

Government of the District of Columbia
Vincent C. Gray, Mayor
Department of Insurance, Securities and Banking



Chester A. McPherson
Acting Commissioner

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

Re: Report on Examination - **Health Care Industry Liability Reciprocal Insurance Company, A Risk Retention Group**, as of December 31, 2012

ORDER

An Examination of **Health Care Industry Liability Reciprocal Insurance Company, A Risk Retention Group**, as of December 31, 2012 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

It is hereby ordered on this 23rd day of May, 2014, that the attached financial condition examination report be adopted and filed as an official record of this Department.

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.


Chester A. McPherson
Acting Commissioner



GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

HEALTH CARE INDUSTRY LIABILITY
RECIPROCAL INSURANCE COMPANY, A RISK
RETENTION GROUP

AS OF

DECEMBER 31, 2012

NAIC NUMBER 11832

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Washington, D.C.
March 19, 2014

Honorable Chester A. McPherson
Interim Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Interim Commissioner McPherson:

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

**Health Care Industry Liability Reciprocal Insurance Company, A Risk
Retention Group**

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

SCOPE OF EXAMINATION

This full-scope examination, covering the period from January 1, 2008 through December 31, 2012, including any material transactions and/or events noted occurring subsequent to December 31, 2012, was conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”). The last examination was completed as of December 31, 2007 by the Department.

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 and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with applicable accounting principles, annual statement instructions, and compliance with domestic jurisdiction laws and regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. 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 2008 through 2012. We placed substantial reliance on the audited financial statements for calendar years 2008 through 2011, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2012. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2012. 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 non-compliance findings, 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, 2007, which covered the period October 31, 2003 through December 31, 2007. In the Report on the prior examination, dated March 11, 2009, the Department noted three exception conditions and related recommendations. Our examination included a review of the current status of the three recommendations in the prior exam report, and determined that the Company had satisfactorily addressed these recommendations.

SUBSEQUENT EVENTS

The Company's Risk Based Capital (RBC) level as of December 31, 2012 was below the company action level (200 percent of authorized control level) of \$12,033,234. To remedy this, the Company issued a surplus note dated March 28, 2013 in the amount of \$5,500,000 payable to Universal Reinsurance Company, LTD – HealthCap Segregated Cell of Hamilton, Bermuda. The rate of interest is one (1) percentage point above the prime interest rate of JP Morgan Chase Bank, N.A., payable semi-annually on July 1st and January 1st of each year; however, all payments of interest shall be subject to the prior approval of the Commissioner. If not approved, payment shall be delayed until approved. The Company's RBC as of December 31, 2013 was above all action levels.

HISTORY

General:

HealthCap RRG was organized as a risk retention group, and as an assessable reciprocal insurance company under the insurance laws of the District of Columbia to provide professional and general liability coverage to long-term care facilities. The attorney-in-fact for the reciprocal, HCILRIC Attorney-In-Fact, is a District of Columbia corporation.

The Company commenced operations as of October 31, 2003 and writes nursing home general and professional liability coverage on either a claims-made or an occurrence basis to long-term care facilities.

As a reciprocal risk retention group domiciled in the District of Columbia, HealthCap RRG is required to maintain not less than \$500,000 of unencumbered surplus. The Company received \$1,100,000 of initial capital in a letter of credit from the Health Care Industry Liability Insurance Program (“HealthCap Bermuda”), a Bermuda domiciled group liability insurance program that is owned by its policyholders. On November 3, 2009, the Company was allowed to amend its certificate of authority to offer liquor liability on a limited basis.

Membership:

HealthCap RRG is owned by its subscribers/policyholders, which are long-term care facilities. As a reciprocal insurer, HealthCap RRG does not issue stock or other certificates of ownership. Each subscriber is automatically a voting member of HealthCap RRG. As an assessable reciprocal insurer, HealthCap RRG may charge a supplemental premium to current and former subscribers in the event that a deficiency develops.

