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 - **Pediatricians Insurance Risk Retention Group of America, Inc.,** as of December 31, 2007

ORDER

An Examination of **Pediatricians Insurance Risk Retention Group of America, Inc.,** 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 29th day of June, 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

Pediatricians Insurance Risk Retention Group of America, Inc.

AS OF

DECEMBER 31, 2007

NAIC NUMBER 11772

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Washington, D.C.
January 7, 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

Pediatricians Insurance Risk Retention Group of America, Inc.

hereinafter referred to as the "Company" or "PIRRGA," at the office of its captive manager, Risk Services, LLC., located at 1800 Second Street, Suite 909, Sarasota, Florida 34236, and at the office of its program manager, Medical Development and Management Company, Inc., located at 634 Bird Road, Coral Gables, Florida 33146.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from July 24, 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 2004 through 2007. The Company commenced operations on February 12, 2004, and was not required to file a calendar year 2003 financial statement or audit report. We placed substantial reliance on the audited financial statements for calendar years 2004 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 full scope examination of the Company.

HISTORY

General:

PIRRGA was incorporated under the laws of the state of Vermont on July 24, 2003 and commenced operations on February 12, 2004. The Company re-domesticated to the District of Columbia on December 13, 2005, as an association captive insurance company operating as a risk retention group under the captive insurance laws of the District of Columbia.

PIRRGA provides claims made medical professional liability coverage to non-surgical pediatricians who are currently licensed to practice in the State of Florida or in the State of Pennsylvania. The Company also offers extended tail coverage to insureds that terminate coverage. This coverage is free if the physician has been insured by the Company for at least five years and is retiring immediately upon leaving the Company.

Membership:

The Company was incorporated as a non-assessable, mutual insurer and does not issue capital stock. As a condition of membership in the Company, prospective members must execute a Policyholder’s Agreement, which requires a contribution of surplus equal to 50 percent of the member’s fully matured net premium.

All members must also be policyholders. The Company’s articles of incorporation state that each member is entitled to one vote for each full-time equivalent doctor that such member employs, provided that a member who is an individual shall be entitled to one vote and that no member shall be entitled to more than ten votes.

The Policyholder’s Agreement allows for a return of a member’s surplus contribution in the event of the policyholder’s termination of membership in the Company. To be considered for a return of surplus, the member must have been a policyholder for two years with no incidents or claims or additional costs to the Company. If the board of directors determines that the Company is able to return the policyholder’s surplus without threatening the Company’s financial stability, and if the Company has received necessary approval from the Department, then the Company may refund the terminated policyholder's surplus contribution in three annual installments. In the event of termination due to death, disability, or retirement, the Company will refund the terminated policyholder's surplus immediately.

During 2007, the Company refunded surplus of $130,985 and accrued surplus refunds of $50,454 to terminated policyholders. All surplus distributions were approved by both the Board of Directors of the Company and the Department.

Dividends and Distributions:

The Company did not declare or pay any dividends or other distributions during the period under examination, other than those noted above under the "Membership" section of this report.

MANAGEMENT

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

Name and State of Residence	Principal Occupation
Henry Gelband, MD, Chairman Florida	Director, Mailman Center for Child Development University of Miami/Jackson Memorial Medical Center
Paul Goldberg, MD Florida	Chief Medical Officer South Florida Pediatric Partners
Michael Martin, MD California	Professor, Internal Medicine University of California, San Francisco
Eugene Rosov Florida	President Medical Development and Management Company, Inc.
George Termotto, MD Florida	Owner / President Affiliated Pediatrics, PA
Todd Zimmerman, DO Illinois	Director, Pediatric Emergency Department Alexian Brothers Health System

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

Name	Title
Henry Gelband, MD	Chairman

Eugene Rosov	President
Dean Felch	Secretary

*The Treasurer of the Company resigned in October 2007, and this officer position was open as of December 31, 2007. It was filled in the first quarter of 2008.

Committees:

The Company's by-laws provide that the board of directors may designate committees of the board. As of December 31, 2007, one committee had been formed by the board of directors:

Underwriting and Risk Management Committee:

Chairman:	Todd Zimmerman, DO
Members:	Henry Gelband, MD
	Eugene Rosov
	George Termotto, MD

Conflicts of Interest:

Our review of the conflict of interest statements signed by the Company's directors and officers for the period under examination disclosed that there were no conflicts of interest reported 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 documented review and approval of the Company's significant transactions and events.

