

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

Re: Report on Examination – Sigma Risk Retention Group, Inc., as of December 31, 2022

ORDER

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **Sigma Risk Retention Group, Inc.**, (the “Company”), as of December 31, 2022 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 13th day of June 2024, 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
Deputy Commissioner
Market Operations



GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



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

REPORT ON EXAMINATION

SIGMA RISK RETENTION GROUP, INC.

AS OF

DECEMBER 31, 2022

NAIC NUMBER 13557

TABLE OF CONTENTS

Salutation	1
Scope of Examination	1
Summary of Significant Findings	2
Status of Prior Examination Findings	2
History.....	2
General.....	2
Membership	3
Dividends and Distributions	3
Management and Control.....	3
Board of Directors and Officers.....	3
Committees	4
Conflicts of Interest.....	4
Corporate Records	4
Captive Manager	4
Affiliated Parties and Transactions.....	4
Territory and Plan of Operation.....	5
Reinsurance.....	5
Financial Statements	6
Balance Sheet.....	7
Assets	7
Liabilities, Surplus and Other Funds	8
Statement of Income	9
Capital and Surplus Account	10
Analysis of Examination Changes to Surplus.....	10
Notes to Financial Statements.....	11
Subsequent Events	11
Summary of Recommendations	12
Signatures.....	12

Washington, D.C.
May 31, 2024

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

Sigma Risk Retention Group, Inc.

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

SCOPE OF EXAMINATION

This full-scope examination, covering the period from January 1, 2018 through December 31, 2022, including any material transactions and/or events noted occurring subsequent to December 31, 2022, 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 (“GAAP”). 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 2018 through 2022. We placed substantial reliance on the audited financial statements for calendar years 2018 through 2021, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2022. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2022. 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, 2017, which covered the period from January 1, 2013 through December 31, 2017. In the Report on the prior examination, dated March 5, 2019, 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 corporate records.

HISTORY

General:

Sigma RRG was licensed as an association captive insurance company operating as a risk retention group under the captive insurance laws of the District of Columbia on November 13, 2008 and commenced operations on December 8, 2008.

The Company was formed by the Grane Healthcare Group (“Grane Group”) to provide medical professional and general liability coverage to companies in the Grane Group, which are engaged in the development, ownership and management of facilitates and businesses which deliver comprehensive healthcare solutions to older adults in the Commonwealth of Pennsylvania.

Membership:

The Company's articles of incorporation authorize the issuance of 10,000 shares of common stock with no par value. As of December 31, 2022, the Company had 6,885 issued and outstanding shares at an issue price of \$500 per share. The Company's stock is owned equally by its members/policyholders, with each member/policyholder owning 135 shares of stock. All members/policyholders are affiliated members of the Grane Group, which is ultimately owned by the following individuals: Richard A. Graciano, Jr. (33.33%), David F. Graciano (33.33%), Ross J. Nese (25.00%) and Jeffrey J. Graciano (8.34%). See the "Subsequent Events" section of this Report for subsequent changes to the Company's outstanding shares.

Dividends and Distributions:

The Company did not declare or pay any dividends during the period under examination. In 2018, the Company requested and obtained approval from the Department to redeem/repurchase outstanding shares in the amount of \$67,500 due to the termination of the respective member's insurance policy.

MANAGEMENT AND CONTROL

Board of Directors and Officers:

The Company's directors serving as of December 31, 2022 were as follows:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Richard A. Graciano, Jr. (Chair) Florida	Chief Executive Officer Executive Business Advisors, Inc
Ross J. Nese Florida	Retired Executive
Jeffrey J. Graciano Florida	Retired Executive
David J. Kearney Pennsylvania	Chief Financial Officer Practical Administrative Solutions, LP

The following persons were serving as the Company's officers as of December 31, 2022:

<u>Name</u>	<u>Position</u>
Ross J. Nese	President
Jeffrey J. Graciano	Vice President
David J. Kearney	Treasurer
Joseph Balestrino	Secretary and General Counsel

Committees:

As of December 31, 2022, the Company's board of directors had established the following committees:

Audit Committee

Richard A. Graciano, Jr.
David J. Kearney

Investment Committee

Richard A. Graciano, Jr.
David J. Kearney
Marlene Campas

Underwriting Committee

Richard A. Graciano, Jr.
David J. Kearney
Maria Soohy

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:

Aon Insurance Managers (USA), Inc. ("Aon") has been the Company's captive manager since inception and provides regulatory and annual statement preparatory services to the Company.

Affiliated Parties and Transactions:

As previously mentioned in the "History" section of this Report, the Company was formed by the Grane Group to provide medical professional liability and general liability insurance to its affiliated companies. The Company is equally owned by its members/policyholders. All members/policyholders of the Company are affiliated companies of the Grane Group, which is ultimately controlled by Richard A. Graciano, Jr, David F. Graciano, Jeffrey J. Graciano and Ross J. Nese.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Company was licensed in the District of Columbia, and was registered as a risk retention group in the Commonwealth of Pennsylvania. During 2022, the Company wrote gross premiums totaling \$2,131,627, all in Pennsylvania.