Dividends and Distributions:

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

MANAGEMENT

Board of Directors and Officers:

The Company’s bylaws established a Board of Directors, as well as a Subscribers’ Advisory Committee whose duties are to advise the Board. Since inception, a single body has served in both functions. The directors are elected by the full membership of subscribers. The Company’s directors serving as of December 31, 2012 were as follows:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Richard D. Duros (Chairman) Illinois	Chief Operating Officer Barton Healthcare
Timothy Chesney Ohio	President MSTC Development, Inc.
Scott Ganton Michigan	President Ganton Senior Communities, LLC
Daniel T. Myers Iowa	President & CEO Touchstone Sioux City, Inc.
Jeff Schade Michigan	President & CEO The Peplinski Group
Ronald J. Wilson Illinois	Chief Financial Officer RFMS, Inc.
Christopher Wright Connecticut	President & CEO iCare Management

The following persons were serving as the officers of HCILRIC Attorney-in-Fact, Inc. as of December 31, 2012. These same persons also acted as the officers of HealthCap RRG, as of December 31, 2012:

<u>Name</u>	<u>Title</u>
Peter M. Feeney	President
J. Marc Feeney	Secretary

Committees:

As of December 31, 2012, the Company's board of directors had established the following committee:

Audit Committee:

Steven C. Lewis	Daniel T. Myers
Peter M. Feeney	Scott Ganton
J. Marc Feeney	Jeff Schade
Richard D. Duros	Ronald J. Wilson
Timothy Chesney	Christopher Wright

Conflicts of Interest:

Our review of the conflict of interest statements completed 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.

Corporate Records:

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

CAPTIVE MANAGER

Chelsea Rhone, LLC ("Chelsea Rhone") is the administrator and captive manager of the Company. Chelsea Rhone provides captive management services in the areas of accounting, regulatory compliance, and records retention. In addition, Chelsea Rhone provides marketing, underwriting, claims management, risk management and administrative services to the Company and its policyholders, either directly or through subcontractors.

AFFILIATED PARTIES AND TRANSACTIONS

The members of HealthCap RRG rely on the attorney-in-fact to manage the affairs of the reciprocal insurer. The attorney-in-fact for the reciprocal is a District of Columbia corporation, HCILRIC Attorney-In-Fact, Inc. The attorney-in-fact has the legal authority to act on behalf of the Company's subscribers/policyholders. As previously noted, the officers of the Company are also officers of the attorney-in-fact.

In addition, the Company and its captive manager, Chelsea Rhone, are under common management. The Company's president and secretary are also principals of Chelsea Rhone. Chelsea Rhone manages all of the insurance operations of the Company under the terms of a management services agreement. Chelsea Rhone subcontracts certain services to third party entities with expertise in areas such as risk management or claims administration. The Company pays to Chelsea Rhone a fixed fee of 15 percent of annual gross written premium less return premium. This fee relates to captive management, risk management, claims administration, underwriting and other policyholder services. The Company also pays via Chelsea Rhone an additional fixed fee of up to 15 percent of gross annual premium less return premium to its agency representatives.

Additionally, the Company and its reinsurer, HealthCap Bermuda, are under common management. (See the "Reinsurance" section of this report for further comments regarding the Company's reinsurance.) As previously noted, HealthCap Bermuda also provided the initial funding for the Company. The Company's president and secretary are the principles of Chelsea Rhone, which is the program administrator for HealthCap Bermuda.

FIDELITY BOND AND OTHER INSURANCE

HealthCap RRG does not have any employees and does not carry fidelity bond coverage. HealthCap RRG maintains directors and officers liability coverage, including employment practices liability coverage, with a \$5,000,000 maximum aggregate limit. The Company's captive manager, Chelsea Rhone, maintains crime coverage in the amount of \$1,000,000 per single loss. This provides adequate coverage based on NAIC guidelines and contractual requirements.

PENSION AND INSURANCE PLANS

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

TERRITORY AND PLAN OF OPERATION

As of December 31, 2012, the Company was licensed in the District of Columbia and was registered as a risk retention group in forty-eight states. In 2012, HealthCap RRG reported gross direct written premium of \$42,354,459 in forty-two states. Approximately 61 percent (\$26,023,599) of premiums were written on an occurrence basis, and the remaining 39 percent (\$16,330,860) were written on a claims-made basis.

HealthCap RRG provides general and professional liability insurance on either a claims-made or occurrence basis to its members. To be insured by HealthCap RRG, members must meet eligibility requirements in accordance with HealthCap RRG's underwriting guidelines. These include an acceptable loss history, a successful operating history, adherence to strict risk management protocols and claim reporting procedures.

