REPORT ON EXAMINATION

OF THE

DELAWARE PROFESSIONAL INSURANCE COMPANY,
RISK RETENTION GROUP

AS OF

DECEMBER 31, 2007

REPORT ON EXAMINATION

OF THE

DELAWARE PROFESSIONAL INSURANCE COMPANY, RRG

AS OF

DECEMBER 31, 2007

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 27th day of February, 2009.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

I, **Karen Weldin Stewart**, Insurance Commissioner of the State of Delaware, do hereby certify that the attached **Report On Examination**, made as of **December 31, 2007**, of the

DELAWARE PROFESSIONAL INSURANCE COMPANY, RRG

is a true and correct copy of the document filed with this Department.

Attest By: ____________________

Date: 27 February 2009

Insurance Commissioner of the State of Delaware

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 26th day of January, 2009.

____

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

841 Silver Lake Blvd., Dover, DE 19904-2465 • www.delawareinsurance.gov
(302) 674-7300 Dover • (302) 739-5280 fax • (302) 577-5280 Wilmington

Table of Content

December 19, 2008

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Sir:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 08-110 dated September 30, 2008, an examination has been made of the affairs, financial condition and management of the

DELAWARE PROFESSIONAL INSURANCE COMPANY,

RISK RETENTION GROUP

hereinafter referred to as "Company", incorporated under the laws of the State of Delaware. The examination was conducted at the offices of the I. David Gordon Associates, Inc. (I. David Gordon Associates), located at 845 Third Avenue – 20th floor, New York, New York 10022-6601.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Company's last financial examination was conducted by the Delaware Department of Insurance as of December 31, 2004. This examination covers the period January 1, 2005, through December 31, 2007, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement.

The general procedure of the examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook as adopted by the Delaware Insurance Department and generally accepted statutory insurance examination standards.

In addition to items noted in this report, the following topics were reviewed without exception and are included in the workpapers of this examination:

Corporate Records
Agreements
Reinsurance
Accounts and Records
Schedule of Examination Adjustments

DESCRIPTION OF COMPANY

History

The Company was incorporated in the State of Delaware on May 23, 1990, as a mutual captive insurer. With the approval of the Delaware Insurance Department effective October 4, 2007, the Company was converted to a captive risk retention group. The purpose of the Company is to participate in the medical malpractice insurance program covering the Delaware Physicians Insurance Purchasing Group, Inc. (DPIPG) and its members. The members of DPIPG have complete control over the Company in a manner consistent with its bylaws.

Capitalization

As of the examination date, the Company reported special surplus funds of $750,000, which consisted of an irrevocable letter of credit (LOC), issued by Wilmington Trust Company (Wilmington Trust), with the Delaware Commissioner of Insurance as beneficiary.

The LOC is collateralized by the Company's cash and investment assets, which are required to be deposited with Wilmington Trust and cannot go below $1,000,000 in the aggregate at any given time. Should amounts be demanded and paid under the LOC, the amounts drawn become a liability of the Company and are to be repaid, plus interest, fees, expenses and, reasonable attorney's fees and court costs. Should amounts owned not be repaid, Wilmington Trust is authorized to charge any and all deposit accounts of the Company for the sums due. As of December 31, 2007, cash and investment deposits held at Wilmington Trust totaled $8,032,308 and policyholder surplus totaled $1,247,216.

The Company's capital position as of December 31, 2007, complies with the minimum requirement of $1,000,000 for a captive risk retention group in Delaware.

MANAGEMENT AND CONTROL

Members of the Company are those individuals, partnerships and corporations who are members of DPIPG and acquire insurance from the Company through its indemnity agreement with DPIPG. Membership is not transferable and ceases upon a member's death. Each member shall have one vote.

With the conversion to a risk retention group, the Company's articles of incorporation and bylaws were amended and restated. The Company's current bylaws specify that a Board of Directors shall consist of not less than three nor more than fifteen members and that directors need not be members. The following seven directors were duly elected in October 2007 and were serving at December 31, 2007:

Ben C. Corballis, M.D.	I. David Gordon
Steven L. Edell, D.O.	Leonard A. Nitowski, M.D.
Stephen L. Hershey, M.D.	Robert A. Portz, M.D.
Gregory W. DeMeo, M.D.	

All of the Company's directors are members of DPIPG, with the exception of I. David Gordon, who is an insurance broker and, through an agreement with I. David Gordon Associates, the captive manager of the Company.

In compliance with its current bylaws, the Board of Directors established an Executive Committee, which is composed of the three officers, who shall be responsible for the management of the Company between meetings of the Board of Directors: Ben Corballis, M.D., I. David Gordon and Stephen Hershey, M.D.

The following duly elected officers were serving at December 31, 2007:

Ben C. Corballis, M.D.	President
I. David Gordon	Secretary
Stephen L. Hershey, M.D.	Vice President and Treasurer

FIDELITY BOND

The minimum amount of coverage suggested by the NAIC for a company this size is $125,000. As of December 31, 2007, the Company was covered by a surety bond issued to I. David Gordon Associates effective April 23, 2007, and expiring April 23, 2010, in the amount of $50,000. The coverage limit was raised to $150,000 effective December 19, 2008.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2007, the Company wrote business exclusively in the State of Delaware. DPIPG is a non-profit corporation set up to execute a medical malpractice insurance program for its member physicians and physician groups. The components of the insurance program are twofold:

(1) Under a master policy issued to DPIPG by Continental Casualty Company (Continental Casualty), effective December 1, 2007, and expiring December 31, 2008, (renewable annually thereafter each January 1st) individual insured members receive standard malpractice insurance coverage of $1,000,000/$3,000,000 each claim/aggregate with optional increased coverage to each insured member of either $2,000,000/$4,000,000 each claim/aggregate or $3,000,000/$5,000,000 each claim/aggregate. The master policy for the coverage period December 1, 2007, through December 31, 2008, includes a self-insured retention of $300,000 each claim, with an aggregate policy limit of $3,137,800. The aggregate retention is based on the number of "physician equivalents" participating in the program. The physician equivalent programs seeks to equalize the various physician specialties within an identified scale, with higher risk specialties graded a higher physician equivalent score. It is the number of "class one" equivalent physicians that will determine the aggregate retention under

the Continental Casualty policy. Each individual insured member receives a certificate of coverage.

(2) The Company's function is to provide insurance coverage to fund the retentions (both individual and aggregate) of DPIPG and its members. It is noted, with emphasis, that Continental Casualty is not reinsuring the Company. Premiums for each type of coverage (medical malpractice and retention) are rated separately. Of significance is that paid allocated loss adjustment expenses are included in the Company's coverage and are provided in addition to the Continental Casualty coverage.

Insurance provided by the Company is on a claims made basis, in past years covering a twelve-month period, running from December 1st through November 30th. The period beginning December 1, 2007, however, will be for thirteen months, such that beginning January 1, 2009, the program will commence on a calendar-year basis. The Company anticipates collecting sufficient premiums each term to fund the annual retention. In this way, no additional losses will develop. It is the Company's intention to close each policy year as quickly as possible after its expiration. Profits, if any, are intended to be distributed to members in the form of a policyholder dividend, the amount of which is based on premiums paid. However, no policyholder dividends were paid during the period under examination.

The Company and DPIPG are administered jointly. DPIPG funds joint operations through the levying of initiation and membership fees.

Pursuant to a general management agreement in effect through July 15, 2008, with Wilmington Professional Associates, Inc. (Wilmington Professional Associates), the Company utilized the services of Wilmington Professional Associates, a licensed Delaware captive manager and approved by the Delaware Insurance Department as a captive manager, for full captive management services. Johnson Lambert & Co., LLP, an independent certified public accounting firm approved in Delaware, audits the Company's annual financial statement. Huggins Actuarial Services, Inc. acts as an actuarial consultant to the Company and prepares actuarial feasibility studies as well as annually certifies the Company's reported loss and loss adjustment expense reserves. The Barnett Group, LLC, pursuant to a claims administration agreement effective December 2003, provides claims administration and consulting services related to claims handling. Navigant Consulting, Inc. provides accounting, regulatory reporting and tax preparation services for the Company. DeVito Consulting, Inc. provided these services to the Company prior to being acquired by Navigant earlier in 2007. The law firm of Dewey & LeBoeuf LLP provides legal advice with regard to corporate, tax and regulatory insurance matters. The law firm of Elzufon Austin Reardon Tarlov & Mondell, P.A. serves as the Company's local counsel in Delaware.

GROWTH OF THE COMPANY

The financial growth of the Company covers the period from its last examination at December 31, 2004, to this examination at December 31, 2007, and is summarized as follows based on information obtained from the Company's filed annual statements:

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Premiums Earned	Net Income (Loss)
2004	$4,075,974	$3,065,524	$1,010,450	$1,793,282	$150,229
2005	5,284,969	4,302,100	982,869	1,942,495	(27,582)
2006	9,284,027	8,254,699	1,029,328	2,509,090	46,460
2007	9,106,637	7,859,421	1,247,216	209,849	19,077

The growth over the examination period is summarized as follows:

- 123.4% increase in admitted assets
- 156.4% increase in liabilities
- 23.4% increase in policyholder surplus
- (88.3)% decrease in premiums earned
- (87.3%) decrease in net income

Prior to its conversion from a mutual captive insurer to a captive risk retention group on October 4, 2007, the Company recognized all premium income as earned in the period it was collected. After the conversion, the Company began recognizing premium income as earned ratably over the policy coverage period. As a result, the Company's earned premiums for 2007 included only the month of December. Consequently, the Company booked an unearned premium reserve as of December 31, 2007, for the first time for the premiums relating to the remainder of the program period January 1, 2008, through December 31, 2008.

FINANCIAL STATEMENTS

The financial statements, as determined by this examination, are presented as follows:

Analysis of Assets as of December 31, 2007
Liabilities, Surplus and Other Funds as of December 31, 2007
Statement of Income for 2007
Capital and Surplus Account for the one-year period ending December 31, 2007

Analysis of Assets

	Ledger Assets	Non-Admitted Assets	Net Admitted Assets	Note
Bonds	$5,690,000		$5,690,000	
Common stocks	2,188,449		2,188,449	
Cash, cash equivalents and short-term investments	154,129		154,129	
Investment income due and accrued	21,993		21,993	
Uncollected premiums and agents’ balances in course of collection	853,255		853,255	
Deferred tax asset	365,856	167,045	198,811	
Aggregate write-ins for other than invested assets (Letter of Credit)	750,000	750,000	0	1
Total Assets	$10,023,682	$917,045	$9,106,637	

Liabilities, Surplus and Other Funds

Losses	$3,614,882	2
Loss adjustment expenses	1,385,118	2
Other expenses	70,358	
Current federal income tax payable	158,945	
Unearned premiums	2,630,118	
Total Liabilities	$7,859,421	
Aggregate write-ins for special surplus funds	$750,000	1
Unassigned funds (surplus)	497,216	
Surplus as regards policyholders	$1,247,216	
Total Liabilities and Surplus	$9,106,637	

Statement of Income

Underwriting Income	
Premiums earned	$209,849
Deductions:	
Losses incurred	$103,391
Loss expenses incurred	245
Other underwriting expenses incurred	165,526
Total underwriting deductions	$269,162
Net underwriting gain (loss)	$(59,313)
Investment Income	
Net investment income earned	$223,181
Net income before federal income taxes	$163,868
Federal income taxes incurred	144,791
Net income	$19,077

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2006	$1,029,328
Net income	19,077
Change in net deferred income tax	169,506
Change in non-admitted assets	29,305
Change in surplus as regards policyholders for the year	$217,888
Surplus as regards policyholders, December 31, 2007	$1,247,216

NOTES TO FINANCIAL STATEMENTS

Note 1

Aggregate write-ins for other than invested assets (letter of credit)	$0
Aggregate write-ins for special surplus	$750,000

The Company's Aggregate Write-in for Special Surplus is supported by an irrevocable letter of credit, originally issued in May 1997 by Wilmington Trust, which is collateralized by the cash and investment assets of the Company. Pursuant to this letter of credit, the Company must maintain, in the aggregate, unpledged and unassigned deposit balances that cannot go below $1,000,000 at any given time. All of the Company's cash and investment assets are held at Wilmington Trust. This letter of credit has been renewed annually each May and was last renewed in May 2008 for one year.

Note 2

Losses	$3,614,882
Loss adjustment expenses	$1,385,118

The Company insures the self-insured retention level of $300,000 for each claim under a master policy issued by Continental Casualty Company to the DPIPG. As of December 31, 2007, the aggregate annual retention limit is $2,600,000. Insurance provided to DPIPG under both the master policy and the indemnity policy issued by the Company are on a claims made basis. Actuarial services are provided to the Company by Huggins Actuarial Services, who annually review the claims. For those years having no open claims, zero reserves are established. For those years that have one open claim, the individual paid retentions per outstanding claims is subtracted from $200,000 for the period beginning December 1, 2001, and ending December 1, 2004. For the policy years December 1, 2004, through December 31, 2008, the individual paid retentions per outstanding claims is subtracted from $300,000. For years having multiple open claims, aggregate paid retention for all claims, both open and closed, are subtracted from the respective aggregate annual retention. This process was accepted for examination purposes.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

(1) During the prior examination period, the Company was not in compliance with the provisions of its bylaws in regards to its management or elected officers. Pursuant to Article IV (Committees), the Company shall be managed by an Executive Committee consisting of five or more members and its officers. Pursuant to Article VI (Officers), the officers of the Company shall be a president, a vice-president, a secretary and a treasurer. As of December 31, 2004, the Board of Directors had neither established an Executive Committee nor elected any vice-president. It was recommended that the Company comply with its bylaws regarding the appointment of an Executive Committee and a vice-president. **The Company complied with this recommendation.**

(2) During the prior examination period, the minimum amount of coverage suggested by the NAIC for a company this size was $50,000. As of the date of the prior examination, December 31, 2004, the Company was covered by a surety bond issued to I. David Gordon Associates effective April 23, 2004, and expiring on April 23, 2007, in the amount of $5,000, which was raised to $50,000 effective July 7, 2005. **The Company complied with this recommendation.**

RECOMMENDATIONS

There are no recommendations for this examination.

CONCLUSION

As a result of this examination, the financial condition of the Company, as of December 31, 2007, was determined to be as follows:

Admitted Assets	$9,106,637
Liabilities	7,859,421
Surplus as Regards Policyholders	1,247,216

Since the last examination as of December 31, 2004, the Company's assets increased $5,030,663, or 123.4%, from $4,075,974 to $9,106,637. Liabilities for the same period increased $4,793,897, or 156.4%, from $3,065,524 to $7,859,421. Surplus as regards policyholders for the same period increased $236,766, or 23.4%, from $1,010,450 to $1,247,216.

Respectfully submitted,

Andrew E. Chiodini, CFE
Examiner-in-Charge
Delaware Department of Insurance

<u>SUBSEQUENT EVENTS</u>

After becoming registered in New Jersey as a risk retention group, the Company expanded its program and initiated coverage for New Jersey physicians through a new entity, New Jersey Professional Risk Purchasing Group, LLC (NJPRPG), effective April 28, 2008. Columbia Casualty Company (Columbia Casualty), an affiliate of Continental Casualty in the CNA Group, issued a master policy with a self-insured retention of $400,000 each claim and only offered each member coverage of $1,000,000/$3,000,000 per claim/aggregate with an aggregate policy limit of $3,128,000, which applies to both the Delaware physicians and the New Jersey physician members. Upon binding coverage for New Jersey physicians, members were divided between Class A members (Delaware physicians) and Class B members (New Jersey physicians).

Pursuant to a general management agreement effective July 15, 2008, the Company has utilized the services of I. David Gordon Associates, a licensed New York captive manager and approved by the Delaware Insurance Department as a captive manager, for full captive management services. This agreement replaces a similar general management agreement with Wilmington Professional Associates described earlier in this report. I. David Gordon is the controlling person of I. David Gordon Associates.