

Report on the Examination

of

**DELTA DENTAL OF RHODE ISLAND**  
Providence, Rhode Island

as of

December 31, 2017



State of Rhode Island and Providence Plantations  
Department of Business Regulation  
Insurance Division



**State of Rhode Island and Providence Plantations  
OFFICE OF THE HEALTH INSURANCE COMMISSIONER  
1511 Pontiac Avenue, Bldg. 69-1  
Cranston, Rhode Island 02920**

**FINAL ORDER (OHIC)**

*The attached Report of Examination as of December 31, 2017, of the condition and affairs of DELTA DENTAL OF RHODE ISLAND, was recently completed by duly qualified examiners, pursuant to the provisions of the Rhode Island General Laws.*

*Due consideration has been given to the comments of the examiners regarding the operation of the Company and its financial condition, as reflected in the report.*

*It is therefore ORDERED that said Report be, and it is hereby, adopted and filed and made an official record of this Department as of this date.*

*DEPARTMENT OF BUSINESS REGULATION*

*Marie L. Ganim*

*Marie L. Ganim, PhD*

*Health Insurance Commissioner*

DATED: 11/1/2018

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August 10, 2018

Honorable Marie L. Ganim, PhD  
Health Insurance Commissioner  
State Of Rhode Island and Providence Plantations  
Office of the Health Insurance Commissioner  
1511 Pontiac Ave Bldg 69-1  
Cranston, RI 02920

Dear Commissioner Ganim:

In accordance with your instructions and pursuant to the provisions of Chapter 27-20.1-5 of the General Laws of the State of Rhode Island, an examination has been made as of December 31, 2017 of the financial condition and affairs of

**DELTA DENTAL OF RHODE ISLAND**

at its home office located at 10 Charles Street, Providence, Rhode Island. The report of such examination is herewith submitted.

Delta Dental of Rhode Island, hereinafter referred to as “Delta Dental” or the “Company,” was previously examined as of December 31, 2012. Both the current and prior examinations have been conducted by the Insurance Division of the State of Rhode Island (“Insurance Division”).

## SCOPE OF EXAMINATION

The last examination of the Companies covered the four-year period from January 1, 2009 through December 31, 2012. The current examination covered the five-year period from January 1, 2013 through December 31, 2017 and was performed in compliance with the above-mentioned section of the General Laws of the State of Rhode Island, as amended. The current examination was conducted as a full scope risk-focused examination in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”),

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. 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, 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 separately communicated to other regulators and/or the Company.

At December 31, 2017, the Company is the ultimate parent of Altus Dental Insurance Company, Inc. (“Altus Dental”). Altus Dental is a Rhode Island domestic insurer and is licensed to transact insurance in the State of Rhode Island and the Commonwealth of Massachusetts. An examination of Altus Dental Insurance Company was conducted concurrently with this examination, with a report thereon submitted under separate cover.

### **COMPANY HISTORY**

The Company was organized as a nonprofit dental service corporation on October 22, 1959, under the provisions of an Enabling Act as amended in 1978 by the General Assembly of the State of Rhode Island.

The Company commenced business on April 1, 1966 as the Rhode Island State Dental Service Corporation under non-business Articles of Association, for the purpose of increasing the extent to which voluntary insurance against and indemnity for the cost of dental care is made available to the people of the State of Rhode Island.

On April 27, 1978, the Company’s name was changed to Delta Dental of Rhode Island under an amendment to the Articles of Association. On January 14, 1993, upon termination of an Administrative Agreement with Blue Cross and Blue Shield of Rhode Island, the Company assumed responsibility for directing all of its own corporate activities.

## **MANAGEMENT AND CONTROL**

### **Members**

The Company's Bylaws, as amended, stipulate that the members of the Company shall be comprised of those persons serving on the Board of Directors and such other persons comprised of both dentists and public members who are not dentists or dental auxiliary personnel. The membership shall be fixed at not less than sixty (60) or more than ninety (90). Members shall be elected so as to provide as nearly as possible for equal groups of members whose terms expire in one, two and three years provided, however, that public Members, including directors, who are not dentists or persons otherwise associated with the practice of dentistry, shall at all times comprise the majority of the membership. Dentists who are directors, shall at all times comprise a minority of the membership. The membership shall be structured such that at least two-thirds ( $2/3$ ) of the Members reside in or are employed in the State of Rhode Island.