CAPTIVE MANAGER

Risk Services, LLC ("Risk Services") is the Company's captive manager, and provides captive management services including regulatory services and accounting services to the Company.

AFFILIATED PARTIES AND TRANSACTIONS

The Company's daily business operations are managed by Medical Development and Management Company, Inc. ("MDMC"), which was formed to organize PIRRGA and to provide policyholder services to PIRRGA's physician members. Certain owners of MDMC are also directors and officers of the Company.

Effective February 25, 2004, the company entered into a management agreement with MDMC. The agreement has an initial 5 year term and will be renewed on a bi-annual basis after the initial term. Under the terms of the agreement, MDMC acts as the Company's insurance manager to manage the Company's daily business operations, including membership admission, underwriting, premium billing and collection, claims administration, and risk management and loss prevention services. The Company pays MDMC service fees based on the agreement. During 2007, the Company paid service fees of $446,174 to MDMC.

FIDELITY BOND AND OTHER INSURANCE

The Company did not maintain fidelity bond coverage, nor did its program manager, MDMC. According to NAIC guidelines, coverage for the Company should be in the range of $75,000-$100,000. See the "Comments and Recommendations" section of this Report, under the caption "Fidelity Bond," for further comments regarding this condition.

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 Arizona, Florida, Georgia, Illinois, Maryland, New Jersey, Pennsylvania, Rhode Island, Tennessee, Texas and Utah. However, the Company only wrote premiums in two states in 2007, $1,018,624 (97 percent) in Florida and $30,369 (3 percent) in Pennsylvania.

The Company provides claims made medical professional liability coverage to non-surgical pediatricians who are currently licensed to practice in the State of Florida or in the State of Pennsylvania. The Company also offers extended tail coverage to insureds that terminate coverage. This coverage is free if the physician has been with the program for at least five years and is retiring immediately upon termination of coverage. Policy limits offered ranged from $100,000 to $1,000,000 per occurrence and $300,000 to $3,000,000 in the annual aggregate per physician, subject to various deductibles. (Effective January 1, 2009, the maximum policy limits offered are $250,000 per occurrence and $750,000 in the annual aggregate.) The majority of policies issued by the Company are $250,000 per occurrence and $750,000 in the aggregate. Allocated loss adjustment expenses are in addition to the above limits but included within the annual aggregate limit. Beginning in 2007, the Company wrote all policies on a calendar year basis so that all policies would have a renewal date of January 1.

The Company changed its underwriting rates in 2007, but did not notify the Department prior to implementing the rate change. See the "Comments and Recommendations" section of this Report, under the caption "Underwriting Rates" for further comments regarding this condition.

The Company has no employees and its daily business operations are managed by various affiliated and unaffiliated service providers. During the examination period and as of the date of this report, the Company's captive manager, Risk Services, manages the Company's accounting and regulatory filings, from offices in Sarasota, Florida. The underwriting, policy issuance, premium billing and collection, claim administration, risk management and loss control services are handled by MDMC, Inc. in Coral Gables, Florida.

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

As of December 31, 2007, the Company maintained excess of loss reinsurance coverage. All six reinsurers on the treaty had financial stability ratings of excellent to superior from A.M. Best.

The reinsurance treaty is effective January 1, 2006 through January 1, 2009, and the Company has the option to cancel on the anniversary date with a 90 day notice to all reinsurers. Under terms of the treaty, the Company cedes losses in excess of $125,000 up to $1,000,000 per claim/per insured. The Company's basic retention level of $125,000 increases by $25,000 at each anniversary date with the retention being fixed once the first indemnity payment is made on a claim. The treaty includes a one-time aggregate loss corridor of $250,000 and clash coverage with a $250,000 retention and maximum coverage of $1 million. The maximum recoverable under this agreement equals 300 percent of the maximum reinsurance premium. As of December 31, 2007, the maximum retention retained in any one risk totaled $250,000.

The treaty is swing-rated with a deposit premium and a minimum and maximum premium calculation. For the underwriting years 2006 and 2007, the annual deposit premium is $500,000. The minimum rate is 45 percent of the provisional premium, or $250,000, whichever is greater, and the maximum rate equals 155 percent of the provisional premium. In 2007, the actual premium expense recorded by the Company based on the terms of the treaty totaled $242,898. (This amount was less than the minimum premium amount of $250,000 due to an offsetting credit from prior years totaling $29,103.) Over the life of the treaty the deposit premiums have exceeded the estimated actual premiums due, and the Company has recorded an asset of $455,999 (reported as a negative liability) as of December 31, 2007, under "Ceded reinsurance premiums payable". Subsequent to expiration of the treaty, a settlement between the Company and the reinsurer will occur and the Company will be reimbursed for any deposit premium amounts in excess of the actual ceded premiums calculated under terms of the treaty.

As of December 31, 2007, the Company reported "Other amounts receivable under reinsurance contracts" totaling $40,001, representing estimated amounts recoverable from the reinsurers on unpaid losses. If the reinsurers were not able to meet their obligations under these agreements, the Company would be liable for any defaulted amounts.

In 2006, the Company commuted its loss years 2005 and prior under a previous treaty. The Company therefore has no reinsurance coverage on claims that remain open from loss years 2005 and prior. According to management, as of December 31, 2007, all open claims from loss years 2005 and prior are expected to ultimately settle for less than the Company's reinsurance retention under the prior treaty.

Our review of the Company's ceded reinsurance contract did not disclose any unusual provisions.

ACCOUNTS AND RECORDS

The primary locations of the Company's books and records are at the offices of its captive manager, Risk Services, in Sarasota, Florida; and at the offices of its program manager, MDMC, in Coral Gables, Florida.

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers. Our examination did not disclose any significant deficiency with these records.

However, during the examination, we noted an area related to the Company's underwriting process where controls could be improved. See the "Comments and Recommendations" section of this Report, under the caption "Underwriting Controls" for further comments regarding this condition.

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
Bonds	$ 1,330,381
Common stocks	157,995
Cash ($1,678,611), cash equivalents ($0) and short-term investments ($0) **(NOTE 1)**	1,678,611
Subtotals, cash and invested assets	$ 3,166,987
Investment income due and accrued	51,767
Uncollected premiums and agents' balances in the course of collection	58,147
Reinsurance:	
Other amounts receivable under reinsurance contracts	40,001
Net deferred tax asset	77,558
Aggregate write-ins for other than invested assets:	
Prepaid expenses	15,000
Totals	$ 3,409,460

LIABILITIES, SURPLUS AND OTHER FUNDS

	December 31, 2007
Losses (**NOTE 2)**	$ 1,226,737
Loss adjustment expenses (**NOTE 2**)	495,057
Other expenses (excluding taxes, licenses and fees)	223,465
Taxes, licenses and fees	(12,847)
Current federal and foreign income taxes (including $0 on realized capital gains (losses))	29,023
Advance premium	570
Ceded reinsurance premiums payable (net of ceding commissions)	(455,999)
Aggregate write-ins for liabilities:	
Returns of capital due	50,454
Total Liabilities	$ 1,556,460
Gross paid in and contributed surplus	1,503,095
Unassigned funds (surplus)	349,905
Surplus as regards policyholders	$ 1,853,000
Totals	$ 3,409,460

STATEMENT OF INCOME

		2007
UNDERWRITING INCOME		
Premiums earned	$	1,382,821
DEDUCTIONS		
Losses incurred	$	155,326
Loss expenses incurred		(60,155)
Other underwriting expenses incurred		954,841
Total underwriting deductions	$	1,050,012
Net underwriting gain	$	332,809
INVESTMENT INCOME		
Net investment income earned	$	139,857
Net realized capital gains or (losses) less capital gains tax of $(247)		(479)
Net investment gain	$	139,378
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$	472,187
Federal and foreign income taxes incurred		57,894
Net income	$	414,293

