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

Thomas E. Hampton
Commissioner

BEFORE THE INSURANCE COMMISSIONER OF THE DISTRICT OF COLUMBIA

Re: Report on Examination - **DuBois Medical Risk Retention Group,** as of December 31, 2007

ORDER

An Examination of **DuBois Medical Risk Retention Group,** as of December 31, 2007 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

It is hereby ordered on this 22nd day of July, 2009, that the attached financial condition examination report be adopted and filed as an official record of this Department.

In addition, it is hereby ordered that the Company comply with the recommendations in the attached financial condition examination report.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.

Thomas E. Hampton
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

REPORT ON EXAMINATION

DuBois Medical Risk Retention Group

AS OF

DECEMBER 31, 2007

NAIC NUMBER 11842

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Washington, D.C.
March 23, 2009

Honorable Thomas E. Hampton
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Sir:

In accordance with Section 31-3931.14 of the District of Columbia Official Code, we have examined the financial condition and activities of

DuBois Medical Risk Retention Group

hereinafter referred to as the "Company" or "DuBois."

SCOPE OF EXAMINATION

This full-scope examination, covering the period from September 5, 2003 through December 31, 2007, including any material transactions and/or events noted occurring subsequent to December 31, 2007, was conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

Our examination was conducted in accordance with examination procedures established by the Department and procedures recommended by the National Association of Insurance Commissioners ("NAIC") and, accordingly, included such tests of the accounting records and such other examination procedures as we considered necessary in the circumstances.

Our examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2003 through 2007. We placed substantial reliance on the audited financial statements for calendar years 2003 through 2006, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2007. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2007. 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 workpapers.

STATUS OF PRIOR EXAMINATION FINDINGS

This is the first examination of the Company.

HISTORY

General:

DuBois was licensed as an association captive insurance company under the captive laws of the District of Columbia on September 5, 2003, operating as risk retention group, and commenced business on the same day. The Company was organized for the purpose of enabling the DuBois Regional Medical Center ("DRMC") and related entities to access the state of Pennsylvania's MCare program, which provides excess medical malpractice coverage to Pennsylvania entities that insure primary layers of medical malpractice coverage with qualified insurers, which include risk retention groups.

The Company offers claims-made institutional medical malpractice coverage to its controlling member, DRMC, and related entities. The coverage is for the hospital and related entities, but not for individual physicians. The Company also offers commercial general liability insurance to DRMC and related entities on an occurrence basis with $1,000,000 per occurrence and $1,000,000 aggregate coverage. The Company is only registered in the state of Pennsylvania, where it wrote 100 percent of its premium in 2007.

Membership:

The Company is authorized to issue Class A and Class B membership certificates in accordance with the Company's articles of incorporation. DRMC is the sole member holding the Class A voting and participating certificates. Six other entities each hold ten shares each of Class B limited voting, non-participating certificates. All of these entities, except for the Free Medical Clinic of DuBois, are wholly or majority owned by DRMC.

The Company does not have a shareholder subscription agreement since only one entity owns the voting and participating certificates. All of the Company's certificates were issued in 2003. Subsequent to the examination period, the Company issued ten shares of Class B certificates to Gateway Area Medical Associates, an affiliated entity.

Class A and Class B membership certificates have a $100 par value. 3,000 Class A certificates were authorized and 2,000 were issued and outstanding at December 31, 2007. 1,000 Class B certificates were authorized and 60 were issued and outstanding at December 31, 2007. The Company records the Class B shares as "Preferred stock".

Dividends and Distributions:

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

MANAGEMENT

The following persons were serving as the Company's directors as of December 31, 2007:

Name and State of Residence	Principal Occupation
Raymond Graeca, Chairman Pennsylvania	President DuBois Regional Medical Center
Brian Kline Pennsylvania	Controller DuBois Regional Medical Center
John Sutika Pennsylvania	Senior Vice President DuBois Regional Medical Center
Gregory Volpe Pennsylvania	Risk Manager DuBois Regional Medical Center

Section 31-3931.11(d) of the D.C. Official Code requires the board of directors of a captive insurer to meet at least one time each year in the District. While the Company's board of directors held regular meetings throughout the examination period, the board members have not been physically present for a board meeting in the District since 2004. We were informed by management that it believes the Company was in compliance with the annual meeting requirement in 2007 and 2008 by having the captive manager facilitate a conference call from offices within the District whereby the board members called in to the District location, from locations outside of the District, for a board meeting. See the "Comments and Recommendations" section of this Report, under the caption "Board Meetings," for further comments regarding this condition.

The following persons were serving as the Company's officers as of December 31, 2007:

Name	Title
Raymond Graeca	President
Brian Kline	Treasurer
John Sutika	Secretary
Gregory Volpe	Risk Manager

Committees:

As of December 31, 2007, the Company’s board of directors has established the following committees:

Audit Committee:	Investment Committee:
Raymond Graeca, Chair	Gregory Volpe, Chair
John Sutika	Brian Kline

Conflicts of Interest:

The Company has adopted a Conflict of Interest policy. The policy does not require annual certification but instead only requires that a director or officer notify the board if a conflict of interest or potential conflict of interest becomes known. We noted that the Company’s officers and directors signed conflict of interest statements only for the year 2003. However, the D.C. municipal regulations require these statements to be certified on an annual basis by all captives’ directors, officers, and key employees. See the “Comments and Recommendations” section of this Report, under the caption “Conflicts of Interest Policy” for further comments regarding this condition.

Corporate Records:

We reviewed the minutes of the meetings of the board of directors and shareholders for the period under examination. Based on our review, it appears that the minutes documented the board’s review and approval of the Company's significant transactions and events.

CAPTIVE MANAGER

McCarran Ferguson Captive Management Company, Inc. (“McCarran Ferguson”) is the Company’s captive manager, and provides services including record retention, regulatory compliance and other management services.

AFFILIATED PARTIES AND TRANSACTIONS

The Company pays DRMC, which holds all of the Class A voting certificates, for administrative expenses, including accounting. Payments to DRMC were $12,000 in 2007. All premium revenue is derived from DRMC and its related entities. The Company’s board of directors consists of officers and directors of DRMC.

FIDELITY BOND AND OTHER INSURANCE

The Company does not maintain individual fidelity bond coverage. The Company has no employees and is covered under the DRMC employee theft coverage policy. This policy provides adequate coverage based on NAIC guidelines. No employee theft coverage is required under the agreements with the Company's captive manager and claims administrator.

PENSION AND INSURANCE PLANS

The Company has no employees and therefore has no employee pension or insurance plans.

STATUTORY DEPOSITS

As of December 31, 2007, the Company did not have any statutory deposits in the District of Columbia and was not required to maintain any such deposits. In addition, the Company was not required to maintain statutory deposits with any other jurisdictions.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2007, the Company was licensed in the District of Columbia and was registered as a risk retention group in Pennsylvania. $1,000,000 (100 percent) of the Company's written premium in 2007 was in Pennsylvania.

The Company writes one annual policy which offers claims-made institutional medical malpractice coverage to DRMC and related entities (i.e., coverage is for the hospital and related entities, not for individual physicians). The policy includes basic coverage of $500,000 per occurrence and $2,500,000 aggregate annually for all but DuBois Regional Medical Group, whose coverage limits are $500,000 per occurrence and $1,500,000 in the aggregate. The policy also includes commercial general liability insurance to DRMC and related entities on an occurrence basis with $1,000,000 per occurrence and $1,000,000 aggregate coverage.

The Company provides insurance coverage to two financial institution lenders of DRMC. The financial institutions were endorsed as "additional insureds" under the policy for any vicarious liability the lenders may incur as a result of their relationship with DRMC. Section 3901(a)(4)(E) of the Federal Liability Risk Retention Act states, in pertinent part, that a risk retention group shall have as its owners only persons who comprise the membership of the risk retention group and who are provided insurance by such group. The financial institutions do not own shares of the Company. See the "Comments and Recommendations" section of this Report, under the caption "Additional Insureds," for further comments regarding this condition.

We noted that the Company has made various changes to its insurance policy during the examination period, but these changes have not been reported to the Department. See the

"Comments and Recommendations" section of this Report, under the caption "Changes in Business Plan", for further comments regarding this condition.

The Company has no employees and its daily business operations are managed by its controlling member, DRMC, in DuBois, Pennsylvania. The Company's captive manager, McCarran Ferguson, is managing the Company's accounting, record retention, regulatory compliance and other management services in Washington, D.C. Claim investigation, administration, and adjusting activities are handled by Inservco Insurance Services, Inc. in Harrisburg, Pennsylvania. We noted that some of these service provider relationships are not formalized by contracts, or some existing service contracts remain in effect but have not been updated for several years. See the "Comments and Recommendations" section of this Report, under the caption "Service Provider Contracts", for further comments regarding this condition.