The Bylaws also provide that the annual meeting of its Members shall be held each year on a day fixed by the Board of Directors and at such place as the Board of Directors shall designate. Special meetings of the Members may be called by the Chair and shall be called by the Chair on written request of a majority of the voting directors or one-third of the voting

Members of the Company. At every meeting of the Members, there shall be represented in person at least twenty-five percent (25%) of the Members to constitute a quorum.

## **Board of Directors**

The Bylaws provide that the Board of Directors shall have supervision and control of the business, property, affairs and management of the Company. The Board of Directors shall be constituted such that a majority comprised of no less than two-thirds (2/3) of the voting directors are public members who are not otherwise associated with the profession of dentistry.

At each annual meeting, the Members of the Company shall elect one-third (1/3) of the directors from each group of directors (public members who are not otherwise associated with the profession of dentistry and dentists) to hold office for a term of three (3) years, staggered so that one-third (1/3) expire each year. Individuals who are directors, corporate members, consultants, officers or employees of direct competitors of Delta Dental are excluded from eligibility for service on the Board of Directors. In all cases, directors shall serve until their successors are elected and qualified.

Vacancies in the Board of Directors occurring from any cause may be filled for the unexpired term by the Board of Director's provided that the requirement of each group's participation is adhered to. No director shall be elected to more than three consecutive three-year terms; and no director shall serve a new term if such service would result in more than twelve consecutive years of service as a director.

The officers of the Board of Directors shall include a Chair of the Board of Directors and a Vice-Chair of the Board of Directors. At least one of these officers of the Board shall be a public member not otherwise associated with the profession of dentistry.

The Board of Directors shall hold an annual meeting following the annual meeting of the Members of the Company, or any special meeting of the Members held in lieu thereof. Regular meetings shall be held at such times and places as the Board shall determine. Special meetings may be called at any time by the Chair and shall be called by the Chair upon written request of at least one-third (1/3) of the voting directors, or on written request of the President and Chief Executive Officer.

A majority of the members of the Board of Directors shall constitute a quorum for a meeting of the Board of Directors. If at any meeting less than a quorum shall be present, a majority of those present may adjourn the meeting.

The members of the Board of Directors serving at December 31, 2017 are as follows:

<b>Name</b>	<b>Business Affiliation</b>	<b>Term Expires</b>
John Ruggieri, Chairman	Senior Vice President and CFO, Gilbane	2021
Joseph MarcAurele, Vice Chairman	Chairman & CEO , The Washington Trust Company	2019
Dr. Thomas Enright	Dentist, DMD	2020
Julie Duffy	Exec. Vice President, Human Resources, Textron	2019
Francis J. Flynn	President, Rhode Island Federation of Teachers and Health Professionals	2020
Edwin Santos	Chairman, CharterCare Health Partners	2020
Edward Handy	President & COO, The Washington Trust Company	2021
William Foulkes	Faculty, Rhode Island School of Design	2020
Johnathan Hall	COO, FM Global	2019
Linda R. McGoldrick	Non Exec. Chairman, Financial Health Association International	2021
Mark Shaw	Chairman, AAA Northeast	2020
Cynthia S. Reed	President & CEO, LTR Holdings LLC	2018
Mark Paulhus	Exec. Vice President, Citizens Asset Finance Inc.	2019
James Rosati	Retired Pres. & CEO, Beacon Mutual Insurance	2019
Vanessa Toledo-Vickers	Owner, Virtual Marketing Associates, Inc.	2018

## **Committees**

Pursuant to the Bylaws, the Board of Directors shall appoint annually, four standing committees including a Governance Committee, Finance and Audit Committee, Appeals Committee, Compensation Committee and such other committees as it may deem appropriate. The Board of Directors shall determine the size of each standing committee annually; however, no standing committee shall have fewer than five (5) members. With the exception of the Appeals Committee, a majority comprised of no less than two-thirds (2/3) of the members of each standing committee shall be public members who are not otherwise associated with the profession of dentistry. A majority of the Appeals Committee shall be public members who are not otherwise associated with the profession of dentistry.

