

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

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

**ORDER**

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **MICA Risk Retention Group, Inc.**, (the “Company”), as of December 31, 2022 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“Department”). The Department reported on the financial condition of the Company in the attached Report on Examination (“Financial Condition Examination Report”).

In accord with the provisions of D.C. Official Code § 31-1404(c), it is hereby ordered, on this 24<sup>th</sup> day of January 2024, that the attached Financial Condition Examination Report be adopted and filed as an official record of the Department.

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

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

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



Dana Sheppard  
Deputy Commissioner  
Market Operations

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



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

REPORT ON EXAMINATION

MICA RISK RETENTION GROUP, INC.

AS OF

DECEMBER 31, 2022

NAIC NUMBER 15527

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Washington, D.C.  
November 28, 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

**MICA Risk Retention Group, Inc.**

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

**SCOPE OF EXAMINATION**

This full-scope examination, covering the period from January 1, 2018 through December 31, 2022, including any material transactions and/or events noted occurring subsequent to December 31, 2022, was conducted by the District of Columbia Department of Insurance, Securities and Banking (the “Department”).

Our examination of the Company was one of two coordinated financial condition examinations conducted of companies in the MICA Group by the State of Arizona and the District of Columbia. The examination was coordinated by the Arizona Department of Insurance and Financial Institutions (“AZ Department 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 Statutory Accounting Principles (“SAP”). 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.

During the exam period, the Company received an exemption from the Department for an annual audit due to no written premiums. We concentrated our examination efforts on the work performed by the AZ Department of Insurance for the period under review.

### **SUMMARY OF SIGNIFICANT FINDINGS**

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

### **STATUS OF PRIOR EXAMINATION FINDINGS**

A full scope financial examination was conducted by the Department as of December 31, 2017, which covered the period of March 21, 2014 through December 31, 2017. There were no material adverse findings, significant findings of non-compliance, or material changes in financial statements.

### **HISTORY**

#### **General:**

MICA RRG was licensed on March 21, 2014 as a mutual captive insurance company, operating as a risk retention group under the captive insurance laws of the District of Columbia. The Company has not yet commenced business.

The Company was sponsored by Mutual Insurance Company of Arizona ("MICA"), a mutual insurance company domiciled in Arizona, to provide medical professional liability insurance to medical professionals in Arizona, Colorado, Idaho, Montana, Nevada, Utah, Wyoming and potentially other states. MICA is the ultimate controlling entity of the MICA holding company system. See further comments regarding MICA and the MICA holding company system in the "Affiliated Parties and Transactions" section of this Report.

Membership:

As a risk retention group, MICA RRG is owned by its member insureds, consisting of medical professionals. As a mutual insurer, MICA RRG does not issue stock or other certificates of ownership. As of December 31, 2022, the Company has not started writing business and therefore there are no members.

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, 2022, were as follows:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Edward G. Marley Arizona	President and Chief Executive Officer of MICA
Ronald E. Malpiedi Arizona	Vice President and Chief Operating Officer of MICA
Timothy J. Friers Arizona	Vice President of Underwriting of MICA

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

<u>Name</u>	<u>Position</u>
Ronald E. Malpiedi	President
Edward G. Marley	Secretary and Treasurer

Committees:

As of December 31, 2022, the Company's board of directors had not established any committees. The Company has designated its full board of directors to serve as the audit committee.

### Conflicts of Interest:

The Company has an established procedure for the disclosure of any material interests or affiliations on the part of its directors and officers. Our review of the conflict of interest statements signed by the Company's directors and officers for the period under examination disclosed no conflicts 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 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:

MICA has managed the Company since inception.

### Affiliated Parties and Transactions:

As previously indicated in the "History" section of this report, MICA RRG is a member of the MICA holding company system. The ultimate controlling entity in the MICA group of companies is MICA.

MICA has no ownership interest in the Company. However, MICA has sponsored the Company's formation and has been managing the Company's daily business operations since inception, under a management services agreement. In addition, MICA is the lender to the Company of one million dollars (\$1,000,000) pursuant to a Subordinated Surplus Note Agreement ("Surplus Note"). Under the Company's bylaws and the Surplus Note, until the Surplus Note is paid in full, with interest, MICA has the following rights relating to control of the Company: (i) MICA has the right to appoint no less than one third (1/3) of all members to the Company's board; and (ii) The Company's CEO and the third party administrator providing services to the Company may not be dismissed without MICA's consent.