INSURANCE PRODUCTS AND RELATED PRACTICES

This examination was a financial examination, and generally did not include market conduct procedures. An examination of the market conduct affairs of the Company has never been conducted. A market conduct examination would include detailed reviews of the Company's sales and advertising, agent licensing, timeliness of claims processing, and complaint handling practices and procedures.

The scope of our examination did not include market conduct procedures, including, but not limited to, market conduct procedures in the following areas:

- Policy Forms
- Fair Underwriting Practices
- Advertising and Sales Materials
- Treatment of Policyholders:
    - Claims Processing (Timeliness)
    - Complaints

REINSURANCE

With the Department's approval, the Company has not maintained reinsurance coverage for either the institutional medical malpractice or the general liability since inception.

ACCOUNTS AND RECORDS

The primary locations of the Company's books and records are at the offices of its captive manager, McCarran Ferguson, in Washington, D.C.; and at the offices of its controlling member, DRMC, in DuBois, Pennsylvania.

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers. Our examination disclosed no significant deficiencies in these records.

FINANCIAL STATEMENTS

The following financial statements, prepared in accordance with accounting practices generally accepted in the United States ("GAAP"), reflect the financial condition of the Company as of December 31, 2007, as determined by this examination:

The accompanying Notes to Financial Statements are an integral part of these Financial Statements.

BALANCE SHEET

ASSETS

	December 31, 2007
Common stocks **(NOTE 1)**	$ 3,659,456
Cash ($438,638), cash equivalents ($0) and short-term investments ($0) **(NOTE 2)**	438,638
Subtotals, cash and invested assets	$ 4,098,094
Aggregate write-ins for other than invested assets:	
Prepaids	31,204
Total	$ 4,129,298

LIABILITIES, SURPLUS AND OTHER FUNDS

	December 31, 2007
Losses (**NOTE 3)**	$ 1,242,614
Loss adjustment expenses (**NOTE 3**)	109,050
Other expenses (excluding taxes, licenses and fees)	13,000
Taxes, licenses and fees (excluding federal and foreign income taxes)	12,400
Current federal and foreign income taxes	4,705
Unearned premiums	686,109
Total Liabilities	$ 2,067,878
Common capital stock	$ 200,000
Preferred capital stock	6,000
Gross paid in and contributed surplus	1,630,000
Unassigned funds (surplus)	225,420
Surplus as regards policyholders	$ 2,061,420
Total	$ 4,129,298

STATEMENT OF INCOME

	2007	
UNDERWRITING INCOME		
Premiums earned	$	808,002
DEDUCTIONS		
Losses incurred	$	371,528
Loss expenses incurred		84,782
Other underwriting expenses incurred		198,720
Total underwriting deductions	$	655,030
Net underwriting gain	$	152,972
INVESTMENT INCOME		
Net investment income earned	$	154,761
Net realized capital gains		406,350
Net investment gain	$	561,111
Federal and foreign income taxes incurred		88,868
Net income	$	625,215

CAPITAL AND SURPLUS ACCOUNT

Net loss, 2003	$	(46,885)
Initial capital: Paid in		206,000
Surplus adjustments: Paid in		1,044,000
Net change in surplus as regards policyholders, 2003		1,203,115
Surplus as regards policyholders, December 31, 2003	$	1,203,115
Net loss, 2004		(153,369)
Net unrealized capital gains or losses		50,426
Surplus adjustments: Paid in		436,000
Net change in surplus as regards policyholders, 2004		333,057
Surplus as regards policyholders, December 31, 2004	$	1,536,172
Net loss, 2005		(24,651)
Change in net unrealized capital gains or (losses)		69,961
Net change in surplus as regards policyholders, 2005		45,310
Surplus as regards policyholders, December 31, 2005	$	1,581,482
Net loss, 2006		(55,076)
Change in net unrealized capital gains or (losses)		150,849
Change in net deferred income tax		(66,536)
Surplus adjustments: Paid in		150,000
Net change in surplus as regards policyholders, 2006		179,237
Surplus as regards policyholders, December 31, 2006	$	1,760,719
Net income, 2007		625,215
Change in net unrealized capital gains or (losses)		(414,838)
Change in net deferred income tax		90,324
Net change in surplus as regards policyholders, 2007		300,701
Surplus as regards policyholders, December 31, 2007	$	2,061,420