The standing committees consisted of the following members at December 31, 2017:

### **Governance Committee**

James Rosati, Chairman  
Julie Duffy  
Joseph J. MarcAurele  
Cynthia S. Reed  
John Ruggieri  
Mark Shaw  
Vanessa Toledo-Vickers

### **Finance and Audit Committee**

Edward Handy, Chairman  
William Foulkes  
Jonathan Hall  
Linda McGoldrick  
Marc Paulhus  
Cynthia S. Reed  
Edwin J. Santos

### **Appeals Committee**

Vanessa Toledo-Vickers, Chairman  
Julie Duffy  
Thomas Enright, DMD  
Francis J. Flynn  
William Foulkes

### **Compensation Committee**

John Ruggieri, Chairman  
Edward Handy  
Joseph J. MarcAurele  
James Rosati  
Edwin J. Santos

## **Officers**

The Bylaws provide that the officers of the Company shall be elected annually by the Board of Directors and shall consist of a President, a Secretary and a Treasurer. The board may appoint such other officers and agents as it may deem necessary, including but not limited to Executive or other Vice Presidents, Assistant Treasurers and Assistant Secretaries.

The officers serving, and their respective titles for Delta Dental of Rhode Island and subsidiaries at December 31, 2017 are as follows:

Joseph A. Nagle	President and Chief Executive Officer CEO - First Circle, Inc.
Richard A. Fritz	Chief Financial Officer, Vice President and Treasurer
William Landry, Esq.	Secretary
George Bedard	Assistant Treasurer and Controller
Melissa Gennari	Assistant Secretary and Director of Compliance
Blaine Carroll	President – First Circle, Inc.

## **TERRITORY AND PLAN OF OPERATION**

The Company offers prepaid dental care coverage to individuals and organizations wishing to provide such services to their employees and members on either a contributory or non-contributory basis.

The Company provides a broad array of dental benefit programs, with varying degrees of coverage for preventive, diagnostic and restorative services. Flexible dental plan options are available which offer customized dental benefits that meet the needs of employers and their employees.

Payments to participating dentists are based on an allowance established by the Company. Benefits are subject to a per calendar year maximum benefit ranging from \$500 to \$2,500 per covered person with a variety of deductibles.

Additional benefit levels are available only to groups providing the first level of coverage. The additional benefit riders are intended to supplement the first level contract and include more extensive dental services.

Delta Dental operates only within the State of Rhode Island. The Company's subsidiary, Altus Dental Insurance Company, Inc. (see Insurance Holding Company System section below) is a Rhode Island domestic insurer and is licensed to transact insurance in the State of Rhode Island and the Commonwealth of Massachusetts.

### **INSURANCE HOLDING COMPANY SYSTEM**

The Company, filed registration statements "Form B", "Form C" and "Form F" with the Rhode Island Insurance Division, for all years under examination, as required under Title 27, Chapter 35 of the Rhode Island General Laws entitled "Insurance Holding Company Systems."

### **Organizational Structure**

At December 31, 2017, Delta Dental of Rhode Island is the ultimate parent in the holding company system. Delta Dental owns 100% of the issued and outstanding common capital stock of The Altus Group, Inc. Delta Dental is also the sole member of Altus Realty Company,

Inc., a non-profit real estate holding company. A summary of the history and purpose of each wholly owned subsidiary of the Company follows:

The Altus Group, Inc. – In 1999, The Altus Group, Inc. and its wholly owned subsidiaries, Altus Dental Insurance Co., Inc., Altus Systems, Inc. and Altus Dental, Inc., were established by Delta Dental as for-profit entities. The purpose for forming these entities was to expand Delta Dental’s offering of prepaid dental care coverage and other third party administrative services to organizations based outside of Rhode Island, particularly in the Massachusetts market. Altus Dental Insurance Company, Inc. is a Rhode Island domestic insurer and is licensed to transact insurance in the State of Rhode Island and the Commonwealth of Massachusetts.