The Company's base policy has coverage limits of \$1,000,000 per occurrence with a \$3,000,000 annual aggregate. The Company also offers an excess policy with coverage up to \$5,000,000 per occurrence with a \$5,000,000 annual aggregate. Defense costs are covered in addition to policy limits. Deductibles apply to policies based on underwriting guidelines. Policies are written as of various effective dates and are subject to renewal annually.

Coverage is available to long-term care facilities through a select group of appointed agents. These agents are able to submit quotes for their clients, and are not permitted to broker business from other agents. The Company seeks to find one or two agencies, who meet strict marketing criteria, in each state where it operates. These criteria include a dedicated long-term care practice, a significant established book of long-term care business, support for state long-term care associations and health care risk management expertise within the agency. Currently, there are approximately 37 agencies, with approximately 64 producers, that have an active relationship with the Company.

The Company has no employees and its daily business operations are managed by Chelsea Rhone through various affiliated and unaffiliated service providers. Chelsea Rhone, the captive

manager, is providing underwriting and accounting services from its primary location in Ann Arbor, Michigan. Hamlin & Burton Liability Management, Inc. provides claims management services.

COMPARATIVE FINANCIAL POSITION OF THE COMPANY

The financial position of the Company and its loss experience for the years under examination is presented in the following table. Information for the years 2008 to 2011 is prepared from information contained in the Company's annual statements filed with the Department. The amounts presented in the table for the year ended December 31, 2012 are determined by this examination.

	2012	2011	2010	2009	2008
Total admitted assets*	\$ 42,070,437	\$ 158,899,152	\$ 154,307,271	\$ 136,164,474	\$ 123,451,280
Total liabilities*	\$ 32,943,936	\$ 150,210,813	\$ 146,823,350	\$ 129,938,636	\$ 117,933,213
Total capital and surplus	\$ 9,126,501	\$ 8,688,339	\$ 7,483,921	\$ 6,225,838	\$ 5,518,067
Net cash from operations	\$ 1,101,131	\$ 2,372,696	\$ 2,275,195	\$ 2,843,449	\$ 4,257,834
Total adjusted risk-based capital**	\$ 9,126,501	\$ -	\$ -	\$ -	\$ -
Authorized control level risk-based capital	\$ 6,016,617	\$ -	\$ -	\$ -	\$ -
Gross written premium	\$ 42,795,733	\$ 42,568,259	\$ 40,766,570	\$ 35,304,673	\$ 34,828,195
Ceded premiums written	\$ 39,050,410	\$ 38,832,276	\$ 37,201,094	\$ 32,337,502	\$ 31,859,142
Premiums earned	\$ 3,660,273	\$ 3,708,285	\$ 3,169,561	\$ 2,835,540	\$ 3,387,922
Net underwriting gain	\$ 110,496	\$ 1,344,528	\$ 1,356,214	\$ 1,246,422	\$ 1,603,789
Net investment income	\$ 355,844	\$ 444,568	\$ 266,529	\$ 25,254	\$ 99,739
Net realized capital gains (losses)	\$ (19,562)	\$ 78,168	\$ 14,830	\$ -	\$ -
Net income	\$ 374,601	\$ 1,161,961	\$ 1,146,547	\$ 743,860	\$ 1,130,577
Net underwriting gain to PHS	1.2%	15.5%	18.1%	20.0%	29.1%
Net written premium to PHS	41.0%	43.0%	47.6%	47.7%	53.8%
Losses and LAE incurred	\$ 4,030,621	\$ 2,958,814	\$ 2,377,171	\$ 2,072,128	\$ 2,571,546
Other underwriting expenses incurred	\$ (480,844)	\$ (595,057)	\$ (563,824)	\$ (483,011)	\$ (787,413)
Net loss ratio	110.1%	79.8%	75.0%	73.1%	75.9%
Expense ratio	-13.1%	-16.0%	-17.8%	-17.0%	-23.2%

* The primary reason for large decrease in assets and liabilities in 2012 is due to a change in DC annual filing reinsurance accounting method, which requires all DC licensed captive RRGs to

report assets and liabilities net of reinsurance loss and loss adjustment expenses reserves and reinsurance unearned premiums. **The Company's RBC fell to an actionable level at December 31, 2012. As noted in the "Subsequent Events" section of this report, a \$5.5 million surplus note was issued in 2013 to bring the Company's capital above the RBC action level.

REINSURANCE

Assumed Reinsurance:

Beginning in 2010, HealthCap RRG assumed business from Virginia Senior Care Risk Retention Group (VSC RRG), a DC-domiciled risk retention group also managed by Chelsea Rhone. Under terms of the stop-loss treaty, VSC RRG, which wrote primary policies with limits up to \$2 million per occurrence, retained the first \$1,500,000 of annual aggregate losses. Losses above VSC RRG's \$1,500,000 annual aggregate retention were then assumed 100 percent by HealthCap RRG, subject to a \$4 million aggregate limit. The assumed business was then retroceded under HealthCap's quota share treaty with Universal Re-Insurance Company Ltd. ("Universal Re") (as described below), resulting in HealthCap's maximum net retention of \$200,000 per occurrence, \$400,000 aggregate, on the VSC RRG assumed business. As of December 31, 2012, no VSC RRG paid claims have reached VSC RRG's annual aggregate stop loss limit of \$1,500,000. HealthCap RRG assumed \$441,274 in premiums in 2012 and assumed \$508,857 in unpaid losses and loss adjustment expenses (incurred but not reported). As of October 1, 2013, HealthCap RRG no longer assumes business from VSC RRG.

Ceded Reinsurance:

Effective November 1, 2003, the Company entered into a quota share reinsurance agreement with Universal Re, a protected cell Bermuda insurer. The protected cell account subject to this agreement is HealthCap Bermuda. Solely for purposes of HealthCap RRG's ceded reinsurance, the Department recognizes Universal Re/HealthCap Bermuda as an "accepted" reinsurer. Between November 1, 2003 and December 31, 2005, the Company ceded 100 percent of all liability to Universal Re/HealthCap Bermuda. Effective January 1, 2006, the parties amended the agreement to a 90 percent quota share with 10 percent retained by the Company. Coverage under this agreement is applied to the Company's losses net of the additional quota share treaty described below.

In conjunction with the aforementioned agreement, the Company entered into a Reinsurance Treaty Trust Agreement with Universal Re and Comerica Bank effective December 31, 2004. To qualify as an "accepted" reinsurer in the District of Columbia, Universal Re established a trust fund account that fully securitizes all balances ceded by the Company. The ceded balances include reinsurance recoverables on paid losses, reported and unreported loss and loss adjustment expenses reserves and unearned premiums. As of December 31, 2012, HealthCap RRG's ceded balances totaled approximately \$100,274,000. The trust fund account at December 31, 2012 had a balance of approximately \$98,799,000, which represents adequate funding to cover the unauthorized reinsurer balances at year end with the offset of ceded premiums payable of approximately \$12,892,000.

During the examination period, the Company was also party to a variable quota share reinsurance treaty under which it ceded 7.5 percent of premiums written on its policies with per occurrence limits up to and including \$1 million, and ceded a 37.5 percent quota share of premiums written on its policies with per occurrence limits in excess of \$1 million. This treaty is with an unaffiliated authorized reinsurer and did not cover the Company's assumed business and its business written in the state of Illinois, which is subject only to the Company's reinsurance treaty with Universal Re. The Illinois policies have maximum per occurrence limits of \$2 million.

Under the terms of the above ceded reinsurance agreements, the Company's maximum retention in any one risk is \$312,500.

The Company ceded \$39,050,410 of premiums during 2012 and as of December 31, 2012 reported ceded unpaid loss and loss adjustment expenses reserves totaling \$72,413,015. If the reinsurers were not able to meet their obligations under the treaties, the Company would be liable for any defaulted amounts that were not covered by the reinsurance trust fund account.

ACCOUNTS AND RECORDS

The primary location of the Company's books and records is the office of its captive manager, Chelsea Rhone, in Ann Arbor, Michigan.

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

STATUTORY DEPOSITS

As of December 31, 2012, 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.

FINANCIAL STATEMENTS

The following financial statements, prepared in accordance with generally accepted accounting principles in the United States (“GAAP”), reflect the financial condition of the Company as of December 31, 2012, as determined by this examination:

<u>STATEMENT</u>	<u>PAGE</u>
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Analysis of Examination Changes to Surplus	15

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

BALANCE SHEET

ASSETS

	<i>December 31, 2012</i>
Bonds	\$ 16,510,392
Cash (NOTE 1)	\$ <u>3,421,033</u>
Subtotals, cash and invested assets	\$ 19,931,425
Investment income due and accrued	137,719
Premiums and considerations:	
Uncollected premiums	3,081,102
Deferred premiums	12,674,977
Reinsurance:	
Amounts recoverable from reinsurers	289,070
Current federal income taxes	285,120
Net deferred tax asset	136,178
Health care and other receivables	141,617
Aggregate write-ins for other than invested assets:	
Commissions receivable	4,840,678
Deferred acquisition costs	552,551
Total	\$ <u><u>42,070,437</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<i>December 31, 2012</i>
Losses (NOTE 2)	\$ 7,084,077
Loss adjustment expenses (NOTE 2)	2,113,841
Commissions payable	4,670,035
Other expenses (excluding taxes, licenses and fees)	1,184,098
Taxes, licenses and fees (excluding federal and foreign income taxes)	556,071
Unearned premiums (net ceded unearned premium of \$21,262,056)	2,001,714
Ceded reinsurance premiums payable (net of ceding commission)	14,367,193
Aggregate write-ins for liabilities:	
Deferred commission income	966,907
Total liabilities	\$ 32,943,936
Gross paid in and contributed surplus	1,100,000
Unassigned funds (surplus)	8,026,501
Surplus as regards policyholders	\$ 9,126,501
Total	<u>\$ 42,070,437</u>

STATEMENT OF INCOME

	<i>2012</i>
UNDERWRITING INCOME	
Premiums earned	\$ 3,660,273
DEDUCTIONS	
Losses incurred	\$ 2,530,235
Loss expenses incurred	1,500,386
Other underwriting expenses incurred	(480,844)
Total underwriting deductions	\$ 3,549,777
Net underwriting income	\$ 110,496
INVESTMENT INCOME	
Net investment income earned	\$ 355,844
Net realized capital gains (losses) less capital gains tax of \$56,763	(19,562)
Net investment gain	\$ 336,282
Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 446,778
Federal and foreign income taxes incurred	72,177
Net income	<u>\$ 374,601</u>

SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2007	\$ 4,387,490
Net income, 2008	1,130,577
Net change in surplus as regards policyholders, 2008	<u>1,130,577</u>
Surplus as regards policyholders, December 31, 2008	\$ 5,518,067
Net income, 2009	743,860
Change in net unrealized capital losses	(36,089)
Net change in surplus as regards policyholders, 2009	<u>707,771</u>
Surplus as regards policyholders, December 31, 2009	\$ 6,225,838
Net income, 2010	1,146,547
Change in net unrealized capital gains	111,536
Net change in surplus as regards policyholders, 2010	<u>1,258,083</u>
Surplus as regards policyholders, December 31, 2010	\$ 7,483,921
Net income, 2011	1,161,961
Change in net unrealized capital gains	42,457
Net change in surplus as regards policyholders, 2011	<u>1,204,418</u>
Surplus as regards policyholders, December 31, 2011	\$ 8,688,339
Net income, 2012	374,601
Change in net unrealized capital gains	63,561
Net change in surplus as regards policyholders, 2012	<u>438,162</u>
Surplus as regards policyholders, December 31, 2012	\$ 9,126,501

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 – Cash:

As of December 31, 2012, the Company reported a “Cash” balance of \$3,421,033. This amount included a certificate of deposit that secured a \$1,100,000 irrevocable letter of credit (LOC) issued to the Insurance Commissioner of the District of Columbia on behalf of the Company. Because the LOC is secured by assets of the Company, the LOC is not separately recorded as an asset of the Company.

NOTE 2 – Loss and Loss Adjustment Expense Reserves:

The Company reported gross “Losses” and “Loss adjustment expenses” reserves totaling \$7,084,077 and \$2,113,841, respectively. These reserves represent management’s best estimate of the amounts necessary to pay all claims and related expenses that have been incurred but are still unpaid as of December 31, 2012. The Company does not utilize a discount rate to reduce its loss reserves.

The methodologies utilized by the Company to compute reserves, and the adequacy of the losses and loss adjustment expenses reserves as of December 31, 2012, were reviewed as part of our examination. As part of our review, we relied on the work performed by the Company’s independent actuary, who concluded that the Company’s reserves appeared to be sufficient. In addition, as part of our examination of the Company’s reserves, we engaged an examination actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company’s independent actuary. The examination actuary utilized concluded that the methods employed, assumptions relied upon, and conclusions reached by the Company’s independent actuary appeared sufficient and that reserves as reported in the Company’s financial statements are reasonable and adequate.

COMMENTS AND RECOMMENDATIONS

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

CONCLUSION

Our examination disclosed that as of December 31, 2012 the Company had:

Admitted Assets	\$	42,070,437
Liabilities and Reserves		32,943,936
Gross Paid in and Contributed Surplus		1,100,000
Unassigned Funds (Surplus)		8,026,501
Total Surplus		9,126,501
Total Liabilities and Surplus	\$	42,070,437

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2012, 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:

Amy Carter, AFE, Lewis & Ellis, Inc.
Lisa Marteney, CFE, CISA, AES, Lewis & Ellis, Inc.

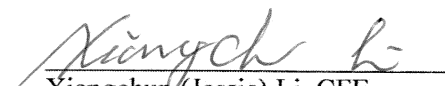
The actuarial portion of this examination was completed by Kristine M. Fitzgerald, ACAS, MAAA, FCA and Steven P. Lattanzio, FCAS, MAAA, FCA of Actuarial & Technical Solutions, Inc.

Respectfully submitted,

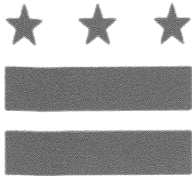


Sarah Lucibello, CFE
Examiner-In-Charge
Lewis & Ellis, Inc.

Under the Supervision of,



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



Government of the District of Columbia
Vincent C. Gray, Mayor
Department of Insurance, Securities and Banking



Chester A. McPherson
Interim Commissioner

April 25, 2014

Peter M. Feeney
President
Health Care Industry Liability Reciprocal Insurance Company, A Risk Retention Group
C/o Chelsea Rhone LLC
201 S. Main Street, Suite 201
Ann Arbor, Michigan 48104

RE: Examination of **Health Care Industry Liability Reciprocal Insurance Company, A Risk Retention Group**, as of December 31, 2012

Dear Mr. Feeney:

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 Health Care Industry Liability Reciprocal Insurance Company, A Risk Retention Group ("Company") as of December 31, 2012.

Please submit, to my attention, a written response calling attention to any errors or omissions. In addition, if this Report on Examination contains a section entitled "Comments and 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 are no "Comments and 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, 2014. 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.odonnell@dc.gov.

Sincerely,

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

Enclosure

HealthCap[®] RRG

201 South Main Street
Second Floor
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May 23, 2014

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau
District of Columbia Department of Insurance, Securities and Banking
810 First Street, NE, Suite 701
Washington, DC 20002

via email to sean.o'donnell@dc.gov


Re: Examination of Health Care Industry Liability Reciprocal Insurance Company, a risk retention group, as of December 31, 2012

Dear Mr. O'Donnell,

On behalf of the captioned risk retention group (the "Company") and in response to the Report of Examination (and your letter to Peter M. Feeney dated April 25, 2014 regarding same), please be advised that the Company accepts the Report as presented without correction or comment.

Sincerely,

Health Care Industry Liability Reciprocal
Insurance Company, a risk retention group


J. Marc Feeney
Secretary

cc: Peter M. Feeney



Government of the District of Columbia
Vincent C. Gray, Mayor
Department of Insurance, Securities and Banking



Chester A. McPherson
Acting Commissioner

May 23, 2014

Peter M. Feeney
President
Health Care Industry Liability Reciprocal Insurance Company, A Risk Retention Group
C/o Chelsea Rhone LLC
201 S. Main Street, Suite 201
Ann Arbor, Michigan 48104

RE: Examination of **Health Care Industry Liability Reciprocal Insurance Company, A Risk Retention Group**, as of December 31, 2012

Dear Mr. Feeney:

We are in receipt of your response dated May 23, 2014, regarding the Report on Examination of Health Care Industry Liability Reciprocal Insurance Company, A Risk Retention Group ("Company") as of December 31, 2012. 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 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. The Department of Insurance, Securities and Banking will forward the adopted Report electronically to each jurisdiction in which the Company is registered and to the National Association of Insurance Commissioners.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention at the Department.

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

Sincerely,

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures