

Karima M. Woods, Commissioner

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

Re: Report on Examination – MMIC Risk Retention Group, Inc., as of December 31, 2020

ORDER

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **MMIC Risk Retention Group, Inc.**, (the “Company”), as of December 31, 2020 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 30th day of March 2022, 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

MMIC RISK RETENTION GROUP, INC.

AS OF

DECEMBER 31, 2020

NAIC NUMBER 14062

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Washington, D.C.
February 15, 2022

Honorable Karima M. Woods
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 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

MMIC Risk Retention Group, Inc.

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

SCOPE OF EXAMINATION

This full-scope examination, covering the period from January 1, 2016 through December 31, 2020, including any material transactions and/or events noted occurring subsequent to December 31, 2020, 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 (“SAP”). 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 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 by an independent public accounting firm. The firm expressed an unqualified opinion on the Company's financial statements for the calendar year 2020. For years 2016 to 2019, the Company received an exemption from the Department for an annual audit due to the low volume of written premiums. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2020. 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, 2015, which covered the period of May 5, 2011 through December 31, 2015. There were no material adverse findings, significant findings of non-compliance, or material changes in the financial statements.

HISTORY

General:

MMIC Risk Retention Group, Inc. (formerly MMIC RRG, Inc.), was licensed on May 5, 2011 as a mutual captive insurance company, operating as a risk retention group, under the captive insurance laws of the District of Columbia. The Company commenced business on January 1, 2012.

The Company's formation was sponsored by MMIC Group, Inc., now known as Constellation, Inc. ("Constellation"), a mutual insurance holding company organized under Minnesota statutes. MMIC Insurance, Inc. ("MMIC") is a stock insurance company wholly owned by Constellation and is a Minnesota state licensed insurance company. The Company was formed to provide medical professional liability insurance to individual practitioners, practice groups, hospitals or other healthcare facilities in the states where MMIC is not licensed or permitted to write insurance business.

Membership:

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

Dividends and Distributions:

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

MANAGEMENT AND CONTROL

Board of Directors and Officers:

The Company's directors serving as of December 31, 2020 were as follows:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Ross C. Formell* Minnesota	Partner Best & Flanagan LLP
John W. Marshall, III* Nebraska	Principal Silver Stone Group, Inc.
Jon G. Behnken Minnesota	Senior Manager, Business Reporting of Constellation, Inc.

*In December 2021, Ross C. Formell and John W. Marshall were replaced by Lori H. Trygg and Kenton Z. Kaplan, respectively.

The following persons were serving as the MMIC RRG's officers as of December 31, 2020:

<u>Name</u>	<u>Position</u>
Dana A. D'Arrigo**	President
Cinda A. Velasco	Secretary
Jon G. Behnken	Treasurer

**In April 2021, John Culbertson replaced Dana D'Arrigo as President and in November 2021 Jeff Pearson replaced John Culbertson.

Committees:

As of December 31, 2020, there were no formal committees of the board of directors. The Company notified the Department that the entire board of directors of the Company constitutes 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 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 since inception and up to September 30, 2017. Effective October 1, 2017, Advantage Insurance Management (USA), LLC (Advantage) became the Company's captive manager. Willis and Advantage provided regulatory and captive management services to the Company during the examination period.

Affiliated Parties and Transactions:

In May 2013, the Company filed with, and the Department approved a disclaimer of affiliation from Constellation. Subsequently, in August 2020 the Company filed to withdraw the disclaimer of affiliation from Constellation. As of December 31, 2020, the Company is a member of the Constellation holding company system.

Constellation has no ownership interest in the Company, however, Constellation has sponsored the Company's formation and has been managing the Company's daily business operations since inception, under a management agreement. In addition, Constellation is the lender to the Company of \$600,000 pursuant to three subordinated surplus notes agreements.

During the period under examination, the Company had the following transactions with Constellation and MMIC:

Through a Management Agreement effective May 19, 2014, the Company's daily operations, including marketing, underwriting, financial management, risk management and loss prevention, claims handling, and information technology, are managed by Constellation. Compensation for the services provided is \$3,000 annually.

Constellation provided the initial capitalization of the Company with a letter of credit totaling \$400,000 and a surplus note issued to Constellation in the amount of \$200,000 dated April 12, 2011 which matures on May 31, 2023. Constellation amended the surplus note to increase the principal amount by \$200,000 on May 31, 2013 and by the same amount on March 29, 2018. As of December 31, 2020, the total amount of the surplus note was \$600,000, with an annual interest rate of six percent (6%) payable in quarterly installments subject to approval of the Department. No interest shall be paid without prior approval of the Department. No surplus note interest has been expensed or paid since inception of the Company. The cumulative unpaid interest is \$240,986 as of December 31, 2020.