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2003	$	0
Net loss, 2004		(241,537)
Change in net unrealized capital gains or (losses)		(1,958)
Surplus adjustments: Paid in		1,358,141
Net change in surplus as regards policyholders, 2004		1,114,646
Surplus as regards policyholders, December 31, 2004	$	1,114,646
Net loss, 2005		(84,577)
Change in net unrealized capital gains or (losses)		(502)
Surplus adjustments: Paid in		208,856
Net change in surplus as regards policyholders, 2005		123,777
Surplus as regards policyholders, December 31, 2005	$	1,238,423
Net income, 2006		231,856
Change in net unrealized capital gains or (losses)		(672)
Surplus adjustments: Paid in		75,165
Net change in surplus as regards policyholders, 2006		306,349
Surplus as regards policyholders, December 31, 2006	$	1,544,772
Net income, 2007		414,293
Change in net unrealized capital gains or (losses)		33,002
Surplus adjustments: Paid in/(Refunded)		(139,067)
Net change in surplus as regards policyholders, 2007		308,228
Surplus as regards policyholders, December 31, 2007	$	1,853,000

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	$ 3,409,460	$ 3,829,275	$ 2,950,961	$ 2,125,497	$ 0
Liabilities	1,556,460	2,284,503	1,712,538	1,010,851	0
Capital and surplus	1,853,000	1,544,772	1,238,423	1,114,646	0
Gross written premium	1,048,993	1,839,084	1,707,937	1,236,336	0
Net earned premium	1,382,821	1,580,077	1,493,393	752,058	0
Net investment income	139,378	94,190	34,673	15,201	0
Net income (loss)	$ 414,293	$ 231,856	$ (84,577)	$ (241,537)	$ 0

Note:

Amounts in the preceding financial statements for the years ended December 31, 2004 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.

The Company did not begin operations until 2004 and was given a waiver from the State of Vermont from filing a 2003 Annual Statement.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Cash Balance in Excess of FDIC Insurance Limit:

As of December 31, 2007, the Company reported "Cash" totaling $1,678,611 which was held in its operating bank account in a single 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 from maintaining balances in excess of the FDIC insured limit in a single institution. Management agreed potential risk existed and indicated steps would be taken to mitigate this risk in the future.

NOTE 2 – Loss and Loss Adjustment Expense Reserves:

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling $1,226,737 and $495,057, respectively. These amounts include the ceded loss reserves of $40,001, which is reported as "Other amounts receivable under reinsurance contracts" in the Company's balance sheet. 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. If the reinsurers are unable to meet their obligations under the reinsurance treaty, the Company would be liable for any defaulted amounts. The Company's net loss reserves are $1,681,793.

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, we engaged an independent actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary. The independent actuary utilized in our examination concluded that the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary appeared reasonable and sufficient.

As indicated above, the independent actuary utilized in our examination concluded that the methodologies and assumptions utilized by the Company's independent actuary to compute these reserves, and the amount of the reserves as of December 31, 2007, were reasonable and adequate. However, it was noted that the Company was not establishing reserves at the best estimate, as calculated by the Company's independent actuary. See the "Comments and Recommendations" section of this Report, under the caption "Loss Reserves" for further comments regarding this condition.

COMMENTS AND RECOMMENDATIONS

Fidelity Bond:

As of the time of our examination, the Company did not have a fidelity bond, nor did its program manager, MDMC. In order to ensure maximum protection for the Company's policyholders, it is the Department's position that insurers maintain fidelity bond coverage. In this regard, the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook includes suggested minimum amounts of fidelity insurance. The suggested amounts are based on the Company's admitted assets and premiums written, and for the Company, would be between $75,000 and $100,000 based on the Company's recent financial position and results of operations. **We recommend that the Company modify its agreement with the program manager, MDMC, to include language that requires MDMC to maintain the minimum fidelity bond coverage as recommended by NAIC guidelines.**

Underwriting Rates:

The Company changed its rates in 2007 after an actuarial rate study was performed. However, the Company failed to notify the Department of the change. A change to rates constitutes a material change in the Company's business plan, and prior approval from the Department is required. (The Company again changed its rates in 2008, and the Department was notified of the 2008 rate change prior to implementation.) **We recommend that the Company ensure that all material changes to its business plan are approved by the Department prior to implementation.**

Underwriting Controls:

During the examination, we reviewed a selection of underwriting files and noted a 28 percent error rate (7 of 25 files) regarding the calculation of the rates. Although the dollar amount of the errors was minimal (3 percent of tested premium), the errors indicated a lack of internal controls over the underwriting process. The majority of the errors were caused by a failure to update the formula in the rating system to correctly reflect the implementation of new rates. The Company identified and corrected the incorrect formula in 2008. Because the underwriting models are developed in-house, it is important that a process be developed whereby there are checks and balances performed by someone other than the person who is responsible for updating the formulas. **Accordingly, we recommend that the Company develop and implement additional control procedures over the underwriting process which would include a second review of all changes made in the system when there are changes to the rates. These additional procedures should be forwarded to the Department by June 30, 2009.**

Loss Reserves:

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling $1,226,737 and $495,057, respectively (combined total of $1,721,794). 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, we engaged an independent actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary. The independent actuary utilized in our examination concluded that the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary appeared reasonable and sufficient.

However, we noted that the Company was not establishing reserves at the best estimate, as calculated by the Company's independent actuary. Although the Company's booked reserves of $1,721,794 are within the independent actuary's range of estimates ($1,369,284 to $1,969,284), the booked reserves are less than the independent actuary's best estimate of $1,819,284. During our examination we discussed this issue with management and management indicated it did not have a documented explanation regarding the reason(s) the booked amount of reserves was less than the independent actuary's best estimate. **We recommend that management book at least the amount of reserves representing the best estimate of the Company's independent actuary. If management determines an amount lower than the best estimate of the Company's independent actuary is an appropriate amount to book, management should document, in writing, the reason(s) justifying the lesser amount.**

Expense Ratio:

In its 2007 and 2008 Annual Statements filed with the Department, the Company reported expense ratios (on an earned premium basis) totaling 63.8 percent and 67.1 percent, respectively. In addition, during 2008, the Company submitted financial projections to the Department for the years through 2011. The lowest expense ratio shown in the projections is 64 percent in the year 2011. At the time of its redomestication to the District of Columbia in 2005, the Company projected expense ratios in future years totaling 35 percent to 40 percent. In its 2008 Annual Statement, the Company reported a decline in "Surplus as regards policyholders", from $1,853,000 to $1,416,444.

During our examination, we indicated to the Company that its expenses were too high and that in order for the Company to continue to operate as a viable entity, its expenses would have to be reduced. We also discussed with the Company several reasons for the high expense ratio. One of these reasons is that the Company's premiums have decreased recently, and thus its fixed expenses are spread over less premiums.

We recommend the following:

1. **The Company immediately develop a plan to reduce its expense ratio to an amount of approximately 40 percent, as initially projected in its redomestication application. The Company should submit to the Department, by June 30, 2009, a revised business plan indicating its plan for reducing its expenses. The Company should also submit, by the same date, updated 5-year proforma financial projections (covering the years 2009 to 2013) which take into account the company's planned expense reductions.**

2. **By June 30, 2009, the Company obtain, on the Department's standard form, a letter of credit (LOC) in the amount of $750,000. In lieu of an LOC, the Company may establish, with the Commissioner, a statutory deposit of the same amount.**

CONCLUSION

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

Admitted Assets	$	3,409,460
Liabilities and Reserves		1,556,460
Common Capital Stock		0
Gross Paid in and Contributed Surplus		1,503,095
Unassigned Funds (Surplus)		349,905
Total Surplus		1,853,000
Total Liabilities, Capital and Surplus	$	3,409,460

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 Bonney, Collins Consulting, Inc.
Terry Corlett, CFE, CIE, FLMI, Collins Consulting, Inc.
John G. Gantz, Collins Consulting, Inc.

The actuarial portion of this examination was completed by N. Terry Godbold, ACAS, MAAA, FCA, President & Senior Actuary, Godbold, Malpere & Co.