During the period under examination and up to the date of this Report, the Company has the following transactions with MICA:

MICA provided the initial capitalization of the Company with a \$1,000,000 surplus note dated May 1, 2014 which matures on August 1, 2038. The Surplus Note has an annual interest rate of prime plus one and one-half percent (1.5%) and is subject to readjustment each fifth anniversary of the initial date of issuance. The readjustment is subject to a minimum of four percent (4%) and a maximum of ten percent (10%). No interest or principal shall be paid without prior approval of the Department. No interest payments were made during the period under review.

Through a Management Agreement effective July 1, 2016, with MICA, the Company's daily operations are managed by MICA. Compensation for the services provided is waived through July 1, 2026.

Effective July 1, 2016, the Company entered into a Services Agreement with MICA. Pursuant to the agreement, MICA provides services including but not limited to marketing, underwriting, premiums and claims administration and policy rating and issuance. Compensation for the services provided is waived through July 1, 2026.

In addition, the Company is a party to a reinsurance agreement with MICA. See further details in the "Reinsurance" section of this Report.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2022, the Company was licensed in the District of Columbia, and was registered as a risk retention group in the following states: Arizona, Arkansas, California, Colorado, Hawaii, Idaho, Iowa, Kansas, Louisiana, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, and Wyoming. As of December 31, 2022, the Company had not commenced writing business.

The Company offers medical professional liability on a claims made basis to physicians, physician groups, medical facilities, nurse practitioners and other medical professionals, with limits up to \$5 million per occurrence and \$15 million aggregate per policy period. The Company also provides Meddefense/Cyber liability protection up to a limit of \$100,000 per claim and \$100,000 in the aggregate.

The Company has no employees and its daily business operations are managed by MICA in Phoenix, Arizona.

### **REINSURANCE**

For the period under examination, the Company was party to a quota-share reinsurance agreement with MICA. Under the terms of the agreement, the Company cedes to MICA ninety five percent (95%) of all premiums and losses. The Company receives a ceding commission of eighteen percent (18%) of the premiums ceded. The contract is automatically renewed until terminated by either party by written notice to the other given at least 12 months prior to the expiration date.

Effective January 1, 2016, the Company was party to a common loss excess reinsurance agreement with foreign reinsurers and several Lloyd's of London syndicates ("Lloyd's syndicates") whereby the reinsurers assume losses of up to \$18 million excess \$2 million in any one common loss and in the aggregate. The agreement was not renewed effective January 1, 2021.

During the examination period, the Company, MICA and MICA Specialty, P.C.C., Inc. and its Cells, as and when they are created (the "Companies"), were party to a per event excess casualty



reinsurance with various subscribing non-affiliated reinsurers. The agreement is renewed on January 1 each year. Pursuant to the agreement, the reinsurers indemnify the Companies for 100% of the losses from the medical malpractice liability and healthcare systems policies up to a maximum policy limit of \$5 million per insured per loss and \$15 million in the annual aggregate.

The Company also provides Medefense/Cyber liability protection up to a limit of \$100,000 per claim and \$100,000 in the aggregate. Effective January 1, 2017, the Company reinsures ninety-eight percent (98%) of this coverage through two layers of reinsurance. The Company cedes first under a quota-share reinsurance agreement with several Lloyd's of London syndicates whereby the reinsurers assume sixty percent (60%) of losses on limits up to \$100,000. The Company then cedes to MICA ninety-five percent (95%) of losses under its quota-share reinsurance agreement. Effective January 1, 2020, the agreement was modified and the Lloyd's syndicates were replaced with a new reinsurer, Houston Casualty Company, a subsidiary of Tokio Marine Holdings Inc.

As of December 31, 2022, the Company has not written any business. There are no ceded premiums, receivables from reinsurers, ceded loss reserves or ceded unearned premiums.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the Annual Statement filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2022. The financial statements were prepared in accordance with SAP 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.