In addition, the Company is a party to a reinsurance agreement with MMIC. See details of this agreement in the “Reinsurance” section of this Report.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2020, the Company was licensed in the District of Columbia, and was registered as a risk retention group in the following states: Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Florida, Georgia, Hawaii, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Rhode Island, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, and West Virginia. As of December 31, 2020, the Company was writing business only in Arizona.

The Company offers medical professional liability insurance on a claim made basis and general liability insurance on an occurrence basis with primary limits of \$1,000,000 per claim and \$3,000,000 per policy aggregate to individual physician members and health organization members. The Company also offers medical professional insurance on a claims made basis and general liability insurance on an occurrence basis with limits of \$20,000,000 per claim and \$20,000,000 per policy aggregate, in excess of the primary layer. The excess insurance limits are fully reinsured. Extended reporting coverage and tail coverage endorsements are available for purchase separately.

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

The Company has no employees. Its daily business operations are managed by Constellation in Minneapolis, Minnesota. Its captive manager, Advantage, provides regulatory services to the Company.

REINSURANCE

For the period under examination, the Company was a party to a quota-share reinsurance agreement with MMIC. Under the terms of the agreement, the Company ceded ninety-five percent (95%) of its premiums and losses of the Company's first \$1 million of net liability in respects of each occurrence, and one hundred percent (100%) of its premiums and losses in excess of \$1,000,000 in respect of each occurrence. The reinsurance agreement covers all policies issued or renewed by the Company classified as medical professional and general liability business written on a claims made or occurrence basis. The cyber and Medefense coverages added to its current policy form are one hundred percent (100%) reinsured with MMIC. The Company receives a ceding commission of thirty-five percent (35%) of the premiums ceded. The contract is automatically renewed each year until terminated by either party by written notice to the other given at least 60 days prior to the expiration date.

During 2020, MMIC RRG ceded premiums of \$23,309 to MMIC, and as of December 31, 2020, the Company reported estimated reinsurance recoverable on paid and unpaid losses totaling \$0, ceded loss reserves totaling \$0 and ceded unearned premiums totaling \$8,400. If the reinsurer was not able to meet its obligations under the treaty, 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, 2020. 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.

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BALANCE SHEET

ASSETS

	<i>December 31, 2020</i>
Cash, cash equivalents, and short-term investments	\$ 180,794
Aggregate write-ins for other than invested assets:	
Letter of credit (NOTE 1)	400,000
Deferred acquisition costs	1,043
Total	<u>\$ 581,837</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<i>December 31, 2020</i>
Losses (NOTE 2)	\$ -
Loss adjustment expenses (NOTE 2)	-
Commissions payable, contingent commissions and other similar charges	2,940
Taxes, licenses and fees (excluding federal and foreign income taxes)	15,081
Unearned premium (after deducting unearned premiums for ceded reinsurance of \$8,400)	442
Total liabilities	<u>\$ 18,463</u>
Surplus notes	\$ 600,000
Gross paid in and contributed surplus	400,000
Unassigned funds (surplus)	<u>(436,626)</u>
Surplus as regards policyholders	<u>\$ 563,374</u>
Total	<u><u>\$ 581,837</u></u>

STATEMENT OF INCOME

	<i>December 31, 2020</i>
UNDERWRITING INCOME	
Premiums earned	\$ 1,330
DEDUCTIONS	
Losses incurred	-
Loss adjustment expenses incurred	-
Other underwriting expenses incurred	76,561
Total underwriting expenses	\$ 76,561
Underwriting loss	\$ (75,231)
Federal income taxes incurred	-
Net Loss	<u>\$ (75,231)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015	<u>\$ 593,057</u>
Net loss, 2016	(36,198)
Change in net deferred income tax	(70,361)
Change in nonadmitted assets	<u>70,361</u>
Net change in surplus as regards policyholders, 2016	<u>(36,198)</u>
Surplus as regards policyholders, December 31, 2016	<u>\$ 556,859</u>
Net loss, 2017	<u>(30,297)</u>
Net change in surplus as regards policyholders, 2017	<u>(30,297)</u>
Surplus as regards policyholders, December 31, 2017	<u>\$ 526,562</u>
Net loss, 2018	(38,256)
Change in surplus notes	<u>200,000</u>
Net change in surplus as regards policyholders, 2018	<u>161,744</u>
Surplus as regards policyholders, December 31, 2018	<u>\$ 688,306</u>
Net loss, 2019	<u>(49,701)</u>
Net change in surplus as regards policyholders, 2019	<u>(49,701)</u>
Surplus as regards policyholders, December 31, 2019	<u>\$ 638,605</u>
Net loss, 2020	<u>(75,231)</u>
Net change in surplus as regards policyholders, 2020	<u>(75,231)</u>
Surplus as regards policyholders, December 31, 2020	<u>\$ 563,374</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 – Letter of Credit:

As of December 31, 2020, the Company's assets and surplus as regards policyholders included a \$400,000 letter of credit. Inclusion of letters of credit as assets and surplus as regards policyholders is not in accordance with SAP, however letters of credit approved by the Department are allowed as surplus as regards policyholders.