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

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

COMPARATIVE FINANCIAL POSITION OF THE COMPANY

The comparative financial position of the Company for the periods since inception is as follows:

	2007	2006	2005	2004	2003
Assets	$ 4,129,298	$ 3,232,796	$ 2,834,727	$ 2,752,059	$ 2,311,413
Liabilities	2,067,878	1,472,077	1,253,245	1,215,887	1,108,298
Capital and surplus	2,061,420	1,760,719	1,581,482	1,536,172	1,203,115
Gross written premium	1,000,000	720,160	540,628	492,650	337,382
Net earned premium	808,002	596,978	507,712	383,118	108,901
Net underwriting gain (loss)	152,972	(225,333)	(92,463)	(196,722)	(30,864)
Net investment income	561,111	109,882	67,812	27,561	1,479
Net income (loss) (**NOTE 4**)	$ 625,215	$ (55,076)	$ (24,651)	$ (153,369)	$ (46,885)

Note:

Amounts in the preceding financial statements for the years ended December 31, 2003 through December 31, 2006 were taken from the Company's Annual Statements as filed with the Department. Amounts for the year ended December 31, 2007 are amounts per examination.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Stocks:

As of December 31, 2007, the Company reported investments in "Common stocks" totaling $3,659,456, which represents investments in various mutual funds. This balance also includes $405,000 invested in a hedge fund, acquired on December 28, 2007. The hedge fund does not appear to fall within the description of acceptable investments as shown in the Company's investment policy approved by the Department. See the "Comments and Recommendations" section of this Report, under the caption "Investment Policy," for further comments regarding this condition.

NOTE 2 – Cash:

As of December 31, 2007, the Company reported "Cash" totaling $438,638; all of which was held in one institution. This balance exceeded the amount insured by the Federal Deposit Insurance Corporation ("FDIC"). During our examination, we discussed with management the potential risk to the Company for maintaining balances in excess of the FDIC insured limit in a single institution.

NOTE 3 – Loss and Loss Adjustment Expense Reserves:

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling $1,242,614 and $109,050, 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, 2007. The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2007, were reviewed as part of our examination. As part of our review, we relied on the Company's independent actuary, who concluded that the Company's reserves appeared to be sufficient. In addition, as part of our review of the Company's reserves during our examination, we engaged an independent actuary ("examination actuary") to review the methods employed, assumptions relied upon, and conclusions reached by the Company's actuary.

The examination actuary noted certain areas in which the methodologies utilized by the Company's actuary to compute these reserves could be improved, and as a result, the examination actuary could not conclude, based on the work done by the examination actuary, with respect to the reasonableness of the company's loss and loss expense reserves due to several factors. Additional procedures that may have enabled the examination actuary to conclude on the reasonableness of the Company's reserves were beyond the scope of this examination. See the "Comments and Recommendations" section of this report, under the caption "Actuarial Review," for further comments regarding the review of the Company's reserves.

NOTE 4 – Net Income (Loss):

For the years 2003 to 2006, the Company experienced modest net losses. However, for the year 2007, the Company experienced a significant increase in net income, in comparison to prior periods. The primary reasons for the increase in net income in 2007 were 1) an increase in the rate/premium applied to the Company’s policy with DRMC in 2007, and 2) significant net capital gains realized by the Company as a result of the sale, during 2007, of investments in certain mutual funds.

COMMENTS AND RECOMMENDATIONS

Board Meetings:

Section 31-3931.11(d) of the D.C. Official Code requires the board of directors of a captive insurer to meet at least one time each year in the District. While the Company's board of directors held regular meetings throughout the examination period, the board members have not been physically present for a board meeting in the District since 2004. We were informed by management that it believes the Company was in compliance with the annual meeting requirement in 2007 and 2008 by having the captive manager facilitate a conference call from offices within the District whereby the board members called in to the District location, from locations outside of the District, for a board meeting. **We recommend that the Company comply with the aforementioned provision of the DC Official Code and physically meet, with at least a quorum of directors present, at least one time each year in the District.**

Conflicts of Interest Policy:

