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

Re: Report on Examination – MagMutual Risk Retention Group, Inc. as of December 31, 2021

ORDER

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **MagMutual Risk Retention Group, Inc.**, (the “Company”), as of December 31, 2021 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“Department”). The Department reported on the financial condition of the Company in the attached Report on Examination (“Financial Condition Examination Report”).

In accord with the provisions of D.C. Official Code § 31-1404(c), it is hereby ordered, on this 15th day of May 2023, that the attached Financial Condition Examination Report be adopted and filed as an official record of the Department.

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

Pursuant to D.C. Official Code § 31-1404(d)(1), the Company shall, within 30 days of the issuance of the adopted Financial Condition Examination Report, file affidavits executed by each of the Directors of the Company wherein each of the Directors shall state under oath that they have received a copy of the adopted Financial Condition Examination Report and this order.

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



Dana Sheppard
Associate Commissioner
Risk Finance Bureau

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



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

REPORT ON EXAMINATION

MAGMUTUAL RISK RETENTION GROUP, INC.

AS OF

DECEMBER 31, 2021

NAIC NUMBER 16444

TABLE OF CONTENTS

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

Washington, D.C.
March 23, 2023

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

MagMutual Risk Retention Group, Inc.

hereinafter referred to as the “Company” or “MMRRG.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from November 14, 2018 through December 31, 2021, including any material transactions and/or events noted occurring subsequent to December 31, 2021, was conducted by the District of Columbia Department of Insurance, Securities and Banking (the “Department”).

Our examination of the Company was one of four coordinated financial condition examinations conducted of companies in the MagMutual group of companies by the States of Arizona, Georgia, and West Virginia, in addition to the District of Columbia. The examinations were coordinated by the Georgia Office of Insurance and Safety Fire Commissioner (“GA Office of Insurance”).

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (“Handbook”) and the policies and standards established by the Department. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Generally Accepted Accounting

Principles (GAAP). The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to Section 31-1404(a) of the Code and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the Company.

The Company was audited by an independent public accounting firm for the calendar years 2020 and 2021 and the firm expressed unqualified opinions on the Company's financial statements for those years. For the years 2018 and 2019, 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, 2021. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2021. We placed reliance on the work of the auditor and directed our efforts, to the extent practical, to those areas not covered by the firm's work papers.

SUMMARY OF SIGNIFICANT FINDINGS

The results of this examination disclosed no material adverse findings, significant findings of non-compliance, or material changes in financial statements.

STATUS OF PRIOR EXAMINATION FINDINGS

This is the first financial examination of the Company.

HISTORY

General:

MMRRG was incorporated on November 14, 2018 as an association captive insurance company, operating as a risk retention group, under the laws of the District of Columbia. The Company commenced business on October 1, 2019.

The Company's formation was sponsored by MagMutual Intermediate Holding Company ("MMIHC"), a Georgia domiciled stock company, to provide medical professional liability insurance to medical professionals initially in the State of New York and subsequently in other jurisdictions as the need arises. MagMutual Holding Company ("MMHC") is the ultimate controlling entity in the MagMutual holding company system. See further comments regarding MMRRG and the MagMutual holding company system in the "Affiliated Parties and Transactions" section of this Report.

Membership:

As a risk retention group, the Company is owned by its member insureds, consisting of various medical professionals. As a mutual insurer, MMRRG does not issue stock or other certificates of ownership. Each insured is automatically a member and owner of MMRRG.