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

May 12, 2009

Eugene Rosov
President
Pediatricians Insurance Risk Retention Group of America, Inc.
C/o Risk Services, LLC
2233 Wisconsin Avenue, N.W., Suite 310
Washington, DC 20007

Dear Mr. Rosov:

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 **Pediatricians Insurance Risk Retention Group of America, Inc.**, 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 within **thirty (30) days from the date of this letter (June 11, 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

June 11, 2009

Mr. P. Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau
Department of Insurance, Securities & Banking
1400 L Street, N.W., Suite 400
Washington, DC 20005

Re: Pediatricians Insurance Risk Retention Group of America, Inc. ("Company")
NAIC Company Code: 11772; NAIC Group Code: 0000; FEIN: 20-0167681

Dear Mr. O'Donnell,

The following responses are submitted with respect to the comments and recommendations contained in the Report on Examination of the Company for the period July 24, 2003 through December 31, 2007 forwarded by the Risk Finance Bureau on May 11, 2009:

1. The Examiners recommend that the Company modify its agreement with the program manager, MDMC, Inc., to include language that requires MDMC, Inc., to maintain the minimum fidelity bond coverage as recommended by NAIC guidelines.

   <u>RESPONSE:</u> A proposed Third Amendment to the Management Agreement between the Company and its program manager, MDMC, Inc., is enclosed for the Department's review.

2. The Examiners recommend that the Company ensure that all material changes to its business plan are approved by the Department prior to implementation.

   <u>RESPONSE:</u> The Company agrees to notify the Department of all future material changes to its business plan prior to implementation.

3. The Examiners recommend that the Company develop and implement additional control procedures over the underwriting process which would include a second review of all changes made in the system when there are changes to the rates. These additional procedures should be forwarded to the Department by June 30, 2009.

   <u>RESPONSE:</u> Documentation of improvements in the Company's control procedures over the underwriting process is enclosed for the Department's review.

4. The Examiners recommend that management book at least the amount of reserves representing the best estimate of the Company's independent actuary. If management determines an amount lower than the best estimate of the Company's independent actuary is an appropriate amount to book, management should document, in writing, the reason(s) justifying the lesser amount.

RESPONSE: The Company booked an amount of reserves equal to the best estimate of the Company's independent actuary as of December 31, 2008. The Company agrees to document in writing the justification for booking an amount of reserves should such amount be less than the best estimate of the Company's independent actuary.

5. The Examiners recommend that:

   a. The Company immediately develop a plan to reduce its expense ratio to an amount of approximately 40 percent, as initially projected in its redomestication application. The Company should submit to the Department, by June 30, 2009, a revised business plan indicating its plan for reducing its expenses. The Company should also submit, by the same date, updated 5-year proforma financial projections (covering years 2009 to 2013) which take into account the Company's planned expense reductions.

      RESPONSE: Based on the current premium volume of the Company and current market conditions, an immediate reduction in the Company's expense ratio is not feasible. However, the Company agrees to develop a plan to reduce its expense ratio to approximately 40 percent by December 31, 2011, and to file with the Department an updated business plan and 5-year proforma financial projections demonstrating its plan for reducing expenses by June 30, 2009.

   b. By June 30, 2009, the Company obtain, on the Department's standard form, a letter of credit (LOC) in the amount of $750,000. In lieu of an LOC, the Company may establish, with the Commissioner, a statutory deposit of the same amount.

      RESPONSE: The Company agrees to establish a statutory deposit with the Commissioner in the amount of $750,000 on or before June 30, 2009.

Thank you. Should you have any further questions, please don't hesitate to contact me.

Sincerely,

B. Troy Winch
Vice President – Director of Captive Insurance
Risk Services, LLC
As Managers for
Pediatricians Insurance Risk Retention Group of America, Inc.

Enclosure(s)

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

Thomas E. Hampton
Commissioner

June 29, 2009

Eugene Rosov
President
Pediatricians Insurance Risk Retention Group of America, Inc.
C/o Risk Services, LLC
2233 Wisconsin Avenue, N.W., Suite 310
Washington, DC 20007

Dear Mr. Rosov:

We are in receipt of a response dated June 11, 2009, from B. Troy Winch, Vice President – Director of Captive Insurance, Risk Services, LLC, as Managers for Pediatricians Insurance Risk Retention Group of America, Inc. ("PIRRGA" or "Company"), which addresses the corrective actions taken or to be taken by PIRRGA 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. The Department will formally respond to the Company, under separate cover, regarding the proposed Third Amendment to the Management Agreement between the Company and its program manager, MDMC, Inc., and to the documentation of improvements in the Company's control procedures over the underwriting process.

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.

810 First Street, NE, Suite 701 • Washington, DC • 20002 • Tel: (202) 727-8000 • www.disb.dc.gov

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