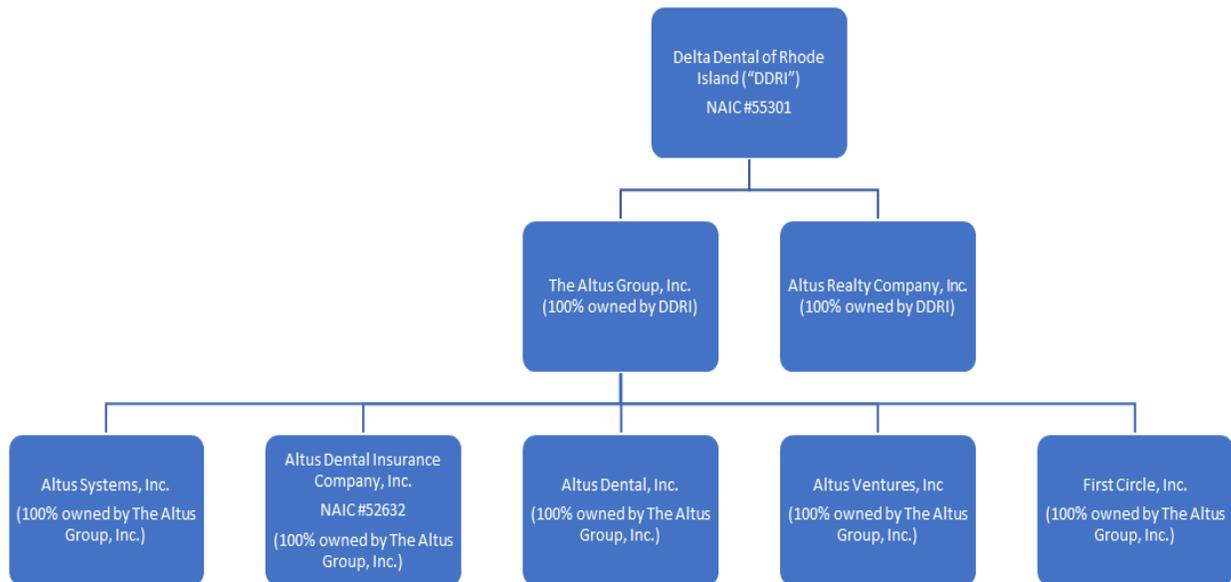
The Altus Group subsequently added two additional for profit subsidiaries, Altus Ventures, Inc. and First Circle, Inc., which were capitalized with capital transfers from the reserves of Delta Dental of Rhode Island, the Ultimate Parent Company. These entities were formed to identify and assess strategic investment opportunities in addition to prepaid dental insurance; and to expand into other areas that are ancillary to the Company’s core dental business.

Altus Realty Company, Inc. - In 2002, the Company formed Altus Realty Company, Inc., a non-profit real estate holding company pursuant to Section 501(c)(2) of the Internal Revenue Code, for the sole purpose of acquiring, holding title to, and managing the home office building located at 10 Charles Street, Providence, Rhode Island. This building, which the Company has leased space in since 1997, is the principal office facility of the Company. Delta Dental and

subsidiaries presently rent approximately one half (1/2) of the existing space within the building.

All members of Delta Dental’s Board of Directors represent the Board of Directors of all subsidiary entities.

The following presentation of the holding company system as of December 31, 2017 reflects the identities and interrelationships between the Company and its affiliates:



### **Inter-Company Agreements**

The following represents a summary of the intercompany agreements in-force between the Company and its affiliates as of December 31, 2017:

Funding Agreement – Altus Realty Company, Inc.

Funding Agreement – The Altus Group, Inc.

Funding Agreement – Altus Dental, Inc.

Effective July 23, 2004, the Company entered into three separate Funding Agreements with Altus Realty Company, Inc., The Altus Group, Inc. and Altus Dental, Inc., (collectively, “the subsidiaries”), all direct or indirect wholly owned subsidiaries of the Company. Under the terms of the Funding Agreements, the Company shall advance funds to the subsidiaries to assist in the funding of their operations. With respect to funds advanced, interest shall accrue in favor of the Company at a rate of interest reasonably deemed by the Company to be a commercially reasonable rate corresponding to what an unrelated entity would be charged. Funds advanced shall be repaid by the subsidiaries to the Company, together with accrued interest, at such time as the subsidiaries are reasonably capable of making such repayment. From time to time, the Company shall collect excess cash held by the subsidiaries for purposes of investing the cash as part of the Company’s investment portfolio in order to maximize investment returns. Interest income earned with respect of such funds shall be credited to the subsidiaries.