Dividends and Distributions:

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

MANAGEMENT AND CONTROL

Board of Directors and Officers:

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

| <u>Name and State of Residence</u> | <u>Principal Occupation</u> |
|---|--|
| Edmund E. Lynch Georgia | President MagMutual Insurance Companies |
| Naveed Anwar Georgia | Chief Financial Officer MagMutual Insurance Company |
| Michael J. Markett* Georgia | Assistant Secretary MagMutual Insurance Company |
| Michael Bergerson Colorado | Chief Executive Officer Orthopaedic & Spine Center of the Rockies, PC |
| Nicholas Tzaneteas Florida | Retired |
| Eric J. Gardzina Tennessee | Vice President Insurance and Risk Management Envision Healthcare Corporation |
| Andrew H. Koslow, M.D., J.D. Massachusetts | Physician Compass Medical P.C. |

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

| <u>Name</u> | <u>Position</u> |
|---------------------|-------------------------|
| Edmund E. Lynch | Chief Executive Officer |
| Naveed Anwar | Treasurer |
| Michael J. Markett* | Secretary |

*Michael J. Markett was replaced by William S. Kanich, M.D., J.D. as director and secretary in August 2022.

Conflicts of Interest:

In compliance with the District of Columbia Municipal Regulations (DCMR), conflict of interest statements are to be completed annually by all directors, officers, and key employees. Our review of the conflict of interest statements for 2019 through 2021 disclosed there were no conflicts of interest reported that would adversely impact the Company. However, the Company was unable to provide signed conflict of interest statements for the majority of its directors and officers for 2019 and 2020. Overall, thirteen of the seventeen statements requested for the years under examination could not be provided. Most of the statements for 2021 were available. We discussed this situation with the Company during the examination and management explained that they recognized the importance of maintaining compliance with the DCMR and indicated procedures have been implemented to ensure all future required conflict of interest statements would be available for review upon request by the Department.

Corporate Records:

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

Captive Manager:

Quest Captive Management, LLC (Quest), doing business as Davies Captive Management, has been the Company's captive manager since January 1, 2019 and provides captive management services to the Company, including regulatory and annual statement preparation services.

Affiliated Parties and Transactions:

The Company is a member of the MagMutual holding company system. During the period under examination and up to the date of this Report, the Company had the following transactions with affiliated companies.

MMIHC provided the initial capitalization of the Company with a \$675,000 Letter of Credit ("LOC"), obtained on behalf of the Company. The LOC is automatically extended each year.

Effective December 3, 2019, the Company and MMIHC entered into a promissory note agreement. Pursuant to the agreement, MMIHC issued a promissory note to the Company of an

amount up to \$150,000 to provide the operating cash necessary to fund operations. The balance of the promissory note payable to MMIHC was \$0 as of December 31, 2021.

Through a Managing General Agreement effective January 24, 2019, MagMutual Insurance Company (“MMIC”) is responsible for providing various services to the Company, including underwriting, accounting and financial reporting, claims management, loss prevention, and other program management services. Compensation for the services provided is \$75,000 annually and is paid on a quarterly basis.

In addition, the Company is a party to a reinsurance agreement with MMIC. See further details regarding this agreement in the “Reinsurance” section of this Report.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, the Company was licensed in the District of Columbia, and was registered as a risk retention group in New York. During 2021, the Company wrote direct premiums totaling \$299,104, all in New York.

The Company provides medical professional liability insurance on a claims made basis with limits up to \$1,000,000 per claim and \$3,000,000 in the aggregate. The Company limits its maximum losses through its reinsurance agreement, 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 MMIC in Atlanta, Georgia.

REINSURANCE

Assumed:

The Company did not assume any business during the examination period.

Ceded:

During the period under examination, the Company maintained a quota share reinsurance with MMIC. Under the terms of the agreement, the Company ceded ninety-five percent (95%) of its premiums and losses. The Company also receives a ceding commission equal to the actual underwriting expenses incurred. Additionally, the Company cedes one hundred percent (100%) of the amount, if any, by which the aggregate amount of the Company's ultimate net loss exceeds the difference between the Company's net earned premium and the Company's other underwriting expense incurred.

