that, the report appears accurate with no other errors or omissions.

After this error is corrected, the Company accepts this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven D. Powell", with a stylized flourish at the end.

Steven D. Powell
Chairman
AEGIS Healthcare Risk Retention Group, Inc.



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

Karima Woods
Acting Commissioner

June 10, 2020

Steven D. Powell, President
AEGIS Healthcare Risk Retention Group, Inc.
C/o RCM&D
555 Fairmount Ave.
Baltimore, MD 21286

RE: Examination of AEGIS Healthcare Risk Retention Group, Inc., as of December 31, 2018

Dear Mr. Powell:

We are in receipt of your response, dated June 9, 2020, regarding the Report on Examination of AEGIS Healthcare Risk Retention Group, Inc. (the "Company"), as of December 31, 2018. The response is deemed adequate and acceptable. In addition, we have corrected the spelling error as noted in your response, thank you for noting this.

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