

REPORT ON EXAMINATION
OF THE
DELTA DENTAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2011

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

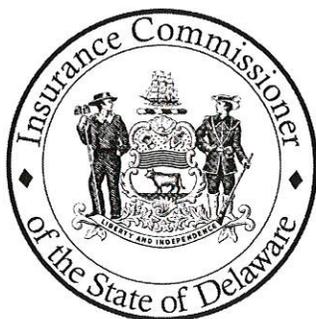
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2011 of the

DELTA DENTAL INSURANCE COMPANY

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

Attest By: *Brando Biddle*

Date: February 8, 2013



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 8th day of February, 2013.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
DELTA DENTAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2011

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

Consideration has been duly 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.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 8th day of February, 2013

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SALUTATION

October 4, 2012

Honorable Karen Weldin Stewart, CIR-ML
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, DE 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No.12.008, dated March 12, 2012, an Association examination has been made of the affairs, financial condition and management of

DELTA DENTAL INSURANCE COMPANY

hereinafter referred to as “Company” or “DDIC” incorporated under the laws of the State of Delaware, the statutory home office was located at 1807 North Market Street, Wilmington, Delaware 19802. The main administrative office of the Company was located at One Delta Drive, Mechanicsburg, PA 17055.

The report of this examination is respectfully submitted.

SCOPE OF EXAMINATION

The last financial condition examination of the Company covered the period from September 13, 2002, (its charter date) through December 31, 2006. This examination covered the period from January 1, 2007, through December 31, 2011, and consisted of a general review 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. Transactions subsequent to the latter date were reviewed to the extent deemed necessary.

This examination of the Company was conducted concurrently with the examinations of other Delaware domiciled Delta companies, Dentegra Insurance Company (“DIC”) and Delta Dental of Delaware, Inc. (“DDD”). Separate reports will be issued for each Delaware Company. An examination of Delta Dental of Pennsylvania (“DDP”), a Pennsylvania domestic nonprofit corporation was also conducted concurrently with the Delaware domestic Delta companies. The State of New York conducted an independent concurrent examination on Delta Dental of New York, a New York domicile nonprofit corporation.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook)* and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC 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 included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

During the course of this examination, consideration was given to work performed by the Company’s external auditing firm, Armanino McKenna LLP (“Armanino McKenna”), San Ramon, California. Certain auditor work papers of their 2011 audit have been incorporated into the work papers of the examiners and have been utilized in determining the scope areas of emphasis in conducting the examination and in the area of tests of controls, risk mitigation and substantive testing.

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

- Corporate Records
- Custodial Agreements
- NAIC Ratios
- Legal Actions
- Employee and Agents Welfare
- Regulatory Agency Correspondence
- All Asset and Liability Items not mentioned

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings as a result of this examination.

SUBSEQUENT EVENTS

There were no material subsequent events noted for the Company.

COMPANY HISTORY

The Company was originally organized and incorporated under the laws of the State of Illinois on February 9, 1970, as the Dental Service Plans Insurance Company. The purposes for which the Company was organized were to 1) supplement the services provided by Delta Dental Plans (individually called “state plans”), 2) reinsure state plans, 3) insure in conjunction with the state plans that have multi-state contracts in states in which no plan exists, and 4) serve as an underwriting vehicle in states where state plans do not operate or, because of financial or charter considerations, are unable to underwrite dental programs.

In 1980, the Company, with permission from the Illinois Director of Insurance, moved its administrative and executive offices from Chicago, Illinois to San Francisco, California. In 1982, the name of the Company was changed to Delta Service Plans Insurance Company; and, in 1991, the name was again changed to Delta Dental Insurance Company.

The Company was re-domiciled to Delaware from Illinois effective September 27, 2002.

Common Capital Stock

The total number of common stock shares which DDIC is authorized to issue is 250,000 shares at a par value of \$25 for each share.

As of December 31, 2011, the Company had 65,863.167 outstanding shares of common capital stock for a total capitalized value of \$1,646,579. All common stock shares of the Company are owned by members of the Delta Dental Plans Association, with DDC Insurance Holdings, Inc. owning 59,972.58 shares or 91.06% of DDIC's issued and outstanding common stock shares. The remaining 5,890.58 issued and outstanding shares or 8.94% are owned by eleven (11) other Delta Dental Plan members as follows:

	<u>Owners of DDIC common stock</u>	<u>Shares</u>	<u>Percentage</u>
1	DDC Insurance Holdings, Inc. *	59,972.58	91.06%
2	Delta Dental Plan of Michigan, Inc.	4,004.17	6.08%
3	Washington Dental Services	834.33	1.27%
4	Delta Dental of Illinois	333.67	0.51%
5	Delta Dental of Kentucky Inc.	240.00	0.36%
6	Delta Dental Plan of Ohio, Inc.	167.00	0.25%
7	Delta Dental of Missouri	100.00	0.15%
8	Delta Dental of Pennsylvania *	81.42	0.12%
9	Alabama (owners unknown)	41.00	0.06%
10	Delta Dental of Minnesota	34.00	0.05%
11	Delta Dental of Virginia	35.00	0.05%
12	Louisiana (owners unknown)	20.00	0.03%
	Total	<u>65,863.17</u>	<u>100.00%</u>

* Considered "Enterprise" owners

Effective January 1, 2011, all of DDC's 59,972.58 common stock shares were transferred to DDC Insurance Holdings, Inc.

Preferred Capital Stocks

DDIC had 150,000 shares of issued non-voting preferred capital stock with a par value of \$70.00 per share for a total capitalized value of \$10,500,000. As of the examination date, all of the preferred stock shares were issued to DDC Insurance Holdings, Inc.

Dividends

As of December 31, 2011, the Company had not authorized, declared or paid dividends during the examination period.

Surplus Notes

As of December 31, 2011, the DDIC listed seven surplus notes with a total reported amount of \$45.750 million, they were as follows:

	<u>Date of Surplus Note</u>	<u>Amount of Surplus Note</u>	<u>Interest Rate per Note</u>	<u>Maturity Date</u>
1	June 27, 1984	\$ 750,000	None	N/A
2	June 1, 2001	5,000,000	6%	N/A
3	September 6, 2002	5,000,000	6%	N/A
4	November 10, 2003	5,000,000	6%	N/A
5	August 1, 2006	10,000,000	6%	July 31, 2016
6	December 8, 2008	10,000,000	6%	December 31, 2013
7	December 31, 2011	10,000,000	3%	December 31, 2021
		<u>\$ 45,750,000</u>		

MANAGEMENT AND CONTROL

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws all corporate powers and its business, property and affairs are managed by or under the direction of the Board of Directors.

Shareholder

In accordance with Article IV, Section 1 of the Company's bylaws the annual shareholder's meeting shall be held at its principal office in San Francisco, California. The date and time of the annual meeting shall be fixed by the Board of Directors.

Board of Directors

The Board of Directors are elected at the annual shareholder's meeting and serve until a successor is elected and qualified. The annual meeting of the Board of Directors shall be held immediately after, and at the same place as the annual meeting of shareholders. The bylaws provide that the number of directors shall be five (5). Individuals elected and serving on the Board of Directors at December 31, 2011 were:

<u>Directors</u>	<u>Principal Business Affiliation</u>
Gary Dennis Radine	President/CEO - Delta Dental of California
Michael James Castro	EVP/Chief Financial Officer – Delta Dental of California
Patrick Scott Steele	EVP/Chief Information Officer – Delta Dental of California
Charles Lamont, Esq.	EVP/Chief Legal Officer – Delta Dental of California
Kevin Lee Jackson	GVP/Underwriting – Delta Dental of California

The Company's bylaws provide for the Board to designate one or more committees, the Executive Committee shall be constituted of at least (3) directors of the corporation. All other committees shall be constituted as seen fit by the Board. As of December 31, 2011, the Board of Directors had appointed the following committees:

<u>Executive Committee</u>	<u>Finance Committee**</u>
Michael J. Castro	Steven F. McCann Chair
Patrick S. Steele	Glen F. Bergert
Gary D. Radine, Chair	Terry A. O'Toole
	Andrew J. Reid
	Steven W. Voss
	Thomas A. Zimmerman

Investment Committee ***

Michael J. Castro, Chair
Patrick S. Steele
Anthony S. Barth
Alicia F. Weber
Kevin L. Jackson
Jeanne M. Foster

Audit Committee*

Glen F. Bergert, CPA Chair
Steven F. McCann
Terry A. O'Toole
Andrew J. Reid
Steven W. Voss
Thomas A. Zimmerman

* DDIC designated the Audit Committee of DDC as its Audit Committee.
** DDIC designated the Finance Committee of DDC as its Finance Committee
***DDIC designated the Investment Committee of DDC as its Investment Committee

A review of Company corporate records showed that regular business of the shareholders and Board of Directors was conducted via annual meetings held in San Francisco, California.

Officers

In accordance with its bylaws, the elected officers of the Company shall be a Chairman of the Board, a Vice Chairman of the Board, one or more Vice Presidents, a Secretary and a Treasurer. The Board of Directors has the power to employ a president to administer the affairs of the Company under its direction. One person may hold more than one office, except that of president and secretary which shall each be held by a different person.