During 2021, the Company ceded reinsurance premiums totaling \$284,149. As of December 31, 2021, the Company reported as assets “Amounts recoverable from reinsurers” totaling

\$11,672, which represents amounts recoverable from reinsurers on paid losses. In addition, the Company reported ceded loss reserves on unpaid losses of \$1,191,249 and reported ceded unearned premiums of \$189,561. These ceded amounts are reported as a reduction of the Company's liabilities for loss reserves and unearned premium reserves. If the reinsurer was not able to meet its obligations under the agreement, 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, 2021. The financial statements were prepared in accordance with GAAP prescribed or permitted by the Department. Management is responsible for the preparation and fair presentation of these financial statements. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

| <u>STATEMENT</u> | <u>PAGE</u> |
|--|-------------|
| Balance Sheet: | 7 |
| Assets | 7 |
| Liabilities, Surplus and Other Funds | 8 |
| Statement of Income | 9 |
| Capital and Surplus Account | 10 |
| Analysis of Examination Changes to Surplus | 10 |

BALANCE SHEET

ASSETS

| | <i>December 31, 2021</i> |
|---|--------------------------|
| Cash and cash equivalents | \$ 27,061 |
| Subtotals, cash and invested assets | \$ 27,061 |
| Uncollected premiums and agents' balances in the course of collection | 291,837 |
| Amounts recoverable from reinsurers | 11,672 |
| Net deferred tax asset | 1,457 |
| Letter of credit | 675,000 |
| Deferred policy acquisition costs | 13,998 |
| Total | <u>\$ 1,021,025</u> |

LIABILITIES, SURPLUS AND OTHER FUNDS

| | <i>December 31, 2021</i> |
|--|----------------------------|
| Losses (NOTE 1) | \$ 60,261 |
| Loss adjustment expenses (NOTE 1) | 2,437 |
| Other expenses (excluding taxes, licenses and fees) | 57,726 |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | 14,317 |
| Current federal income taxes | 342 |
| Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$189,000) | 9,977 |
| Ceded reinsurance premiums payable | 186,368 |
| Aggregate write-ins for liabilities | <u>14,597</u> |
| Total liabilities | <u>\$ 346,025</u> |
| Gross paid in and contributed surplus | \$ 675,000 |
| Unassigned funds (surplus) | <u>-</u> |
| Surplus as regards policyholders | <u>\$ 675,000</u> |
| Total | <u><u>\$ 1,021,025</u></u> |

STATEMENT OF INCOME

| | <i>December 31, 2021</i> |
|--------------------------------------|--------------------------|
| UNDERWRITING INCOME | |
| Premiums earned | \$ 18,051 |
| DEDUCTIONS | |
| Losses incurred | 49,992 |
| Loss adjustment expenses incurred | 3,500 |
| Other underwriting expenses incurred | (35,441) |
| Total underwriting deductions | \$ 18,051 |
| Net underwriting loss | \$ - |
| INVESTMENT INCOME | |
| Net investment income earned | - |
| Net loss before dividends and taxes | - |
| Federal taxes | - |
| Net income | <u><u>\$ -</u></u> |

CAPITAL AND SURPLUS ACCOUNT

| | |
|--|-------------------|
| Initial capital: | |
| Letter of Credit | \$ 675,000 |
| Net change in surplus as regards policyholders, 2018 | <u>675,000</u> |
| Surplus as regards policyholders, December 31, 2018 | <u>\$ 675,000</u> |
| Net income (loss), 2019 | <u>-</u> |
| Net change in surplus as regards policyholders, 2019 | <u>-</u> |
| Surplus as regards policyholders, December 31, 2019 | <u>\$ 675,000</u> |
| Net income (loss), 2020 | <u>-</u> |
| Net change in surplus as regards policyholders, 2020 | <u>-</u> |
| Surplus as regards policyholders, December 31, 2020 | <u>\$ 675,000</u> |
| Net income (loss), 2021 | <u>-</u> |
| Net change in surplus as regards policyholders, 2021 | <u>-</u> |
| Surplus as regards policyholders, December 31, 2021 | <u>\$ 675,000</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:

The Company reported “Losses” and “Loss adjustment expenses” reserves net of reinsurance totaling \$60,261 and \$2,437, 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, 2021.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expense reserves as of December 31, 2021 were reviewed as part of our examination. As part of our review, a casualty actuary from the Georgia Department of Insurance reviewed the actuarial report as of December 31, 2021 prepared by the Company’s independent actuary and concurred that the Company’s loss and loss adjustment expense reserves as of December 31, 2021 were reasonable.