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**BALANCE SHEET**

**ASSETS**

	<i>December 31, 2022</i>
Bonds	\$ 132,661
Cash	<u>507,144</u>
Subtotal cash and invested assets	\$ 639,805
Investment income due and accrued	1,500
Total	<u>\$ 641,305</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

	<i>December 31, 2022</i>
Other expenses (excluding taxes, licenses and fees)	\$ 2,287
Taxes, licenses and fees (excluding federal and foreign income taxes)	<u>15,240</u>
Total liabilities	<u>\$ 17,527</u>
Surplus notes	\$ 1,000,000
Unassigned funds (surplus)	<u>(376,222)</u>
Total surplus	<u>\$ 623,778</u>
Total liabilities and surplus	<u>\$ 641,305</u>

**STATEMENT OF INCOME**

	<i>December 31, 2022</i>
<b>DEDUCTIONS</b>	
Other underwriting expenses incurred	\$ 26,001
Total underwriting expenses	\$ 26,001
Underwriting loss	\$ (26,001)
<b>INVESTMENT INCOME</b>	
Net investment income earned	9,241
Income before dividends and taxes	\$ (16,760)
Federal taxes	-
Net loss	<u>\$ (16,760)</u>

## SURPLUS ACCOUNT

Total surplus, December 31, 2017	\$ 763,235
Net loss, 2018	(31,159)
Change in net unrealized capital losses	(4,534)
Change in net deferred income tax	7,495
Change in nonadmitted assets	(7,495)
Net change in surplus, 2018	<u>(35,693)</u>
Total surplus, December 31, 2018	<u>\$ 727,542</u>
Net loss, 2019	(24,533)
Change in net unrealized capital gains	9,434
Change in net deferred income tax	4,080
Change in nonadmitted assets	(2,929)
Net change in surplus, 2019	<u>(13,948)</u>
Total surplus, December 31, 2019	<u>\$ 713,594</u>
Net loss, 2020	(26,216)
Change in net unrealized capital gains	7,940
Change in net deferred income tax	5,505
Change in nonadmitted assets	(3,395)
Net change in surplus, 2020	<u>(16,166)</u>
Total surplus, December 31, 2020	<u>\$ 697,428</u>
Net loss, 2021	(23,814)
Change in net unrealized capital losses	(7,376)
Change in net deferred income tax	5,001
Change in nonadmitted assets	(6,961)
Net change in surplus, 2021	<u>(33,150)</u>
Total surplus, December 31, 2021	<u>\$ 664,278</u>
Net loss, 2022	(16,760)
Change in net unrealized capital losses	(18,755)
Change in net deferred income tax	3,520
Change in nonadmitted assets	(8,506)
Rounding	1
Net change in surplus, 2022	<u>(40,500)</u>
Total surplus, December 31, 2022	<u>\$ 623,778</u>

**ANALYSIS OF EXAMINATION CHANGES TO SURPLUS**

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

**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 report were noted.

**SIGNATURES**

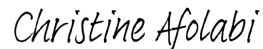
In addition to the undersigned, David Palmer, from Lewis & Ellis, Inc., participated in this examination.

Respectfully submitted,



Lindsey Pittman, CFE  
Examiner-In-Charge  
Lewis & Ellis, Inc.

Under the Supervision of,



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

Via E-mail

January 18, 2024

Sherry R. Haworth, President  
MICA Risk Retention Group, Inc.  
1050 Connecticut Ave. NW. Suite 1100  
Washington, D.C. 20036

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

Dear Ms. Haworth:

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

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

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

The response must be in writing and shall be furnished to this Department by February 19, 2024. The signed response should be on the Company’s letterhead and sent electronically via e-mail to me, in an adobe “pdf” format, to [sean.odonnell@dc.gov](mailto:sean.odonnell@dc.gov).

Sincerely,



Sean O’Donnell,  
Director of Financial Examination and  
Acting Associate Commissioner  
Risk Finance Bureau  
Enclosure

January 22, 2024

Sean O'Donnell  
Director of Financial Examination  
1050 First Street NE, Suite 801  
Washington, DC 20002

Re: Examination of MICA Risk Retention Group, Inc., as of December 31, 2022

Dear Mr. O'Donnell,

We have reviewed the MICA Risk Retention Group, Inc. draft examination report and we have not found any errors or omissions that need to be brought to the attention of the department.

The Company accepts the report.

Sincerely,



Sherry Haworth  
President

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Via E-mail

January 24, 2024

Sherry R. Haworth, President  
MICA Risk Retention Group, Inc.  
1050 Connecticut Ave. NW, Suite 1100  
Washington, D.C. 20036

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

Dear Ms. Haworth:

We are in receipt of your response, dated January 22, 2024, regarding the Report on Examination of MICA Risk Retention Group, Inc., (the “Company”), as of December 31, 2022. The response is deemed adequate.

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

Pursuant to Section 31-1404(d)(1) of the District of Columbia Official Code, within 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 and  
Acting Associate Commissioner  
Risk Finance Bureau  
sean.odonnell@dc.gov

Enclosure