*Cost Sharing Agreement – Altus Dental Insurance Company, Inc.*

Effective July 23, 2004, the Company entered into a Cost Sharing Agreement with Altus Dental Insurance Company, Inc. (“ADIC”) whereby the Company will provide ADIC with certain executive and managerial services and will provide access to contractual arrangements, vendors, facilities and equipment. Under the terms of the Cost Sharing Agreement, ADIC shall be responsible for all costs reasonably identified as being directly and solely attributable to ADIC. ADIC shall also be responsible for all indirect costs which are fairly allocable for the services, facilities and equipment provided, by application of generally accepted cost accounting principles and consultation with the Companies’ auditors and legal counsel. The

fees charged to ADIC by the Company shall be accrued monthly and are payable on a quarterly basis. The Cost Sharing Agreement also stipulates that either party may have its excess cash invested in the investment portfolio of the other party in order to maximize investment returns. Interest earned with respect to such funds shall be credited to the party advancing such funds.

*Cost Sharing Agreement – Altus Systems, Inc.*

Effective July 23, 2004, the Company entered into a Cost Sharing Agreement with Altus Systems, Inc. whereby Altus Systems, Inc. will provide the Company with certain operational and administrative services. Altus Systems, Inc. employs the operations staff that processes and performs customer service for both Delta Dental of Rhode Island and Altus Dental Insurance Company, Inc. Altus Systems Inc. costs are allocated proportionately to Delta Dental of Rhode Island and Altus Dental Insurance Company, Inc. Under the terms of the Cost Sharing Agreement, the Company shall be responsible for all costs reasonably identified as being directly and solely attributable to the Company. The Company shall also be responsible for all indirect costs which are fairly allocable for the services provided, by application of generally accepted cost accounting principles and consultation with the Companies' auditors and legal counsel. The fees charged to the Company by Altus Systems shall be accrued monthly and are payable on a quarterly basis. The Cost Sharing Agreement also stipulates that either party may have its excess cash invested in the investment portfolio of the other party in order to maximize investment returns. Interest earned with respect to such funds shall be credited to the party advancing such funds.

*Cost Sharing Agreement – First Circle, Inc.*

Effective January 1, 2017, the Company entered into a Cost Sharing Agreement with First Circle, Inc. (“FC”) whereby the Company will provide FC with certain executive and managerial services and will provide access to contractual arrangements, vendors, facilities and equipment. Under the terms of the Cost Sharing Agreement, FC shall be responsible for all costs reasonably identified as being directly and solely attributable to FC. FC shall also be responsible for all indirect costs which are fairly allocable for the services, facilities and equipment provided, by application of generally accepted cost accounting principles and consultation with the Companies’ auditors and legal counsel. The fees charged to FC by the Company shall be accrued monthly and are payable on a quarterly basis. The Cost Sharing Agreement also stipulates that either party may have its excess cash invested in the investment portfolio of the other party in order to maximize investment returns. Interest earned with respect to such funds shall be credited to the party advancing such funds.

*Unlimited Parental Guaranty*

On September 15, 2000, the Company issued an unlimited parental guaranty on behalf of Altus Dental Insurance Company, Inc. whereby all claims and obligations of ADIC to its subscribers and policyholders will be fully funded and satisfied by the Company in the event of any inability of Altus Dental to satisfy such claims and obligations. The unlimited parental guaranty became effective in September 2002 when Altus Dental began underwriting dental insurance in Massachusetts.

## **FINANCIAL STATEMENTS**

The results of the examination are set forth in the following exhibits and schedules:

Comparative Statement of Assets  
December 31, 2017 and December 31, 2012

Comparative Statement of Liabilities, Capital and Surplus  
December 31, 2017 and December 31, 2012