The Company was formed to provide medical professional liability and general liability coverage to affiliated companies of the Grane Group, which primarily provides healthcare and related services to older adults residing in the Commonwealth of Pennsylvania.

The majority of the Company's policies provide medical professional liability coverage, on a claims made basis to members, with limits of \$1,000,000 per occurrence and \$3,000,000 in the annual aggregate. For members participating in the Pennsylvania Medical Care Availability and Reduction of Error ("MCARE") Fund, the medical professional liability policy limits are \$500,000 per occurrence with an annual aggregate of \$1,500,000. The MCARE Fund is a medical liability coverage fund run by the Commonwealth of Pennsylvania. Sigma RRG provides the first \$500,000 layer and the second layer is covered by the MCARE Fund. In addition to the medical professional liability insurance, the Company provides its insureds with general liability coverage with limits of \$1,000,000 per occurrence and \$3,000,000 in the annual aggregate. The general liability coverages were on a claims-made basis through the policy period ending December 8, 2018. For policies commencing on December 9, 2018, the coverages are on an occurrence basis. The Company also provides tail coverage on a claims made basis for the medical professional liability and general liability coverages.

The Company has no employees and its daily business operations are managed by various service providers. During the examination period and as of the date of this report, the Company's captive manager, Aon, managed the Company's regulatory filings and financial reporting from its offices in Washington, D.C. Captive Insurance Management Group ("CIMG") performed underwriting services, policy issuance, and MCARE premium billing and collection. Claims administration services and risk management were provided by Gordon Rees Scully Mansukhani, LLP ("GRSM"). CIMG and GRSM are unaffiliated third-party service providers.

REINSURANCE

During the period under examination, the Company did not assume or cede any business. Effective December 2010, Sigma RRG was granted approval by the Department to operate without reinsurance, provided that the Company established a custodial account totaling \$750,000. See Note 1 in the "Notes to Financial Statements" section of this report for further comments regarding the custodial account.

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, 2022. The financial statements were prepared in accordance with GAAP 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>
Balance Sheet:	7
Assets	7
Liabilities, Surplus and Other Funds	8
Statement of Income	9
Capital and Surplus Account	10
Analysis of Examination Changes to Surplus	10

BALANCE SHEET

ASSETS

	December 31, 2022
Cash (\$10,043,874), cash equivalents (\$1,503,604) and short-term investments (\$8,501,172)	\$ 20,048,650
Restricted cash (NOTE 1)	750,013
Investment income due and accrued	129,189
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,991,465
Current federal income tax recoverable	6,570
Net deferred tax asset	431,705
Deferred policy acquisition costs	39,829
Prepaid premium tax	6,861
Total	<u>\$ 23,404,282</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	December 31, 2022
Losses (NOTE 2)	\$ 9,294,393
Loss adjustment expenses (NOTE 2)	4,166,852
Other expenses (excluding taxes, licenses and fees)	111,745
Taxes, licenses and fees (excluding federal and foreign income taxes)	15,000
Unearned premiums	1,991,465
Payable to parent, subsidiaries and affiliates	47
Aggregate write-ins for liabilities	<u>2,453</u>
Total liabilities	<u>\$ 15,581,955</u>
Common capital stock	\$ 3,442,500
Unassigned funds (surplus)	<u>4,379,827</u>
Total capital and surplus	<u>\$ 7,822,327</u>
Total	<u><u>\$ 23,404,282</u></u>

STATEMENT OF INCOME

	December 31, 2022
UNDERWRITING INCOME	
Premiums earned	\$ 2,081,202
DEDUCTIONS	
Losses incurred	1,563,602
Loss adjustment expenses	1,264,902
Other underwriting expenses incurred	273,634
Total underwriting expenses	<u>\$ 3,102,138</u>
Net underwriting loss	\$ (1,020,936)
INVESTMENT INCOME	
Net investment income earned	143,201
Income before dividends and taxes	\$ (877,735)
Federal taxes	(184,324)
Net loss	<u><u>\$ (693,411)</u></u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017	<u>\$ 7,508,412</u>
Net loss, 2018	(378,784)
Capital changes: Paid in	<u>(67,500)</u>
Net change in surplus as regards policyholders, 2018	<u>(446,284)</u>
Surplus as regards policyholders, December 31, 2018	<u>\$ 7,062,128</u>
Net income, 2019	<u>2,037,791</u>
Net change in surplus as regards policyholders, 2019	<u>2,037,791</u>
Surplus as regards policyholders, December 31, 2019	<u>\$ 9,099,919</u>
Net loss, 2020	<u>(514,117)</u>
Net change in surplus as regards policyholders, 2020	<u>(514,117)</u>
Surplus as regards policyholders, December 31, 2020	<u>\$ 8,585,802</u>
Net loss, 2021	<u>(70,064)</u>
Net change in surplus as regards policyholders, 2021	<u>(70,064)</u>
Surplus as regards policyholders, December 31, 2021	<u>\$ 8,515,738</u>
Net loss, 2022	<u>(693,411)</u>
Net change in surplus as regards policyholders, 2022	<u>(693,411)</u>
Surplus as regards policyholders, December 31, 2022	<u>\$ 7,822,327</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 – Cash, Cash Equivalents and Short-Term Investments:

As of December 31, 2022, the Company reported “Restricted cash” totaling \$750,013, which was held in a custodial account established in 2010 upon the request of the Department. Under terms of an “Insurance Company Custodial Agreement” executed with a third-party custodian, the custodian serves as custodian of the funds which are held for the benefit of the Department. Except upon written direction of the Commissioner, withdrawals from the account may not be made if as a result of a withdrawal the balance in the account would fall below \$750,000. Funds in the account must be comprised of cash and cash equivalents. The Company has discretion over the investments in the account within guidelines established by the Department and is entitled to receive investment income on the funds.

NOTE 2 – Loss and Loss Adjustment Expenses Reserves:

The Company reported “Losses” and “Loss adjustment expenses” reserves net of reinsurance totaling \$9,294,393 and \$4,166,852, 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, 2022.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2022 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, 2022, were reasonable and adequate.

SUBSEQUENT EVENTS

1. Repurchase of Shares of Common Stock:

In June 2023, the assets and operations of twenty-four (24) of fifty-one (51) members of the Grane Group were sold to an unaffiliated buyer. In August 2023, three (3) additional members ceased operations in connection with the sale of these 24 entities. The Company purchased the shares of these 27 members for the cost of their investment in the Company. The total shares purchased were 3,645 shares or 53% of the issued and outstanding shares prior to the sale. There are currently 3,240 shares issued and outstanding. As a result of the stock redemptions, which were approved by the Department, there was no change in control of Sigma RRG.

2. Registration in the State of New Jersey:

In November 2023, as a result of the expansion of the Grane Group expanding its service territory into the State of New Jersey, the Department approved Sigma RRG's request to register in and write business in the State of New Jersey. In March 2024 the State of New Jersey Department of Banking and Insurance approved the Company to operate as a Risk Retention Group. During 2024, the Company wrote General Liability coverage with limits of \$1,000,000 per occurrence and \$3,000,000 in the annual aggregate to a New Jersey policyholder. Beginning in 2025, the Company plans to begin writing professional liability coverage in New Jersey.

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: Michael Nadeau, CFE, CISA; Karen Milster, CFE; James Menck, CFE and Stefan Obereichholz-Bangert, AES, CISA.

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

Respectfully submitted,



Juli-Kay Baumann, CFE, CIE
Examiner-In-Charge
Noble Consulting Services, Inc.

Under the Supervision of,



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

Via E-mail

June 11, 2024

Ross J. Nese, President
Sigma Risk Retention Group, Inc.
C/o Aon Risk Services, Inc.
2001 K Street, NW, Ste 625N
Washington, D.C. 20006

RE: Examination of Sigma Risk Retention Group, Inc., as of December 31, 2022

Dear Mr. Nese:

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 Sigma Risk Retention Group, Inc., (the “Company”), as of December 31, 2022.

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 20, 2024. 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 &
Acting Associate Commissioner
Risk Finance Bureau
Enclosure

Sigma Risk Retention Group, Inc.

c/o AON INSURANCE MANAGERS
2001 K Street, NW
Suite 625 North
Washington, DC 20006

Telephone: (202) 862-5339
Facsimile: (847) 953-3462

June 13, 2024

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

RE: Examination of Sigma Risk Retention Group, Inc. as of December 31, 2022

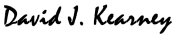
Dear Mr. O'Donnell,

We reviewed and accept the draft Report on Examination as of December 31, 2022 dated May 31, 2024 for Sigma Risk Retention Group, Inc.

Thank you for your Department's efforts with regard to the examination of the Company.

If you have any questions or concerns, please call me at (412) 963-0700 ext 10192 or email me at dkearney@pas-lp.com.

Sincerely,

DocuSigned by:

97D7D884F4C941D...
David J. Kearney
Treasurer

CC: Each member of the Board of Directors of the Company

Via E-mail

June 13, 2024

Ross J. Nese, President
Sigma Risk Retention Group, Inc.
C/o Aon Risk Services, Inc.
2001 K Street, NW, Ste 625N
Washington, D.C. 20006

RE: Examination of Sigma Risk Retention Group, Inc., as of December 31, 2022

Dear Mr. Nese:

We are in receipt of your response, dated June 13, 2024, regarding the Report on Examination of Sigma Risk Retention Group, Inc., (the “Company”), as of December 31, 2022. 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 10 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 and
Acting Associate Commissioner
Risk Finance Bureau
sean.odonnell@dc.gov

Enclosure