As of December 31, 2011, the Company's principal officers and their respective titles are as follows:

<u>Officer</u>	<u>Office</u>
Anthony Scott Barth	President
Charles Lamont, Esq.	Secretary
Michael James Castro	Treasurer
Gary Dennis Radine	Chairman
Patrick Scott Steele	Vice Chairman

Conflict of Interest

The Company has an established procedure for the disclosure to its Board of Directors of any material interest or affiliation on the part of any of its officers, directors, or responsible employees which is in or is likely to conflict with the official duties of such person. The

disclosures are made annually. Conflict of Interest Statements completed by all directors and officers were reviewed and the information contained therein disclosed no evidence of conflicting interests.

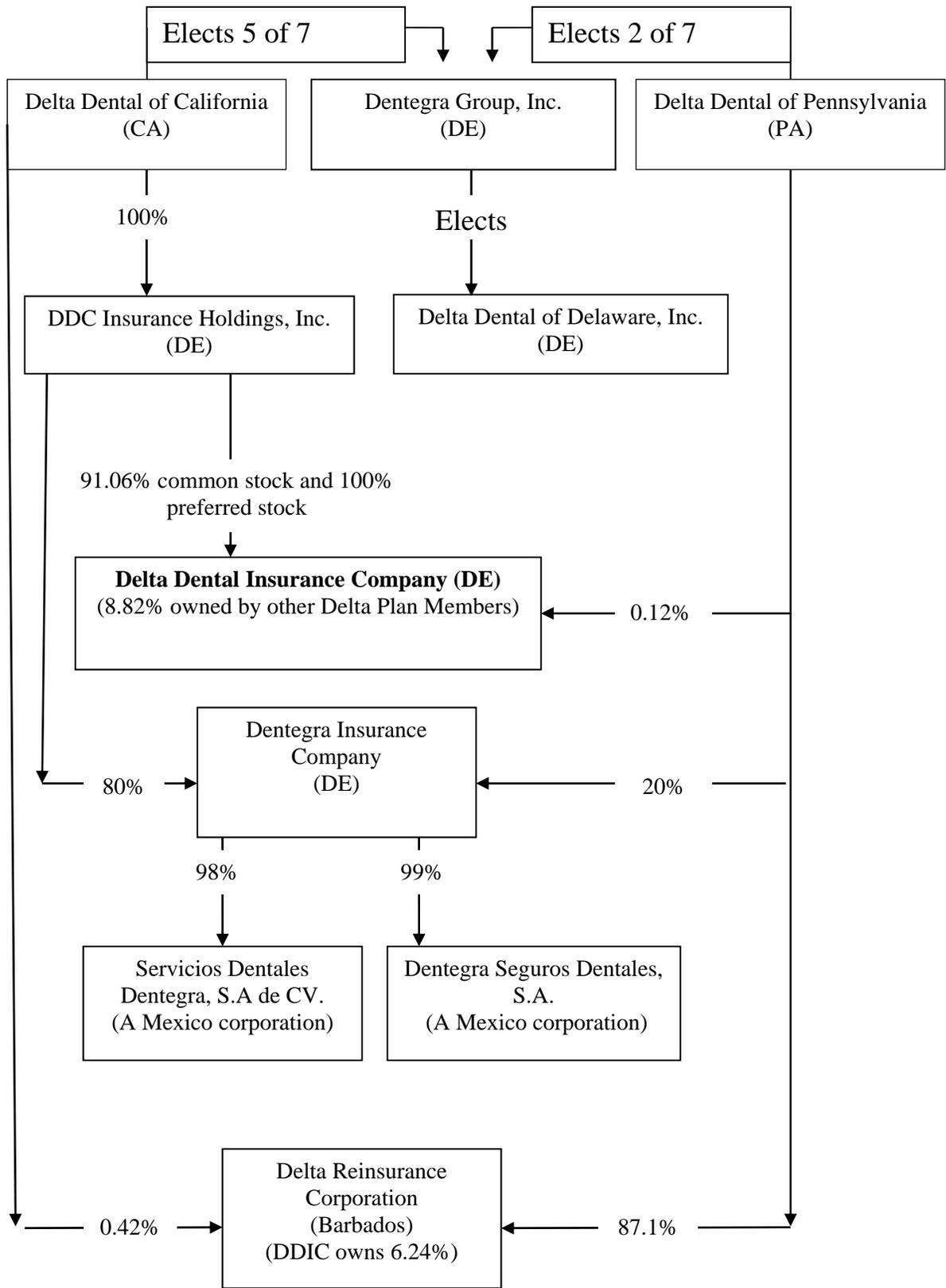
Holding Company System

The Company is a member of an insurance holding company system as defined in 18 Del. C. §5001 (4) “Insurance Holding Company System”. The Company’s Holding Company Registration Statements were properly filed with the Delaware Insurance Department for the years under examination. The Company is part of the Dentegra Group, Inc. (Dentegra Group) holding company system, which has combined the resources of DDC and DDP to pool common resources in an effort to eliminate duplication in the areas of market development and technology.

Certain companies of the holding company system, including the Company, are members of the Delta Dental Plans Association (Delta Plans). Delta Plans, headquartered in Oak Brook, Illinois, is a national network of independent service corporations specializing in providing Delta dental benefits programs to individuals and employee groups throughout the United States.

Organizational Chart

An abbreviated organizational chart below indicates the ownership and the control relationships considered material to the Company.



Intercompany Agreements

The Company had the following intercompany agreements and arrangements in effect as of December 31, 2011.

The Company has entered into various agreements with members of the affiliated group in an effort to obtain efficiencies in operations and limit costs.

Corporate Administrative Agreement

Effective March 1, 1997, the Company entered into an arrangement with DDC which was amended January 1, 2007 and replaced January 1, 2012. Services provided to the Company by DDC were; commutations, corporate services, financial analysis, human resources, internal audit, legal, payroll, public relations, and risk management. The amendment effective January 1, 2007 provided for settlement to be made within 30 business days after the close of each month.

The corporate administrative agreement was replaced with an Intercompany Services Agreement effective January 1, 2012, between the Company, DDC and DDP.

Effective January 1, 1998, and last amended January 1, 2005, the Company and Deltanet, Inc., now part of DDC, entered into a service agreement for DDC to provide the Company license software, data processing computing and software consulting services.

Administrative Agreement

Effective September 20, 2003 the Company and DDP entered into an administrative agreement. In this agreement, DDP was to enter the Company's claims data ("vertex") into a screen via the imaged claims in order to populate the claims processor host system.

AARP Dental Plan Administrative Services Agreement

Effective May 1, 2004 the Company entered into an arrangement with Dentegra Insurance Company ("DIC"). The Company was to act as a third party administrator on behalf of DIC in

regard to a group dental insurance contract issued by DIC to the AARP Dental Insurance Trust. This arrangement was subsequently reflected in an Administrative Services Agreement.

DIC had entered into DeltaPreferred Option Dental Insurance Contracts with the AARP Dental Insurance Trust ("AARP") in the District of Columbia under which it has agreed to underwrite the AARP Dental Insurance Plan (the "Plan") for members of the AARP located in certain jurisdictions of the United States.

Effective January 1, 2006 the Company entered into an identical arrangement with Dentegra Insurance Company of New England (DIC-NE) to act as a third party administrator on behalf of DIC-NE in regard to the group dental insurance contract issued by DIC-NE to the AARP Dental Insurance Trust.

Management and Service Agreement

Effective January 1, 2005, the DIC entered into a Management and Service Agreement with its parent, DDC, under which DDC acts as the manager of Company. DDC responsibilities by itself or through its subsidiary the Company (DDIC), as manager of the Company include; claims administration, underwriting and regulatory compliance, marketing, provider relations, group and member relations, quality review system, accounting and financial support, premium collections and fiduciary responsibilities and appointment of all personnel. All personnel are to be employees of DDC or the Company (DDIC).

Amended and Restated General Agency Agreement

Effective January 1, 2006, the Company entered into an Amended and Restated General Agency Agreement with Delta Dental of Pennsylvania ("DDP") and Delta Dental of Delaware, Inc. ("DDD") under which DDD acts as general agent for the Company in Delaware and DDP provides management services to the DDD. There is currently no activity under this provision of the agreement.

DeltaCare USA Administrative Service Agreement

Effective January 1, 2007, the Company entered into a DeltaCare USA Administrative Services Agreement with its affiliates and other Delta Dental Plans members who are; Dentegra Insurance Company (DIC) (DE), Delta Dental of Pennsylvania (DDP) (PA), Alpha Dental of Arizona, Inc. (AZ), Alpha Dental of Nevada, Inc. (NV), Dentegra Insurance Company of New England, Alpha Dental of New Mexico (NM), Alpha Dental of Utah, Inc. (UT), Delta Dental of New York (NY), and DDC (CA).

Dental Administration Agreement

Effective January 1, 2006, and amended January 1, 2009, the Company entered into a Dental Administration Agreement with Delta Dental Plan of West Virginia, Inc. DBA Delta Dental of West Virginia (DDWV) and Delta Dental of Pennsylvania (DDP). Due to increased surplus requirements, DDWV could no longer issue insured dental service contracts (insured contracts) as a West Virginia dental service corporation. Under this agreement, DDWV assigned its insured contracts to the Company and DDWV continued to issue self-funded, administrative service dental contracts (“AS contracts”); and as a part of a transaction in which DDWV meets its surplus requirements and becomes a fully licensed dental service corporation again, DDIC will transfer its insured contracts to DDWV and DDWV will transfer its AS contracts to DDIC. The amended agreement effective January 1, 2009, reflects the transfer of insured contracts to DDWV and AS contracts to DDIC.

Administrative Agreement

Effective May 7, 2007 the Company and Servicios Dentales Dentegra (SDD) (a Mexico corporation) entered into an administrative agreement. Per this agreement SDD was to provide; claims entry, staffing, training and monitoring of staff and third-party audits.

VA HERO Dental Program - Administrative Services Agreement

Effective January 14, 2008 the Company and DDC entered into a VA HERO Dental Program – Administrative Services Agreement. The Company and the United States Department of Veterans Affairs ("VA") have entered into a dental service contract ("VA HERO Contract") pursuant to project HERO (Healthcare Effectiveness through Resource Optimization), whereby the Company has agreed to arrange for eligible VA patients to obtain access to dental services from Delta Dental network dentists and to pay for those dental services in return for a fixed price per procedure reimbursement from the VA ("VA HERO Dental Program" or "Program") when such dental services are not otherwise available at the VA. This program will terminate September 30, 2012.

Administrative Services Agreement

Effective August 15, 2010 the Company and DDC entered into an administrative services agreement in that the Company employees under the direction of DDC executive management provide certain ministerial administrative services with regard to DDC's dental and vision HMO products called "DeltaCare" and "DeltaVision". Services provided by the Company included: compensation and claims process, credentialing and administration, underwriting, contract center services, specialty care referrals, enrollee grievance process, collection of eligibility, training and monitoring of staff, payment performance reporting, and third-party audits.

Federal Tax Sharing Agreement

Effective November 1, 2010, and for taxable periods beginning and after January 1, 2011, the Company entered into a Federal Tax Sharing Agreement with its immediate parent, DDC Insurance Holdings, Inc. ("DDCIH") and other DDCIH majority owned or controlled subsidiaries. Under this agreement, DDCIH is responsible for reporting the consolidated Federal Income Tax returns to the Internal Revenue Service.

FIDELITY BONDS AND OTHER INSURANCE

The Company is covered by a Financial Institution Bond (Fidelity Bond) under coverage provided to Delta Dental of California and its subsidiaries. The coverage provided exceeds the suggested minimum limits of insurance per the NAIC Examiners Handbook.

In addition to the fidelity bond insurance, appropriate general insurance coverage is maintained by the Company.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2011, the Company is authorized to transact business in 32 states, the District of Columbia and the territories of Puerto Rico and the U. S. Virgin Islands. DDIC administers plans in 21 territories, and for the year ending 2011, the Company wrote 79.4% of its business in the following jurisdictions: Texas (33.3%), Florida (22.1%), Georgia (13.5%), Alabama (5.5%) and Mississippi (5.0%).

Plan of Operation

All Delta companies, including DDIC, administer dental care programs under agreements with various subscriber groups/clients through affiliation with the Delta Dental Plans Association, a national association that governs all Delta branded plans.

The Company underwrites and administers dental care business in states where, due to regulatory limitations, a Delta Dental Plan may not exist. Similarly, the Company offers a number of dental packages which feature choice of dentist, professional review, benefit predetermination and claims processing. The insurance products offered by the Company are limited, with dental insurance being the primary line of business marketed and underwritten. In addition to group plans at risk, the Company administers programs for certain groups on a cost reimbursement basis.

GROWTH OF THE COMPANY

The Financial growth of the Company since the last examination (2006) compiled from its annual statements is summarized as follows:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Surplus as Regards to Policyholders</u>	<u>Change in Capital and Surplus</u>	<u>Gross Premiums Written</u>	<u>Net Income</u>
2011	\$ 139,046,221	\$ 61,768,814	19.43%	\$ 562,177,699	\$ 1,301,034
2010	111,636,051	51,718,394	5.29%	508,894,080	(205,928)
2009	103,855,453	49,119,517	5.76%	458,349,477	(691,715)
2008	101,030,761	46,442,626	14.41%	414,443,443	(576,145)
2007	96,632,322	40,591,953	-9.30%	326,260,509	88,706
2006	94,095,432	44,752,784		261,623,372	89,489

The changes over the examination period are as follows:

- A 48% increase in Net Admitted Assets
- A 38% increase in surplus as regards policyholders
- A 115% increase in Gross Written Premiums

Net Admitted Assets and surplus as regards policyholders increased primarily as a result of the Company issuing two \$10 million dollar surplus notes, one in 2008 and the other in 2011. Both were issued to DDC. Gross Written Premiums increased due to increases in gross business written. Net Income of the Company during the period was affected by net investment gains offset by underwriting losses.

LOSS EXPERIENCE

Net claims unpaid as of December 31, 2010, were \$20,672,535. During 2011, \$20,240,194 was paid for incurred loss attributable to insured events of prior years. Reserves remaining for the prior years are now \$249,983 as a result of re-estimation of unpaid claims.

Therefore, there has been an \$182,358 favorable prior year development since 2010. The increase is generally the result of the ongoing analysis of loss development trends.

REINSURANCE

A schedule of the Company's premiums written follows:

Direct		\$562,177,699
Assumed		\$14,807,495
Ceded – Affiliates	\$143,326,219	
Ceded Non-affiliates	41,176,275	
Total Ceded		184,502,494
Total Net Premiums		\$392,482,700

Assumed Reinsurance

The Company had no third party assumed business in 2011. The assumed premiums written of \$14,807,495 are from two affiliated dental line carriers, Delta Dental of California, and Delta Dental Plan of Puerto Rico Inc. The Company assumed premium from the above two companies in the amount of \$9,143,559 and \$5,663,936 respectively.

Ceded Reinsurance

In 2011, the Company's ceded business consisted of various quota share treaties.

The Company's total ceded premium in 2011 was \$184,502,494 million, of which \$36,369, \$134,122,958 and \$9,166,892 were ceded to affiliates, Dentegra Insurance Company, Delta Dental of California and Delta Reinsurance Corporation (DRC), respectively. The remaining ceded amount of \$41,176,275 consisted of \$24,117,845 being ceded to four authorized reinsurers and the remaining amount of \$17,058,430 being ceded to sixteen unauthorized reinsurers.

- DRC – 90% of all premiums earned less administrative fees and claims incurred for business written in the State of New York and the District of Columbia are ceded out to DRC.
- Dental Reinsurance Limited (DRL) – 95% of premiums earned less administrative fees and claims incurred for business written in the State of Connecticut are ceded out to DRL.
- Texas CHIP program – 100% of the risk associated with the underwriting of the Texas CHIP Dental Services contract is ceded to DDC.

- AARP program – Dental contract risk (i.e., premium earned less administrative fees and claims incurred) is ceded out to DDC (56%), Hannover Life and Reassurance Company of America (33%), and Renaissance Life and Health Insurance Company of America (10%). DDIC retains the remaining 1%.
- VA HERO – DDIC cedes 62% of all premium earned less administrative fees and claims incurred to various Delta Dental Plan Association members (approximately 18 at various rates). DDIC retains the remaining 38%. This program terminated on September 30, 2012.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operation and organization controls. The areas evaluated included computer systems, accounting systems, organization structure and the processing structure. The Company operates in a computer dominated environment. DDIC records financial transactions into the Enterprise Financial Oracle General Ledger System. Statutory reports are developed from financial information that is exported from the Oracle General Ledger System into Microsoft Excel spreadsheets which are then compiled into SunGard, a web-based application that assists in the formatting of statutory financial statements.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were identified and tested and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

The consulting firm of INS Services, Inc. performed a review of the Company's global controls over its information and technology IT environment. It was determined that global controls surrounding the EDP environment were found to be sufficient.

STATUTORY DEPOSITS

The Company's state statutory deposits were on file with the following states:

STATE	Deposits For The Benefit of All Policyholders		All Other Special Deposits	
	Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
Delaware	\$ 2,284,891	\$ 2,411,231		
Florida			\$ 2,067,422	\$ 2,356,072
Georgia			33,789	38,751
New Mexico			199,766	205,876
North Carolina			403,523	417,656
Virgin Islands			500,000	500,000
TOTAL DEPOSITS	\$ 2,284,891	\$ 2,411,231	\$ 3,204,500	\$ 3,518,355

FINANCIAL STATEMENTS

The following pages contain the Company's Financial Statements for the year ending December 31, 2011, as determined by this examination, with supporting exhibits as detailed below:

Assets,
Liabilities, Capital and Surplus,
Statement of Income and Capital and Surplus Account,
Reconciliation of Surplus since last Examination

Assets

As of December 31, 2011

	Assets	Non-admitted Assets	Net Admitted Assets	Notes
Bonds	\$ 53,989,895	\$ 0	\$ 53,989,895	1
Common stocks (stocks)	12,494,469	0	12,494,469	2
Cash, cash equivalents and short-term investments	32,966,937	0	32,966,937	3
Subtotal, cash and invested assets	<u>\$ 99,451,302</u>	<u>\$ 0</u>	<u>\$ 99,451,302</u>	
Investment income due and accrued	430,986	0	430,986	
Uncollected premiums and agents' balances in the course of collection	15,456,370	825,397	14,630,973	
Amounts recoverable from reinsurers	233,710	0	233,710	
Other amounts receivable under reinsurance contracts (reinsurance)	2,532,808	0	2,532,808	
Amounts receivable relating to uninsured plans	13,792,099	13,441	13,778,658	
Net deferred tax asset	1,773,966	1,773,966	0	
Guaranty funds receivable or on deposit	17,704	0	17,704	
Electronic data processing equipment and software	376,102	0	376,102	
Furniture and equipment	635,167	635,167	0	
Receivables from parent, subsidiaries and affiliates	6,926,612	0	6,926,612	
Health care and other amounts receivable	2,070,649	1,403,283	667,366	
Prepaid expenses	1,366,559	1,366,559	0	
Totals	<u>\$ 145,064,034</u>	<u>\$ 6,017,813</u>	<u>\$ 139,046,221</u>	

Liabilities, Capital and Surplus

As of December 31, 2011

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>	<u>Notes</u>
Claims unpaid	\$ 22,553,685	\$ 0	\$ 22,553,685	4
Unpaid claims adjustment expenses	1,372,750	0	1,372,750	
Aggregate health policy reserves	15,559	0	15,559	
Premiums received in advance	734,460	0	734,460	
General expenses due or accrued	29,828,761	0	29,828,761	
Current federal and foreign income tax payable	608,568	0	608,568	
Ceded reinsurance premiums payable	2,643,783	0	2,643,783	
Amounts withheld or retained for the account of others	29,408	0	29,408	
Amounts due to parent, subsidiaries and affiliates	17,598,036	0	17,598,036	
Liability for amounts held under uninsured plans	1,892,397	0	1,892,397	
Total liabilities	<u>\$ 77,277,407</u>	<u>\$ 0</u>	<u>\$ 77,277,407</u>	
Common capital stock			\$ 1,646,579	
Preferred capital stock			10,500,000	
Gross paid in and contributed surplus			7,297,853	
Surplus notes			45,750,000	5
Unassigned funds (surplus)			(3,424,418)	
Less treasury stock at cost			(1,200)	
Total capital and surplus			<u>\$ 61,768,814</u>	
Total liabilities; capital and surplus			<u>\$ 139,046,221</u>	

Statement of Revenue and Expenses

As of December 31, 2011

		<u>Notes</u>
Member months	<u>24,169,915</u>	
Net premium income (including \$0 non-health premium income)	\$ 392,482,700	
Change in unearned premium reserves and reserve for rate credits	<u>(627,660)</u>	
Total revenues	391,855,040	
Hospital/medical benefits (hospital and medical)	<u>446,947,206</u>	
Subtotal (hospital and medical)	446,947,206	
Net reinsurance recoveries	156,146,160	
Total hospital and medical	<u>290,801,046</u>	
Claims adjustment expenses	32,170,860	
General administrative expenses	<u>68,672,339</u>	
Total underwriting deductions	391,644,245	
Net underwriting gain or (loss)	<u>210,795</u>	
Net investment income earned	<u>1,827,449</u>	
Net investment gains or (losses)	1,827,449	
Miscellaneous income (expense)	<u>(455,377)</u>	
Net income or (loss); after capital gains tax and before all other federal income taxes	1,582,867	
Federal and foreign income taxes incurred	<u>281,833</u>	
Net income (loss)	<u>\$ 1,301,034</u>	
Capital and surplus prior reporting year	<u>\$ 51,718,394</u>	
Net income or (loss)	\$ 1,301,034	
Change in net unrealized capital gains (losses)	\$ 363,814	
Change in net deferred income tax	136,746	
Change in non-admitted assets	(1,751,174)	
Change in surplus notes	<u>10,000,000</u>	5
Net change in capital and surplus	<u>\$ 10,050,420</u>	
Capital and surplus end of reporting year	<u><u>\$ 61,768,814</u></u>	

Reconciliation of Surplus since last Examination

		<u>Notes</u>
Capital and Surplus, December 31, 2006	<u>\$ 44,752,784</u>	
Net Income (loss)	\$ (84,048)	
Change in net unrealized capital gains	(1,973,080)	
Change in net deferred income tax	(2,967,983)	
Change in non-admitted assets and related items	(1,519,632)	
Change in treasury stock	(1,200)	
Change in asset valuation reserve	(319,122)	
Change in surplus notes	20,000,000	5
Aggregate write-ins for gains and losses in surplus	<u>3,881,096</u>	
Change in surplus as regards policyholders for the 5 years	<u>\$ 17,016,030</u>	
Capital and Surplus, December 31, 2011	<u><u>\$ 61,768,814</u></u>	

NOTES TO FINANCIAL STATEMENTSAssets

Note 1 - Bonds: \$ 53,989,895

The Company's bond holdings totaled \$53.99 million and were approximately 38.8% of total admitted assets and 54.3% of the Company's total invested assets. Security composition for the year ending 2011 was comprised of the following:

U.S. Governments	\$ 18.98 million
Industrial & Miscellaneous	<u>35.01 million</u>
	<u><u>\$ 53.99 million</u></u>

The Company's industrial and miscellaneous bond holdings were made up of 100% Class 1 and Class 2 (only one Class 2 bond) designation with respect to NAIC credit quality standards.

Note 2 - Common Stocks: \$ 12,494,469

The Company's common stock holdings totaled \$12.49 million and were approximately 9.0% of total admitted assets and 12.6% of the Company's total invested assets. Common stock in

affiliates was approximately 9.1% (or \$1.14 million) of total common stock investments representing holdings in Delta Reinsurance Corporation.

<u>Note 3 - Cash:</u>	\$ 27,917,325
<u>Note 3 - Cash Equivalents and Short-Term Investments:</u>	<u>5,049,612</u>
	<u>\$ 32,966,937</u>

The Company's cash holdings totaled \$27.9 million and were approximately 20.1% of total admitted assets and 28.1% of the Company's total invested assets. The Company's short-term holdings, comprised primarily of class one money market funds, totaled \$5.1 million.

Liabilities

<u>Note 4 - Claims Unpaid:</u>	<u>\$ 22,553,685</u>
<u>Note 4 - Claims Unpaid Adjustment Expenses:</u>	<u>\$ 1,372,750</u>

The Delaware Insurance Department retained the services of the actuarial firm INS Consultants, Inc. for the purposes of conducting an independent review of the Company's claims unpaid and unpaid claims expenses reserves as of December 31, 2011. Based on their analysis, the above reported amount for claims unpaid and unpaid claims expenses reserves were concluded to be reasonably stated. The Company's reported aggregate reserves for claims unpaid and unpaid claims expenses represent 31% of the Company's liabilities at year-end 2011.

<u>Note 5 - Surplus Notes:</u>	<u>\$ 45,750,000</u>
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As noted in "Surplus Notes" above, as of December 31, 2011, DDIC listed seven surplus notes with a total reported amount of \$45.750 million, with ranging issue dates from 1984 thru 2011. All of the notes were issued to DDC. The Company issued a \$10 million surplus note to DDC in 2011.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The prior exam noted six (6) recommendations, which were:

1. It is recommended that the Company amend its bylaws to reflect the number of board members to be consistent with its Articles of Incorporation. **The Company has complied.**
2. It is recommended that the Company notify the Delaware Department of Insurance when a director or officer was changed. **The Company has complied.**
3. It is recommended that the Company submit reinsurance agreements to the DE DOI for approval. **The Company has complied.**
4. It is recommended that the Company submit its intention to enter into reinsurance agreements and have them approved by the DE DOI. **The Company has complied.**
5. It is recommended that the Company complies with Section 526 of the Delaware Insurance Code which provides, among others, the Annual Statement shall be prepared in accordance with the NAIC Annual Statement Instructions, and the NAIC Accounting Practices and Procedures Manuals. **The Company has complied.**
6. It is recommended that the Company comply with SSAP No. 2 as to the reporting of outstanding drafts. **The Company has complied.**

SUMMARY OF RECOMMENDATIONS

No formal recommendations.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Delta Dental Insurance Company

<u>Description</u>	<u>December 31, 2006</u>	<u>December 31, 2011</u>	<u>Increase (Decrease)</u>
Assets	<u>\$94,095,432</u>	<u>\$139,046,221</u>	<u>\$44,950,789</u>
Liabilities	<u>\$49,342,648</u>	<u>\$77,277,407</u>	<u>\$27,934,759</u>
Common Capital Stock	\$ 1,646,579	\$ 1,646,579	\$ -
Preferred Capital Stock	10,500,000	10,500,000	-
Treasury Stock	-	(1,200)	(1,200)
Surplus Notes	25,750,000	45,750,000	20,000,000
Paid in Capital	7,297,853	7,297,853	-
Unassigned Funds (Surplus)	<u>(441,648)</u>	<u>(3,424,418)</u>	<u>(2,982,770)</u>
Total Surplus as Regards Policyholders	<u>44,752,784</u>	<u>61,768,814</u>	<u>17,016,030</u>
Totals Liabilities and Surplus	<u>\$94,095,432</u>	<u>\$139,046,221</u>	<u>\$44,950,789</u>

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and INS Services, Inc. is acknowledged.

Respectfully submitted,



Richard Randour, CFE
 Examiner-In-Charge
 State of Delaware
 Northeastern Zone, NAIC