Statement of Revenue  
Year ended December 31, 2017

Capital and Surplus Account  
December 31, 2016 to December 31, 2017

Reconciliation of Surplus  
December 31, 2012 to December 31, 2017

Analysis of Examination Adjustments  
December 31, 2017

**DELTA DENTAL OF RHODE ISLAND**  
**Comparative Statement of Assets**  
**December 31, 2017 and 2012**

	<b>December 31, 2017</b>	<b>December 31, 2012</b>	<b>Increase (Decrease)</b>
Bonds	\$64,509,335	\$39,937,591	\$24,571,744
Common Stocks	56,169,624	19,895,214	36,274,410
Cash and Cash Equivalents	5,863,688	(1,703,210)	7,566,898
Short-term Investments	0	22,146,197	(22,146,197)
Other Invested Assets	7,730,973	0	7,730,973
Investment Income Due and Accrued	575,285	469,265	106,020
Uncollected Premiums and Agents' Balances in the Course of Collection	715,823	3,014,111	(2,298,288)
Amounts Receivable Related to Uninsured Plans	3,357,451	2,472,535	884,916
Electronic Data Processing Equipment and Software	394,451	133,592	260,859
Receivable from Parent, Subsidiaries and Affiliates	262,771	170,953	91,818
Aggregate Write-ins Other Than Invested Assets	1,363	772,871	(771,508)
<b>Total Assets</b>	<b>\$139,580,764</b>	<b>\$87,309,119</b>	<b>\$52,271,645</b>

**DELTA DENTAL OF RHODE ISLAND**  
**Comparative Statement of Liabilities, Capital and Surplus**  
**December 31, 2017 and 2012**

	<b>December 31, 2017</b>	<b>December 31, 2012</b>	<b>Increase (Decrease)</b>
Claims Unpaid	\$4,342,000	\$3,143,500	\$1,198,500
Unpaid Claims Adjustment Expenses	403,303	147,224	256,079
Premiums Received in Advance	2,026,077	850,766	1,175,311
General Expenses Due or Accrued	11,915,662	5,689,960	6,225,702
Amounts Due to Parent, Subsidiaries & Affiliates	197,373	986,688	(789,315)
Liability for Amounts Held Under Uninsured Plans	1,762,316	1,589,611	172,705
Aggregate Write-ins for Other Liabilities	363,946	326,656	37,290
<b>Total Liabilities</b>	<b>21,010,677</b>	<b>12,734,405</b>	<b>8,276,272</b>
Restricted Reserves for ACA Assessment	841,948	0	841,948
Strategic Investment Reserve	46,643,574	19,015,018	27,628,556
Unassigned Funds (Surplus)	71,084,565	55,559,696	15,524,869
<b>Total Capital and Surplus</b>	<b>118,570,087</b>	<b>74,574,714</b>	<b>43,995,373</b>
<b>Total Liabilities, Capital and Surplus</b>	<b>\$139,580,764</b>	<b>\$87,309,119</b>	<b>\$52,271,645</b>

**DELTA DENTAL OF RHODE ISLAND**  
**Statement of Revenue**  
**Year Ended December 31, 2017**

**REVENUES**

Net Premium Income	<u>\$97,522,483</u>	
Total Revenues		\$97,522,483

**HOSPITAL AND MEDICAL**

Other Professional Services	<u>78,438,614</u>	
Total Hospital and Medical		78,438,614
Less:		
Claims Adjustment Expenses	5,691,285	
General Administrative Expenses	<u>10,398,812</u>	
Total Underwriting Deductions		<u>16,090,097</u>
Net Underwriting Gain		2,993,772

**INVESTMENT INCOME**

Net Investment Income Earned	1,667,272	
Net Realized Capital Gains or (Losses)	<u>105,167</u>	
Net Investment Gain or (Loss)		1,772,439

**OTHER INCOME**

Aggregate Write-ins for Other Income or Expenses		<u>154,378</u>
Net Income Before Federal Income Taxes		4,920,589
Federal Income Taxes Incurred		<u>0</u>
Net Income		<u><u>\$4,920,589</u></u>

**DELTA DENTAL OF RHODE ISLAND**  
**Capital and Surplus Account**  
**December 31, 2016 to December 31, 2017**

Capital and Surplus, December 31, 2016			\$107,758,532
	Increase in Surplus	Decrease in Surplus	
Net Income	\$4,920,589		
Change in Net Unrealized Capital Gains	5,264,582		
Change in Non-Admitted Assets	728,690		
Aggregate Write-ins for Gains or (Losses) in Surplus		\$102,306	
	10,913,861	102,306	
Net Change in Capital and Surplus			10,811,555
Capital and Surplus, December 31, 2017			\$118,570,087