NOTE 2 – Loss and Loss Adjustment Expense Reserves:

The Company reported "Losses" and "Loss adjustment expenses" reserves net of reinsurance totaling \$0 and \$0, 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, 2020. Reserve credits taken as of December 31, 2020, for cessions to the Company's reinsurer totaled \$0.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2020 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 independent 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, 2020 appeared reasonable.

SUBSEQUENT EVENTS

Impact of COVID-19 on the Company's Operations:

The COVID-19 pandemic has continued to develop throughout 2021 and 2022, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industries. The Department is monitoring the COVID-19 outbreak for impacts to insurers (including risk retention groups), and to insurance products. Potential impacts to insurers include coverage disputes, reduced liquidity, delayed collection of receivables, increased claims, and impacts to other areas of operations. The Department and all insurance regulators, with the assistance of the National Association of Insurance Commissioners (NAIC), are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. During the examination no significant concerns or findings related to COVID-19 were noted and as of the date of this report, management has reported no significant impacts from COVID-19. The Department will continue to closely monitor the impact of the pandemic on the Company and will take necessary action if solvency concerns arise.

SUMMARY OF RECOMMENDATIONS

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

SIGNATURES

In addition to the undersigned, the following examiners representing the District of Columbia Department of Insurance, Securities and Banking participated in this examination as members of the examination team:

Thomas Mayberry, CFE, EWM Group, PC
Paul Sliwinski, ARe, EWM Group, PC
Chris Davis, EWM Group, PC
Koye Arulogun, EWM Group, PC
Michael Quaye, EWM Group, PC
Jenny Jeffers, CISA, AES, Jennan Enterprises
Joseph Detrick, CISA, AES, CFE, Jennan Enterprises


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

Respectfully submitted,



Philip D. Engelhart, CFE
Examiner-In-Charge
EWM Group, PC

Under the Supervision of,



Christine Afolabi
Supervising Examiner
District of Columbia Department of Insurance,
Securities and Banking

Karima M. Woods, Commissioner

Via E-mail

March 28, 2022

Jeff S. Pearson, President
MMIC Risk Retention Group, Inc.
1401 Eye Street NW, Suite 600
Washington, D.C. 20005

RE: Examination of MMIC Risk Retention Group, Inc., as of December 31, 2020

Dear Mr. Pearson:

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 MMIC Risk Retention Group, Inc., (the “Company”), as of December 31, 2020.

Please submit, to my attention, a written response calling attention to any errors or omissions. In addition, if this Report contains a section entitled “Summary of Recommendations” that discloses certain areas requiring action, the Company shall submit a statement covering the corrective measures which will be taken. If the Company’s position on any of these points is contrary to the Examiner’s findings, an explanation should be submitted covering each contested comment and/or recommendation.

If there are no errors or omissions to be brought to our attention, and there is no “Summary of Recommendations” requiring a response, please submit a statement that the Company accepts the Report.

The response must be in writing and shall be furnished to this Department by April 27, 2022. 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



March 29, 2022

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

Re: Report of Examination of 12/31/20
MMIC Risk Retention Group, Inc., NAIC Company Code – 14062

Dear Mr. O'Donnell:

On behalf of MMIC Risk Retention Group, I accept the Report of Examination as of December 31, 2020.

If you have any questions, please contact me at (952) 838-6797 or Jeff.Pearson@constellationmutual.com. Thank you.

Sincerely,

A handwritten signature in blue ink that reads "Jeff Pearson".

Jeff Pearson
President
MMIC Risk Retention Group, Inc.

Karima M. Woods, Commissioner

Via E-mail

March 30, 2022

Jeff S. Pearson, President
MMIC Risk Retention Group, Inc.
1401 Eye Street NW, Suite 600
Washington, D.C. 20005

RE: Examination of MMIC Risk Retention Group, Inc., as of December 31, 2020

Dear Mr. Pearson:

We are in receipt of your response, dated March 29, 2022, regarding the Report on Examination of MMIC Risk Retention Group, Inc., (the “Company”), as of December 31, 2020. 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

Enclosure