As indicated in the "Conflicts of Interest" section of this Report, the Company has adopted a Conflict of Interest policy. The policy requires that a director or officer complete an initial conflict of interest disclosure, and then notify the board if a conflict of interest or potential conflict of interest becomes known subsequent to the initial disclosure. We noted that the Company's officers and directors signed conflict of interest statements for 2003, but not for any other years during the examination period. However, the D.C. Municipal Regulations, section 26-3712, require annual conflict of interest disclosures from officers, directors and key employees. **We recommend that the Company amend its Conflict of Interest policy to require officers, directors, and key employees to complete conflict of interest statements on an annual basis in compliance with the aforementioned section of the D.C. Municipal Regulations.**

Additional Insureds:

The Company's policy includes two financial institution lenders of DRMC as "additional "insureds". The financial institutions are not eligible to be insureds of the Company pursuant to §3901(a)(4)(E) of the Federal Liability Risk Retention Act because all insureds of a risk retention group must also be owners of the risk retention group. The Federal Liability Risk Retention Act does not make a distinction between "insureds" and "additional insureds" and both categories of insureds are eligible for insurance coverage under the Company's policy. **We recommend that either the lenders be immediately removed from the policy, or be made owners of the Company.**

Changes in Business Plan:

Changes to information filed with the Company's application are required to be submitted to the Department. In addition, substantive changes to information in the application and to the Company's business plan, which would include changes in rates and limits, require prior approval of the Department. During our examination, we noted various differences between the terms of the approved policy on file with the Department and the terms of the policy in use by the Company during the examination period. These differences included increases to the aggregate limit for DuBois Regional Medical Group, increased limits for physician assistants, and increases in the rate charged to DRMC and its related entities by the Company. **We recommend that the Company obtain pre-approval from the Department for any future changes to its rates and policy limits. In addition, we recommend that the Company ensure that all revisions or additions to documents previously filed with the Department be submitted to the Department. We also recommend that any other future substantive or material changes to the Company's business plan be submitted to the Department for review and approval prior to implementation. Any questions regarding what may or may not constitute a change in business plan should be clarified with the Department prior to implementation.**

Service Provider Contracts:

As indicated in the "Territory and Plan of Operation" section of this Report, the Company's daily business operations are managed by its controlling member, DRMC, as well as its captive manager and a claims administrator. However, we noted that some of the Company's relationships with its service providers are not formalized by contracts, or some contracts are outdated. Specifically, the contract with the captive manager has not been updated since inception, however service fees have changed in the intervening time period. In addition, there is no agreement in place between the Company and its controlling member, DRMC, to specify the services provided or the level of compensation. We also noted that the claims management contract is between the claims administrator and the Company's controlling member, DRMC, as opposed to being directly with the Company. **We recommend that the Company update its service provider agreements to reflect the current terms and actual nature of the relationships and transactions between the Company and its service providers. In addition, we recommend that the updated agreements be submitted to the Department.**

Investment Policy:

Section 31-3931.07 ("Investments") of the D.C. Official Code requires captive insurers to file with the Commissioner, for approval, a schedule of proposed investments ("investment policy"). Any material changes to the investment policy must also be filed for approval with the Commissioner. In conjunction with its initial licensing application in 2003, the Company submitted such an investment policy, which was approved by the Commissioner. We noted that during 2007, the Company invested approximately $405,000 in a hedge fund. We also noted that during 2008 the Company invested $500,000 in an international equities fund. However, these investments in the hedge fund and in the international equities fund do not fall within the investments specified in the Company's approved investment policy. There is no evidence that these exceptions were approved by the board or submitted to the Department for approval. **We recommend that the Company ensure all investments are in accordance with its approved investment policy. Any deviations from, or amendments to the policy should be approved by the Company's board of directors and shall be submitted to and pre-approved by the Department.**

Actuarial Review:

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling $1,242,614 and $109,050, respectively. The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2007, were reviewed as part of our examination. As part of our review, we relied on the Company's independent actuary, who concluded that the Company's reserves appeared to be sufficient. In addition, as part of our review of the Company's reserves during our examination, we engaged an independent actuary ("examination actuary"), to review the methods employed, assumptions relied upon, and conclusions reached by the Company's actuary. The examination actuary noted certain areas in which the methodologies utilized by the Company's actuary to compute these reserves could be improved, and as a result, the examination actuary could not conclude, based on the work done by the examination actuary, with respect to the reasonableness of the Company's loss and loss expense reserves due to several factors:

1. The Company's actuary prepared the initial estimated losses for the Company's first year of operations (September 2003 to September 2004) based upon historical exposure and loss data of the Dubois Hospital System. For the Company's second year of operations (2004/2005) the Company's actuary updated the loss estimates based upon additional data received from the prior commercial insurers of the Dubois Hospital System plus the first year of experience of the Company. However, for years subsequent to 2004/2005, the Company's actuary has not used further loss experience from the prior commercial insurers of the Dubois Hospital System for further loss development or from the Company's actual loss experience in its initial years to re-evaluate/evaluate ultimate loss projections for the initial 2 years of the Company's operations or for subsequent years. In this regard, we noted that the Company's losses incurred in each of its first two years have exceeded the Company's initial ultimate loss estimates for those years. However, as noted above, the Company has not revised its ultimate loss estimates for those years or for subsequent years.

2. The Company's estimate of the average loss severity for years subsequent to the first two years of operation is based upon the severity estimated for the Company's second year of operations, with an annual severity trend of 3 percent to 4 percent applied. This is below the annual severity trend used by other medical malpractice insurers, which is between 4.5 percent and 7 percent.

3. The Company’s policies include general liability occurrence basis coverage with limits of $1 million per occurrence and $1 million annual aggregate. As of December 31, 2007, the Company’s “Losses” reserves of $1,242,614 include a reserve totaling $15,000 ($10,000 case reserve plus $5,000 IBNR) for one open general liability claim. However, the Company has not considered potential loss development from IBNR claims that have not yet been reported to the Company. In addition, although the actuarial opinion prepared by the Company’s actuary included the general liability reserve, the actuarial analysis prepared by the Company’s actuary to support the opinion contained insufficient analysis and comments regarding the Company’s general liability coverage.

As a result of these conditions, without performing additional procedures that were beyond the scope of this examination, the examination actuary could not place reliance on the work of the Company’s actuary to conclude with respect to the reasonableness of the company’s loss and loss expense reserves. Specifically, the examination actuary could not determine if additional IBNR reserves should be recorded as of December 31, 2007 as a result of potential revisions to the Company’s estimates of ultimate losses for all years of operation; could not determine if estimated average loss severities were reasonable and if not, revised estimates could result in the need for additional IBNR; and could not determine the reasonableness of the general liability reserves.

We recommend the following:

1. **The Company ensures its actuary updates the Company’s estimated ultimate losses based upon updated loss experience from the prior commercial insurers of the Dubois Hospital System, if available, and from the Company’s actual loss experience. Based upon the updated estimates, the Company should determine if additional IBNR reserves are necessary.**

2. **The Company ensures its actuary reviews the need to update estimates of loss severity and utilizes appropriate annual loss severity trend factors.**

3. **The Company ensures its actuary properly estimates the loss reserves including IBNR reserves for general liability coverage, and the actuarial analysis prepared by the Company actuary to support the actuarial opinion documents the methodologies used to evaluate the general liability loss reserves.**

CONCLUSION

Our examination disclosed that as of December 31, 2007 the Company had:

Admitted Assets	$	4,129,298
Liabilities and Reserves		2,067,878
Common Capital Stock		200,000
Preferred Capital Stock		6,000
Gross Paid in and Contributed Surplus		1,630,000
Unassigned Funds (Surplus)		225,420
Total Surplus		2,061,420
Total Liabilities, Capital and Surplus	$	4,129,298

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2007, and the accompanying statement of income properly presents the results of operations for the period then ended.

Chapter 39 ("CAPTIVE INSURANCE COMPANIES") of Title 31 ("Insurance and Securities") of the D.C. Official Code specifies the level of capital and surplus required for the Company. We concluded that the Company's capital and surplus funds exceeded the minimum requirements during the period under examination.

SIGNATURES

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

Christina M. Bonney, Collins Consulting, Inc.
John G. Gantz, Collins Consulting, Inc.

The actuarial portion of this examination was completed by William E. Burns, ACAS, MAAA, Unique Risk Solutions LLC.

Respectfully submitted,

Pamela C Woodroffe

Pamela C. Woodroffe
Examiner-In-Charge
Collins Consulting, Inc.

Under the Supervision of,

Xiangchun Li

Xiangchun (Jessie) Li, CFE
Supervising Examiner
District of Columbia Department of Insurance, Securities and Banking

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

Thomas E. Hampton
Commissioner

June 24, 2009

Raymond Graeca
President
DuBois Medical Risk Retention Group
c/o McCarran Ferguson Captive Management Co., Inc.
1200 G Street NW, Suite 800
Washington, D.C. 20005

Dear Mr. Graeca:

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 **DuBois Medical Risk Retention Group**, as of December 31, 2007.