**DELTA DENTAL OF RHODE ISLAND**  
**Reconciliation of Surplus**  
**December 31, 2012 to December 31, 2017**

Surplus as Regards Policyholders, December 31, 2012		\$74,574,714
	<u>Increase in Surplus</u>	<u>Decrease in Surplus</u>
Net Income	\$21,387,247	
Change in Unrealized Capital Gains	18,036,409	
Change in Non-Admitted Assets	4,711,340	
Aggregate Write-ins for Gains and Losses in Surplus		\$139,623
	<u>44,134,996</u>	<u>139,623</u>
Increase in Surplus as Regards Policyholders, for the Years 2013 through 2017		<u>43,995,373</u>
Surplus as Regards Policyholders, December 31, 2017		<u><u>\$118,570,087</u></u>

**DELTA DENTAL OF RHODE ISLAND**  
**Analysis of Examination Adjustments**  
**December 31, 2017**

The examination of the Company, performed as of December 31, 2017, did not disclose any material misstatements to the financial statements contained in its 2017 Annual Statement filing. Accordingly, the amounts reported by the Company have been accepted for purposes of this report.

## COMMENTS ON FINANCIAL STATEMENTS

### ASSETS

**Bonds** **\$64,509,335**

The above amount is the net admitted value of bonds held by the Company at December 31, 2017, and is the same as that reported in its 2017 Annual Statement. All of the Company's bonds are held in accordance with the terms of a custodial agreement with a third party financial institution.

The quality ratings of all securities included in the Company's bond portfolio were reviewed based upon criteria established by the National Association of Insurance Commissioners ("NAIC"). It was noted that 98.8% of the bond portfolio represents either class 1 or class 2 securities which are bonds of the "highest" and "high" quality respectively, according to the NAIC rating system.

The book value, par value, fair value, and actual cost of the bond portfolio as of December 31, 2017, are as follows:

<u>Book/Adjusted</u> <u>Carrying</u> <u>Value</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Actual Cost</u>
<u>\$64,509,335</u>	<u>\$62,983,060</u>	<u>\$64,757,549</u>	<u>\$66,148,834</u>

## LIABILITIES

<u>Accrued Claims and Loss Adjustment Expenses</u>	<u>\$4,745,303</u>
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Claims Unpaid	\$4,342,000
Unpaid Claims Adjustment Expenses	<u>403,303</u>
Total	<u>\$4,745,303</u>

The reserves for losses and loss adjustment expenses reflected above are the same as those reported by the Company in its 2017 Annual Statement. The reserve calculation prepared by the Company was reviewed by INS Consultants, Inc. (INS), consulting actuaries for the Rhode Island Insurance Division. INS relied upon the underlying data reported by the Company, and their analyses included a review of the actuarial assumptions and methods used by the Company in determining the reserves, and such tests of actuarial calculations as deemed necessary.

In assisting INS with the reserve analysis, the examiners either independently performed or relied upon the procedures performed by the Company's independent accounting firm and internal audit department to verify the integrity of the underlying claims data, including completeness testing. A combination of subjective and statistical sampling techniques was utilized in testing the claims data, as deemed appropriate.

**CAPITAL AND SURPLUS**

**Capital and Surplus**

**\$118,570,087**

The above amount is the same as that reported by the Company in its 2017 Annual Statement, and consists of the following:

Restricted Reserves for ACA Assessment	\$841,948
Aggregate Write-ins for Other Than Special Surplus Funds	46,643,574
Unassigned Funds (Surplus)	<u>71,084,565</u>
Surplus as Regards Policyholders	<u>\$118,570,087</u>

## CONCLUSION

We have applied verification procedures to the data and information contained in this report using sampling techniques and other examination procedures as deemed appropriate. While sampling and other examination procedures do not give complete assurance that all errors and irregularities will be detected, had any been detected during the course of this examination, such errors and/or irregularities would have been disclosed in this report. Other than what has been noted in the body of this report, we were not informed of, and did not become aware of any errors or irregularities that could have a material effect on the financial condition of the Companies as presented in this report.

Participating in the examination with the undersigned were various staff insurance examiners from the Rhode Island Insurance Division. In addition, acknowledgment is made of The INS Companies for the services rendered to assist with the examination by providing consulting financial examiners, actuaries and information technology specialists.

Respectfully submitted,



Louis A. Gabriele, CPA, CFE  
Insurance Examiner-In-Charge  
State of Rhode Island