SUBSEQUENT EVENTS

No significant subsequent events were noted as of the date of this Report.

SUMMARY OF RECOMMENDATIONS

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

SIGNATURES

In addition to the undersigned, David Palmer, CFE, from Lewis & Ellis, Inc, representing the Department, and David Christhif, ACAS, MAAA, from the Department, participated in this examination as members of the examination team.

Respectfully submitted,



Omar D. Akel, CFE
Examiner-In-Charge
Lewis & Ellis, Inc.

Under the Supervision of,

Christine Afolabi

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

Via E-mail

April 26, 2023

Edmund E. Lynch, Chief Executive Officer
MagMutual Risk Retention Group, Inc.
1401 Eye Street N.W., Suite 600
Washington, D.C. 20005

RE: Examination of MagMutual Risk Retention Group, Inc., as of December 31, 2021

Dear Mr. Lynch:

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

Please submit, to my attention, a written response calling attention to any errors or omissions. In addition, if this Report contains a section entitled “Summary of Recommendations” that discloses certain areas requiring action, the Company shall submit a statement covering the corrective measures which will be taken. If the Company’s position on any of these points is contrary to the Examiner’s findings, an explanation should be submitted covering each contested comment and/or recommendation.

If there are no errors or omissions to be brought to our attention, and there is no “Summary of Recommendations” requiring a response, please submit a statement that the Company accepts the Report.

The response must be in writing and shall be furnished to this Department by May 26, 2023. The signed response should be on the Company’s letterhead and sent electronically via e-mail to me, in an adobe “pdf” format, to sean.odonnell@dc.gov.

Sincerely,



Sean O’Donnell,
Director of Financial Examination,
Risk Finance Bureau
Enclosure

May 11, 2023

SENT VIA ELECTRONIC MAIL

District of Columbia Department of Insurance, Securities and Banking
Risk Finance Bureau
Attn: Sean O'Donnell, Director of Financial Examination
Sean.ODonnell@dc.gov

Re: Report on Examination of the Affairs and Financial Condition of MAGMUTUAL Risk Retention Group, Inc. as of December 31, 2021

Dear Mr. O'Donnell:

MAGMUTUAL Risk Retention Group, Inc. (the "Company") is in receipt of your letter dated April 26, 2023 regarding the Report on Examination of the affairs and financial condition of the Company ("Report"). Upon review, the Company has found no errors or omissions in the Report. Additionally, since the Report did not contain a section entitled "Summary of Recommendations" no further response is required. The Company accepts the Report.

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Ed Lynch", with a long horizontal flourish extending to the right.

Ed Lynch
Chief Executive Officer

Via E-mail

May 15, 2023

Edmund Lynch, Chief Executive Officer
MagMutual Risk Retention Group, Inc.
1401 Eye Street N.W., Suite 600
Washington, D.C. 20005

RE: Examination of MagMutual Risk Retention Group, Inc., as of December 31, 2021

Dear Mr. Lynch:

We are in receipt of your response, dated May 11, 2023, regarding the Report on Examination of MagMutual Risk Retention Group, Inc., (the “Company”), as of December 31, 2021. The response is deemed adequate.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the District of Columbia Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10-day period has passed, the Report will be publicly available.

Pursuant to Section 31-1404(d)(1) of the District of Columbia Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each of the Company’s directors stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please mail the originals of these affidavits to my attention at the Department, or, alternatively, PDFs may be emailed to my attention and submission of the originals is not required.

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

Sincerely,



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

Enclosure