Please submit, to my attention, a written response calling attention to any errors or omissions in the draft Report. In addition, the Company's response shall include responses to each of the recommendations included in the "Comments and Recommendations" section of this Report. These responses should indicate the Company's agreement or disagreement with each recommendation, as well as a summary of the corrective measures which will be taken by the Company for each recommendation. If the Company disagrees with any of these recommendations, the response shall indicate the reason(s) for the disagreement, as well as an explanation of alternative measures to be taken by the Company to address the condition which lead to the recommendation.

The response must be in writing and shall be furnished to this Department by **July 10, 2009.** In addition to a hard-copy response, please also furnish the response electronically via e-mail to me, in a Microsoft "Word" format, to sean.o'donnell@dc.gov.

Sincerely,

P. Sean O'Donnell

P. Sean O'Donnell
Director of Financial Examination,
Risk Finance Bureau

Enclosure

McCarran Ferguson
Captive Management Company, Inc.

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Robert M. Willis
President & CEO

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July 15, 2009

P. Sean O'Donnell
Director of Financial Examination
Risk finance Bureau
Department of Insurance, Securities
and Banking
810 First Street, N.E., Suite 701
Washington, D.C. 20002

**Re: Responses to Report of Examination
Dubois Medical Risk Retention Group
As of December 31, 2007**

Dear Mr. O'Donnell:

This correspondence is with reference to your letter dated June 24, 2009, transmitting the above-referenced Report of Examination and requesting a notation of any factual errors or omissions and responses to the "Comments and Recommendations."

Factual Clarification

The Territory and Plan of Operation section on page 5, states

"We noted that the Company has made various changes to its insurance policy during the examination period, but these changes have not been reported to the Department."

This statement is inaccurate because it does make clear that the changes to the policy limits where required as a matter of law. In fact, the increase in limits was the result of a change made by the Pennsylvania Legislature to state MCare medical malpractice insurance program. Because the Company's policy wrapped around the MCare program, there was no lawful means to avoid not this increase in limits. Since the Department just recently published the rules specifying the kinds of activities now considered to be a change in business plan, an uninformed reader may assume the Company failed to adhere to Department regulations at the time of the policy limits change.

An accurate account of the factual situation would be:

"We noted the Company made various changes required by the State of Pennsylvania MCare medical malpractice insurance program to increase policy limits and the premiums associated with such increased coverage. Under a recently published pronouncement, the Department has determined that a policy change is now considered a Change of Business Plan requiring prior approval."

Comments and Recommendations

Board Meetings

During the period of this financial examination and the 2008 year, the Department did not provide specific guidance that a quorum of board members had to be physically present for at least one board meeting in the District of Columbia. Until the recent pronouncement by the Department now requiring physical presence in the District for at least one board meeting, the Company was following general corporations law which does not requires physical presence.

Going forward, the Company will comply with the physical presence requirement of a quorum of board members for at least one meeting a year in the District of Columbia.

Conflicts of Interest Policy

The Company will amend its Conflicts of Interest Policy to require officers, directors and key employees to complete conflicts of interest statements on an annual basis.

Additional Insureds

The "additional insureds" status of the two lending institutions is generally recognized commercial practice. Despite the examiner's finding that these institutions "must also be owners of the risk retention group", contractually, the secured position of the banks does not evolve unless certain specified conditions exists or take place. Under the terms of the policy, there are no circumstances where the Company's reserves or surplus could be used to satisfy the Company's financial obligations to the banks in preference to meeting contractual policyholder obligations to risk retention group members. This finding is commercially unsound and could affect the future financial viability of a risk retention groups to obtain bank loans.

The Company has been in contact with the referenced lending institutions and has obtained their agreement to be removed from its policy as "additional insured." The

Company will provide the Department a copy of the policy change action as well as the corporate governance approvals required to make such changes within 30 days of this letter.

Changes in Business Plan

The Department just recently published guidance as to what types of actions or activities constituted a Change of Business Plan. During the course of this audit, the examiner raised the issue whether a change to policy limits was a change in business plan requiring prior notice and approval.

For the record, it should be made clear that prior to the Department's recent pronouncement, the Company had no reason to believe a change in policy limits would be considered a change in business plan. This was considered a normal underwriting practice of implementing a proper rate to cover the increased exposure. The Company's change in policy limits was not an action taken in contravention of an existing regulatory rule.

Going forward, the Company will fully comply with the recently published Department guidance as to the activities constituting a Change in Business Plan.

Service Provider Contracts

The Company will update its service provider contracts to reflect current terms of such servicing agreements and provide the Department a copy for its files. The Company will submit its board approved Investment Policy to the Department for review and approval within 60 days from the date of this letter.

Investment Policy

The Company's current Investment Policy does reflect that Dubois RRG can hold hedge funds and international funds. The hedge fund is in the process of being liquidated in July, so this investment will soon be held in a cash position.

Actuarial Review

The Company understands these concerns and has instructed its actuary to conform to the recommended approach for the years 2008 and subsequent. Please see the actuary's attached comments on the actuarial recommendations.

If you have questions or need additional information, please contact me.

Sincerely,

Robert M. Willis

Robert M. Willis
President & CEO

GRA Consulting

DuBois Medical RRG
Comments on DC Audit's Actuarial Recommendations.

1. The June 30, 2009 reserve analysis will form the basis for a detailed analysis of the RRG's original frequency and severity assumptions utilized during its formation, effective September 7, 2003. PMSLIC will be requested to provide a current loss report for the two policy periods just prior to the RRG's formation in which it provided commercial insurance to the Hospital. All other previous insurers in the ten years prior to the RRG's formation are either in liquidation (PHICO) or rehabilitation (MIIX) and can not be counted on to provide current nor realistic loss reports on behalf of DuBois Hospital for previous commercially insured policy years.

2. Loss trend selections will be updated upon each reserve analysis prepared for the Company and will reflect ongoing Company experience as well as that of the insurance industry as a whole. The average incurred claim for the RRG experience as of December 31, 2008 is still slightly less than that utilized during the formation study of 2003. We agree that the program in place is one of minimal annual frequency (6-7 claims reported per program year) but is subject to wide swings in the costs of those claims. However, the reinsurance program in place for the DuBois Medical RRG will act to dampen the overall impact of those losses to the program's overall experience.

3. The reserve analysis for the RRG as of December 31, 2008 and on a continuing basis going forward now contains a specific spreadsheet addressing the projection of ultimate losses for the occurrence based General Liability program, which as of December 31, 2008 had three (3) open claims. The loss development factors utilized in projecting ultimate losses for the General Liability program are industry based occurrence factors, and as such, include not only the industry expectation of additional development on known and reported claims, but also factors in development for losses incurred but not reported (IBNR) as of a particular evaluation date.

Gary R. Abramson, Casualty Actuarial Services
125 Rivendell Road
Hillsborough, NJ 08844
(908) 271-4277

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

Thomas E. Hampton
Commissioner

July 22, 2009

Raymond Graeca
President
DuBois Medical Risk Retention Group
C/o McCarran Ferguson Captive Management Co., Inc.
1200 G Street NW, Suite 800
Washington, D.C. 20005

Dear Mr. Graeca:

We are in receipt of a July 15, 2009 response, from Robert M. Willis, President and CEO, McCarran Ferguson Captive Management Co., Inc., which addresses the corrective actions taken or to be taken by DuBois Medical Risk Retention Group to comply with the recommendations made in the Report on Examination as of December 31, 2007. The response adequately addresses the recommendations made in the Report, except for the following:

Investment Policy:

A. **We recommended that the Company ensure all investments are in accordance with its approved investment policy. Any deviations from, or amendments to the policy should be approved by the Company's board of directors and shall be submitted to and pre-approved by the Department.**

Company Response:

The response indicates the following:

The Company's current Investment Policy does reflect that Dubois RRG can hold hedge funds and international funds. The hedge fund is in the process of being liquidated in July, so this investment will soon be held in a cash position.

Department Response:

As indicated in the Report, investments in hedge funds and in international equities funds do not fall within the investments specified in the Company's approved investment policy.

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 D.C. 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, and will be forwarded electronically to each Commissioner whose name is set forth on Page 1 of the Report, as well as to the National Association of Insurance Commissioners, and to each state in which the Company is registered.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director 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 202-442-7785 if you have any questions.

Sincerely,

P. Sean O'Donnell

P. Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures