

Karima M. Woods, Commissioner

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

Re: Report on Examination – UC Health, RRG (A Reciprocal Risk Retention Group) as of
December 31, 2020

ORDER

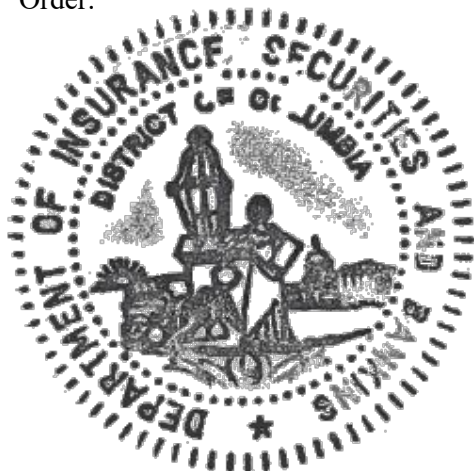
In accord with the authority established by D.C. Official Code § 31-1402, an examination of **UC Health, RRG (A Reciprocal Risk Retention Group)**, (the “Company”), as of December 31, 2020 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“Department”). The 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 25th 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

UC HEALTH, RRG (A RECIPROCAL RISK
RETENTION GROUP)

AS OF

DECEMBER 31, 2020

NAIC NUMBER 16015

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Washington, D.C.
February 16, 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

UC Health, RRG (A Reciprocal Risk Retention Group)

hereinafter referred to as the “Company” or “UC Health”.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from August 26, 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 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 Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the Company.

The Company was audited by an independent public accounting firm for calendar years 2018 through 2020 and the firm expressed an unqualified opinion on the Company's financial statements. For years 2016 and 2017, the Company received an exemption from the Department for an annual audit due to the lack of written premiums. We concentrated our examination efforts on the year ended December 31, 2020. 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

This is the first examination of the Company.

HISTORY

General:

The Company was licensed as a captive insurance company operating as a reciprocal risk retention group under the captive insurance laws of the District of Columbia on August 26, 2016 and commenced business on November 1, 2017.

The Company was established by the University of California ("UC") to provide medical professional liability insurance to independent physicians and physician groups affiliated with the UC and practicing at UC facilities, and to provide vicarious liability coverage to the Regents of the University of California ("Regents"). The UC, which was founded in 1868, has 10 campuses and approximately 252,000 students and 145,000 faculty and staff. The UC also manages three U.S. Department of Energy national laboratories and also has five academic medical centers and several health professional schools. The UC is governed by the Regents, a 26-member board established under the California Constitution. The UC has previously established a pure captive insurance company, Fiat Lux Risk and Insurance Company ("Fiat Lux"), in the District of Columbia.

The Company is owned by its member insureds, and through a Subscriber Agreement and Power of Attorney, the member insureds give the authority to manage UC Health to its attorney-in-fact, UC Health RRG AIF, LLC, (“AIF”), a District of Columbia limited liability company. The Company is the sole member of the AIF.

Membership:

The Company is authorized to issue Class A and Class B membership certificates in accordance with the Company’s Rules & Regulations. The UC is the sole member holding the Class A voting and participating certificates. Class B members include individual physicians and physician practice groups or entities that are affiliated with the UC and are practicing at UC facilities.

Dividends and Distributions:

The Company did not declare or pay any dividends during the period under examination. For the years 2016 through 2020, with the approval of the department, the Company paid a total of \$314,521 to Fiat Lux for interest on a surplus note issued to the Company.

MANAGEMENT AND CONTROL

Subscribers Advisory Committee (“SAC”) and Officers:

The AIF Operating Agreement established the SAC as the governing body of the Company. The SAC members serving as of December 31, 2020 were as follows:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Ron Amodeo California	Chief Strategy Officer University of California, Davis Health System
Douglas Cates California	Chief Strategy Officer University of California, San Diego Health System
Shelby Decosta California	Senior Vice President and Chief Strategy Officer University of California, San Francisco
Cheryl Lloyd California	Chief Risk Officer University of California
Santiago Munoz California	Chief Strategy Officer University of California, Los Angeles Health System

Rachel Nosowsky
California

Deputy General Counsel
Health Affairs and Technology Law
University of California

The following persons were serving as the Company officers as of December 31, 2020:

<u>Name</u>	<u>Position</u>
Cheryl Lloyd*	President
Courtney Claflin	Vice President
Nathan Brostrom	Treasurer
Rachel Nosowsky	Secretary

Committees:

As of December 31, 2020, the Company's board of directors had established the following committees.

<u>Audit and Finance</u>	<u>Underwriting and Claims</u>
Douglas Cates, Chair	Cheryl Lloyd*
Ron Amodeo	Shelby Decosta
Santiago Munoz	Rachel Nosowsky

*Cheryl Lloyd was replaced by Kevin Confetti effective July 28, 2021.

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 SAC members 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 members and the SAC 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 Towers Watson Management (Vermont) Ltd. has been the Company's captive manager since inception and provides captive management services to the Company, including regulatory compliance and annual statement preparation services.

Affiliated Parties and Transactions:

The Company is a member of the UC system. During the period under examination and up to the date of this Report, the Company has the following agreements with affiliates:

Under a \$2 million surplus note dated November 9, 2016, Fiat Lux provided the initial capitalization of the Company. The surplus note was amended December 21, 2020 to add additional principal totaling \$1 million. The \$3 million note, which has an interest rate of five percent (5%) per annum, matures December 31, 2026.

Through a Professional Services Agreement effective August 26, 2016, UC is responsible for providing various services to the Company, including financial management, accounting, information technology, underwriting, claims handling, and risk management. During 2020, the Company incurred fees of \$75,000 under this agreement.

Effective August 26, 2016, UC Health entered into a Power of Attorney and Management Services Agreement with AIF. Pursuant to the agreement, AIF provides services customarily provided by an attorney-in-fact of a reciprocal risk retention group and as required under the Company's Subscriber Agreement and Power of Attorney. Compensation for the services provided is limited to an agreed upon fee. During 2020, the Company incurred fees of \$1,000 under this agreement.

In addition, the Company is party to a reinsurance agreement with Fiat Lux. See further details 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 California. During 2020, the Company wrote direct premiums totaling \$402,843, all in California.

For the period under examination, the Company provided professional liability coverage with policy limits of \$1,000,000 per claim and \$3,000,000 in the aggregate to independent physicians and physician groups affiliated with the UC. The Company offers, as part of the professional liability policies, regulatory liability and information security and privacy coverage, with limits of liability ranging from \$5,000 to \$250,000. In addition, the Company provided vicarious liability coverage to the Regents to cover the Regents' potential exposure to vicarious liability associated with the independent physicians and physician groups. This coverage had policy limits of \$1,000,000 per claim and no annual aggregate. The Company limits its maximum losses through its reinsurance agreements, as discussed below in the "Reinsurance" section of this report.

During the examination period and as of the date of this report, the Company has no employees. Its daily business operations are managed by affiliates as detailed in the "Affiliated Parties and Transactions" section of this report. The Company's captive manager, Willis Towers Watson

Management (Vermont) Ltd., provides accounting and regulatory services from offices in Burlington, Vermont.

REINSURANCE

The Company does not assume reinsurance.

During the period under examination, the Company maintained a ceded excess of loss reinsurance agreement with Hannover Ruck SE and ProSelect Insurance Company, each with a fifty percent (50%) share, for medical professional liability losses in the ceded layer. Under the terms of the agreement, the Company cedes \$750,000 in excess of \$250,000 for each loss.

Effective January 1, 2017, the Company entered into a reinsurance agreement with Fiat Lux. Under the terms of the agreement, the Company cedes \$750,000 in excess of \$250,000 of its liabilities under its medical professional vicarious liability coverage.

Effective November 1, 2016, the Company entered into a quota share reinsurance agreement with ProSelect Insurance Company (ProSelect). Pursuant to the reinsurance agreement, the Company cedes one hundred percent (100%) of its liabilities arising from claims made under its regulatory liability and information security and privacy coverages to ProSelect.

During 2020, the Company ceded reinsurance premiums totaling \$197,784. As of December 31, 2020, the Company reported as assets “Amounts recoverable from reinsurers” totaling \$5,169, which represents amounts recoverable from reinsurers on paid losses. In addition, the Company reported ceded loss reserves on unpaid losses of \$200,205 and reported ceded unearned premiums of \$24,871. These ceded amounts are reported as a reduction of the Company’s liabilities for loss reserves and unearned premium reserves. If the reinsurers were not able to meet their obligations under the reinsurance agreements, 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 GAAP prescribed or permitted by the Department. Management is responsible for the preparation and fair presentation of these financial statements. The accompanying comments on the 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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The accompanying Notes to Financial Statements are an integral part of these Financial Statements.

BALANCE SHEET**ASSETS**

	<i>December 31, 2020</i>
Cash	<u>\$ 2,053,287</u>
Subtotal cash and invested assets	\$ 2,053,287
Accounts and premiums receivable	150,429
Amounts recoverable from reinsurers	5,169
Net deferred tax asset	537,709
Receivable from parent, subsidiaries and affiliates	100
Aggregate write-ins for other than invested assets	170,170
Total	<u><u>\$ 2,916,864</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<i>December 31, 2020</i>
Losses (NOTE 1)	\$ 371,088
Loss adjustment expenses (NOTE 1)	43,797
Other expenses (excluding taxes, licenses and fees)	42,215
Taxes, licenses and fees (excluding federal and foreign income taxes)	22,972
Unearned premium (after deducting unearned premiums for ceded reinsurance of \$24,871)	111,652
Payable to parent, subsidiaries and affiliates	<u>100,411</u>
Total liabilities	<u>\$ 692,135</u>
Surplus notes	\$ 3,000,000
Gross paid in and contributed surplus	1,252,400
Unassigned funds (surplus)	<u>(2,027,671)</u>
Surplus as regards policyholders	<u>\$ 2,224,729</u>
Total	<u><u>\$ 2,916,864</u></u>

STATEMENT OF INCOME

	<i>December 31, 2020</i>
UNDERWRITING INCOME	
Net premiums earned	\$ 155,141
DEDUCTIONS	
Losses incurred	99,037
Loss adjustment expenses incurred	53,324
Other underwriting expenses incurred	533,243
Total underwriting expenses	\$ 685,604
Underwriting loss	\$ (530,463)
INVESTMENT INCOME	
Net investment income earned	(97,698)
Income before dividends and taxes	\$ (628,161)
Federal and foreign income taxes incurred	(146,116)
Net income	\$ <u>(482,045)</u>

CAPITAL AND SURPLUS ACCOUNT

Initial capital:	
Surplus note	\$ 2,000,000
Net loss, 2016	(224,432)
Net change in surplus as regards policyholders, 2016	<u>1,775,568</u>
Surplus as regards policyholders, December 31, 2016	<u>\$ 1,775,568</u>
Net loss, 2017	(420,036)
Surplus adjustment: Paid in	100
Net change in surplus as regards policyholders, 2017	<u>(419,936)</u>
Surplus as regards policyholders, December 31, 2017	<u>\$ 1,355,632</u>
Net loss, 2018	(367,782)
Surplus adjustment: Paid in	1,250,300
Net change in surplus as regards policyholders, 2018	<u>882,518</u>
Surplus as regards policyholders, December 31, 2018	<u>\$ 2,238,150</u>
Net loss, 2019	(533,377)
Surplus adjustment: Paid in	700
Net change in surplus as regards policyholders, 2019	<u>(532,677)</u>
Surplus as regards policyholders, December 31, 2019	<u>\$ 1,705,473</u>
Net loss, 2020	(482,045)
Change in surplus notes	1,000,000
Rounding differences	1
Surplus adjustment: Paid in	1,300
Net change in surplus as regards policyholders, 2020	<u>519,256</u>
Surplus as regards policyholders, December 31, 2020	<u>\$ 2,224,729</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 Expense Reserves:

As of December 31, 2020, the Company reported “Losses” and “Loss adjustment expenses” reserves net of reinsurance totaling \$371,088 and \$43,797, respectively. These reserves represent management’s best estimate of the net amounts necessary to pay all claims and related expenses that have been incurred but are still unpaid as of December 31, 2020.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expense 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, 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, 2020, were reasonable and adequate.

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.

Pending Dissolution of the Company:

During December 2021, the Company notified the Department of its plans to dissolve during 2022 and indicated a plan for the run-off and dissolution of the Company would be submitted to the Department in early 2022. In January 2022, the Company sent notices of non-renewal to its policyholders. As of the date of this Report, the Department has not yet received the Company’s dissolution plan, which will be subject to approval and monitoring by the Department, and will include transferring, with member approval, all remaining insurance liabilities of the Company to insurers or reinsurers approved by the Department.

SUMMARY OF RECOMMENDATIONS

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

SIGNATURES

In addition to the undersigned, Michael Nadeau, CFE, from Eide Bailly, LLP, representing the Department, participated in this examination as a member of the examination team.

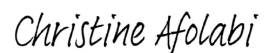
The actuarial portion of this examination was completed by David A. Christhlf, ACAS, MAAA, of the Department.

Respectfully submitted,



James R. Burch, CFE
Examiner-In-Charge
Eide Bailly, LLP

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 1, 2022

Kevin Confetti, President
UC Health, RRG (A Reciprocal Risk Retention Group)
100 Bank Street, Suite 500
Burlington, VT 05401

RE: Examination of UC Health, RRG (A Reciprocal Risk Retention Group) as of
December 31, 2020

Dear Mr. Confetti:

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 UC Health, RRG (A Reciprocal Risk Retention Group), (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 March 31, 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



UC Health, RRG (A Reciprocal Risk Retention Group)
1608 Rhode Island Ave, NW
Washington, DC 20036

March 23, 2022

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

RE: Examination UC Health, RRG (A Reciprocal Risk Retention Group)

This letter serves as a formal acceptance of the Examination of UC Health, RRG (A Reciprocal Risk Retention Group) as of December 31, 2020. There are no errors or omissions to be brought to your attention, and there is no "Summary of Recommendations" requiring a response.

Please let me know if you have any questions.

Sincerely,

DocuSigned by:
A handwritten signature in black ink that reads "Kevin Confetti".
F92E44CE4F39455...

Kevin Confetti
President, UC Health, RRG

CC: Courtney Claflin, UCOP
Matthew Iamelli, Willis Towers Watson

Karima M. Woods, Commissioner

Via E-mail

March 25, 2022

Mr. Kevin Confetti, President
UC Health, RRG (A Reciprocal Risk Retention Group)
1608 Rhode Island Avenue, NW
Washington, D.C. 20036

RE: Examination of UC Health, RRG (A Reciprocal Risk Retention Group) as of
December 31, 2020

Dear Mr. Confetti:

We are in receipt of your response, dated March 23, 2022, regarding the Report on Examination of UC Health, RRG (A Reciprocal Risk Retention Group) (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