

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

Re: Report on Examination – COPIC, A Risk Retention Group as of December 31, 2021

ORDER

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **COPIC, A Risk Retention Group**, (the “Company”), as of December 31, 2021 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 16th day of February 2023, 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
Associate Commissioner
Risk Finance Bureau

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



DC DEPARTMENT OF
**INSURANCE, SECURITIES
AND BANKING**

REPORT ON EXAMINATION

COPIC, A RISK RETENTION GROUP

AS OF

DECEMBER 31, 2021

NAIC NUMBER 14906

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Washington, D.C.
December 20, 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

COPIC, A Risk Retention Group

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

SCOPE OF EXAMINATION

This full-scope examination, covering the period from January 1, 2017 through December 31, 2021, including any material transactions and/or events noted occurring subsequent to December 31, 2021, 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 are separately communicated to other regulators and/or the Company.

The Company was audited by an independent public accounting firm. The firm expressed unmodified opinions on the Company's financial statements for the calendar years 2017 through 2021. We placed substantial reliance on the audited financial statements for calendar years 2017 through 2020, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2021. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2021. 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, 2016, which covered the period of December 1, 2012 through December 31, 2016. There were no material adverse findings, significant findings of non-compliance, or material changes in the financial statements.

HISTORY

General:

COPIC RRG was incorporated as a mutual captive insurer operating as a risk retention group under the captive laws of the District of Columbia on December 1, 2012. The Company commenced business on October 14, 2014.

The Company was sponsored by COPIC Trust (“the Trust”), a Colorado health care trust. The Company was formed to initially provide medical professional liability insurance to individual practitioners, practice groups, hospitals, or other healthcare facilities initially in states which COPIC Insurance Company (“COPIC Insurance”), an affiliate, was not authorized to conduct business.

Membership:

As a risk retention group, the Company is owned by its member insureds, consisting of hospitals, healthcare systems, healthcare facilities, physician groups and individual practitioners.

As a mutual insurer, COPIC RRG 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 during the period under examination. For the years 2017 through 2021, with the approval of the Department, the Company paid a total of \$144,596 to the Trust for interest on the surplus note issued to the Trust.

MANAGEMENT AND CONTROL

Board of Directors and Officers:

The Company's directors serving as of December 31, 2021 were as follows:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Steven Adams Rubin* Colorado	President COPIC Trust
Deborah Smith Colorado	General Counsel CarePoint P.C.
Charlotte Michele Souder Colorado	Medical Staff Credentialing Manager Eating Recovery Center

The following persons were serving as the COPIC RRG's officers as of December 31, 2021:

<u>Name</u>	<u>Position</u>
Steven Adams Rubin*	President
John Peter Domeika	Secretary
Niles Allen Cole	Treasurer

*Gerald Zarlengo, M.D. replaced Steven Adams Rubin effective August 15, 2022.

Committees:

As of December 31, 2021, 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's directors and officers for the period under examination disclosed no conflicts of interest that would adversely impact 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:

USA Risk Group of Vermont, Inc. ("USA Risk") was the Company's captive manager from the Company's inception to May 30, 2017. Effective June 1, 2017, Advantage Insurance Management (USA), LLC ("Advantage") became the Company's captive manager. USA Risk and Advantage provided regulatory and captive management services to the Company during the examination period.

Affiliated Parties and Transactions:

In August 2015, the Company filed and the Department subsequently approved a disclaimer of affiliation from the Trust. Subsequently, in September 2017 the Company filed with the Department to withdraw the disclaimer of affiliation from the Trust. As a result, with the Department's approval and effective September 11, 2017, the Company became a member of the COPIC holding company system and the Trust became the Company's ultimate controlling entity.

The Trust has no ownership interest in the Company. However, the Trust 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, the Trust is the lender to the Company of \$1,800,000 pursuant to three Subordinated Surplus Note Agreements ("Surplus Notes").

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

The Trust provided the initial capitalization of the Company with a \$600,000 surplus note dated December 1, 2012 which matures on August 15, 2032. In May 2014, September 2016, and May 2019, the Trust amended the surplus note to increase the principal amount by \$350,000, \$100,000, and \$750,000 respectively. As of December 31, 2021, the total amount of the surplus note was \$1,800,000, with an annual interest rate of two percent (2%) payable in quarterly installments subject to approval of the Department. Under the Company's bylaws, until the surplus note is paid in full, with interest, the Trust has the right to appoint one third (1/3) of the members

to the Company's board of directors. During 2021, with the approval of the Department, the Company paid \$36,000 as interest on the surplus note.

Through a Services Agreement effective October 1, 2012, the Trust was responsible for managing the Company's daily business operations, providing underwriting, rating, accounting and financial reporting, claims administration, loss prevention, safety, and other program management services to the Company. Compensation for the services provided by the Trust is agreed upon in advance each year. Effective January 1, 2021, compensation for the services provided was limited to the Company's share of general and overhead expense incurred by the Trust and is settled on a quarterly basis. During 2021, the Company paid the Trust \$335,390.

In addition, the Company is party to a reinsurance agreement with COPIC Insurance, a wholly owned subsidiary of the Trust. See further details in the "Reinsurance" section of this Report.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, the Company was licensed in the District of Columbia, and was registered as a risk retention group in all states except West Virginia and Wisconsin. During 2021, the Company wrote gross premiums totaling \$12,662,529 in 32 states.

The Company offers medical professional liability and commercial general liability insurance to individual practitioners, practice groups, hospitals and other healthcare facilities with limits of \$1 million for each incident and \$3 million in the aggregate. Limits up to \$19 million for each incident and \$21 million in the aggregate are available for individual physicians. In addition, the Company offers umbrella limits to health care facility insureds with limits up to \$20 million, for which facilities must maintain minimum underlying limits of \$1 million for each incident and \$3 million in the aggregate in order to become eligible to purchase the umbrella policy. The Company, through a quota share reinsurance contract, limits its exposure to \$50,000 per occurrence and \$150,000 in the aggregate. See the "Reinsurance" section of this report for additional information regarding the Company's reinsurance coverage.

COPIC RRG has no employees. Its daily business operations are currently managed by the Trust in Denver, Colorado and by its captive manager, Advantage Insurance Management (USA) LLC in Burlington, Vermont.

REINSURANCE

Effective January 1, 2017, the Company entered into a quota share agreement with COPIC Insurance. Under the terms of the agreement, as of December 31, 2021, the Company retains five percent (5%) of losses up to \$1,000,000 each incident and up to \$3,000,000 aggregate, resulting in a maximum retention of \$50,000 per occurrence and \$150,000 aggregate. The Company cedes one hundred percent (100%) of losses in excess of \$1,000,000 up to \$19,000,000 each incident or occurrence and cedes (100%) of losses in excess of \$150,000 up to \$21,000,000 in the aggregate. COPIC Insurance Company is rated A (Excellent) by A.M. Best.

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, 2021. The financial statements were prepared in accordance with 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.

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

ASSETS

	<i>December 31, 2021</i>
Cash, cash equivalents, and short-term investments	\$ 4,053,687
Uncollected premiums and agents balances in course of collection	241,763
Deferred premiums and agents' balances and installments booked but deferred and not yet due	2,501,294
Receivables from parent and affiliates	20,282
Total	<u>\$ 6,817,026</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<i>December 31, 2021</i>
Losses (NOTE 1)	\$ 561,515
Loss adjustment expenses (NOTE 1)	265,786
Commissions payable, contingent commissions and other similar charges	68,185
Other expenses	32,532
Taxes, licenses and fees (excluding federal and foreign income taxes)	242,495
Unearned premium (after deducting unearned premiums for ceded reinsurance of \$4,371,000)	257,602
Advance premium	452,598
Ceded reinsurance premiums payable	3,646,573
Payable to parent and affiliates	47,403
Total liabilities	<u>\$ 5,574,689</u>
Surplus notes	\$ 1,800,000
Unassigned funds (surplus)	<u>(557,663)</u>
Surplus as regards policyholders	<u>\$ 1,242,337</u>
Total	<u><u>\$ 6,817,026</u></u>

STATEMENT OF INCOME

	<i>December 31, 2021</i>
UNDERWRITING INCOME	
Premiums earned	\$ 367,180
DEDUCTIONS	
Losses incurred	453,320
Loss adjustment expenses incurred	138,313
Other underwriting expenses incurred	44,739
Total underwriting deductions	<u>\$ 636,372</u>
Net underwriting loss	\$ (269,192)
INVESTMENT INCOME	
Net investment income earned	\$ (35,482)
Net loss before dividends and taxes	\$ (304,674)
Federal taxes	-
Net loss	<u>\$ (304,674)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016	\$ 660,060
Net income, 2017	27,569
Aggregate write-ins for gains and losses in surplus	(774)
Net change in surplus as regards policyholders, 2017	<u>26,795</u>
Surplus as regards policyholders, December 31, 2017	<u>\$ 686,855</u>
Net income, 2018	91,042
Change in nonadmitted assets	(89,704)
Net change in surplus as regards policyholders, 2018	<u>1,338</u>
Surplus as regards policyholders, December 31, 2018	<u>\$ 688,193</u>
Net income, 2019	18,057
Change in nonadmitted assets	(55,669)
Change in surplus notes	750,000
Net change in surplus as regards policyholders, 2019	<u>712,388</u>
Surplus as regards policyholders, December 31, 2019	<u>\$ 1,400,581</u>
Net income, 2020	8,598
Change in nonadmitted assets	134,145
Net change in surplus as regards policyholders, 2020	<u>142,743</u>
Surplus as regards policyholders, December 31, 2020	<u>\$ 1,543,324</u>
Net loss, 2021	(304,674)
Change in nonadmitted assets	3,687
Net change in surplus as regards policyholders, 2021	<u>(300,987)</u>
Surplus as regards policyholders, December 31, 2021	<u>\$ 1,242,337</u>

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Loss and Loss Adjustment Expenses Reserves:

The Company reported “Losses” and “Loss adjustment expenses” reserves net of reinsurance totaling \$561,515 and \$265,786, 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, 2021. Reserve credits taken for loss and loss adjustment expenses as of December 31, 2021, for cessions to the Company’s reinsurer totaled \$16,683,000.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2021 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, 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, 2021, 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.

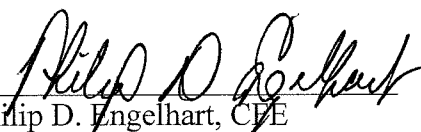
SIGNATURES

In addition to the undersigned, the following 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
Jenny Jeffers, CISA, AES, Jennan Enterprises
Joanna Latham, CISA, AES, CFE, CPA, Jennan Enterprises

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

Respectfully submitted,



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

Under the Supervision of,

Christine Afolabi

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

Via E-mail

February 3, 2023

Gerald V. Zarlengo, M.D., Chief Executive Officer
COPIC, A Risk Retention Group
1401 Eye Street N.W., Suite 600
Washington, D.C. 20005

RE: Examination of COPIC, A Risk Retention Group as of December 31, 2021

Dear Dr. Zarlengo:

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 COPIC, A Risk Retention Group (the “Company”), as of December 31, 2021.

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 March 7, 2023. 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



Administrative Office:
7351 E. Lowry Blvd., Ste 400
Denver, CO 80230

February 6, 2023

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

Dean Mr. O'Donnell,

This letter is in response to your department's February 3, 2023 Report on Examination of COPIC, A Risk Retention Group ("the RRG") as of December 31, 2021.

We accept the report as written.

Thank You,

Gerald Zarlengo, CEO

Cc: Christina Kindstedt, Advantage Insurance Management (USA) LCC

Via E-mail

February 9, 2023

Gerald V. Zarlengo, M.D., Chief Executive Officer
COPIC, A Risk Retention Group
1401 Eye Street N.W., Suite 600
Washington, D.C. 20005

RE: Examination of COPIC, A Risk Retention Group as of December 31, 2021

Dear Dr. Zarlengo:

We are in receipt of your response, dated February 6, 2023, regarding the Report on Examination of COPIC, A Risk Retention Group (the “Company”), as of December 31, 2021. 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 mail the originals of these affidavits to my attention at the Department, or, alternatively, PDFs may be emailed to my attention and submission of the originals is not required.

Please contact me at 202-442-8153 if you have any questions.

Sincerely,



Sean O'Donnell
Director of Financial Examination,
Risk Finance Bureau
sean.odonnell@dc.gov

Enclosure