

Delta Dental of North Carolina

Raleigh, North Carolina

Report on Examination

As of December 31, 2016

DELTA DENTAL OF NORTH CAROLINA

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October 31, 2017

Honorable Mike Causey
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section 58-65-105 of the General Statutes of North Carolina ("G.S."), the North Carolina Department of Insurance ("Department") conducted an examination of the records, business affairs and financial condition of

Delta Dental of North Carolina

(hereinafter referred to as the "Company"), at its main administrative and statutory home office located at 4242 Six Forks Road, Suite 970, Raleigh, North Carolina, 27609. The following report on examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covers the period from January 1, 2012, to December 31, 2016, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department's most recent prior examination of the Company was as of December 31, 2011.

The examination was a coordinated examination and was conducted concurrently with examinations of its affiliates: Delta Dental Plan of Michigan, Delta Dental Plan of Ohio, Delta Dental Plan of Indiana, Delta Dental Plan of New Mexico, and Renaissance Life & Health Insurance Company of America, and included participation from the States of Michigan, Ohio, Indiana, and New Mexico. Michigan served as lead state in this coordinated examination.

We conducted our examination in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners ("NAIC"). We examined the Company to evaluate the financial condition and identify prospective risks by obtaining information regarding its corporate governance structure, identifying and assessing inherent risks, and evaluating system controls and other procedures used to mitigate those risks. This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with the G.S. Chapter 58.

This examination was risk-focused and consisted of a seven-phase process used to identify and assess risk, assess the adequacy and effectiveness of strategies and controls used to mitigate risk and assist in determining the extent and nature of testing procedures to review the Company's key activities. This process included a determination of the quality and reliability of the Company's corporate governance structure and risk management programs, as well as, verification of specific portions of the financial statement. All accounts and activities of the Company were considered; however, the examination focused on areas of high risk, and fewer tests were performed on the accounts identified as having a low risk of misstatement.

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Our examination was directed specifically to the quality, value and integrity of the admitted assets and liabilities reported by the Company in its 2016 Annual Statement, as those balances are critical to determining financial solvency.

REPORT ACRONYMS

RHSC	Renaissance Health Service Corporation
DDPMI	Delta Dental Plan of Michigan
DDPOH	Delta Dental Plan of Ohio
DDPIN	Delta Dental Plan of Indiana
DDPNM	Delta Dental Plan of New Mexico
RLHICA	Renaissance Life & Health Insurance Company of America
RSS	Renaissance Systems and Services, LLC
TC	Tesia Clearinghouse, LLC
TPA	Third Party Administrator
FCAS	Fellow Casualty Actuarial Society
MAAA	Member of American Academy of Actuaries

SUMMARY OF SIGNIFICANT FINDINGS

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

- a. The Company paid service fees totaling \$97,852 to TC and received \$170,365 in manager service fees from RHLICA for 2016. Refer to AFFILIATED TRANSACTIONS on page 7 for details. The Company did not disclose these transactions with related parties in Note 10 of its 2016 AS Notes to Financial Statements as required by the AS Instructions. The Company is directed to comply with the AS Instructions in future filings as required by G.S. 58-2-165(c).
- b. The Company did not have a written agreement for the services provided by TC and RSS, respectively, in 2016 and prior years. Refer to AFFILIATED TRANSACTIONS on page 7 for details. The transactions involved the Company and the affiliated companies in its holding company system. Pursuant to G.S. 58-19-30(b), the Company may not enter into affiliated services agreements unless the Company has notified the Commissioner in writing of its intention to enter into the transaction at least 30 days before the transaction. The Company is directed to comply with G.S. 58-19-30(b).

COMPANY HISTORY

The Company is a not-for-profit dental service corporation licensed under G.S. 58-65. It was incorporated on September 28, 1970, and commenced business on September 11, 1973. The Company provides fully insured and administrative services contract dental benefit programs to individuals and employer groups in North Carolina and services employees of these groups in all 50 states. The Company is a member of the Delta Dental Plan Association, which provides the Company with access to a network of dentists throughout the country.

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MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

The business of the Company is managed by its management team and subject to the review by its Board of Directors (“Board”). The bylaws specify that the number of directors shall be between nine and fifteen directors; however, the Board has the authority to adopt a resolution to specify a different number of voting members. Eight directors served as of December 31, 2016. Directors are elected annually, at the annual meeting of shareholders or by the written consent of the stockholders, and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors as of December 31, 2016:

Name	Location	Principal Business Affiliation
Thomas James Fleszar	Okemos, MI	Former President and CEO of RHSC and affiliates
Alan Bruce Clarke	Raleigh, NC	President and CEO of Capital Associated Industries
Kathleen Ann Trusch	Rocky Mount, NC	Vice President of Human Resources of Boddie-Noell Enterprises, Inc.
Carl Arnold Exner	Raleigh, NC	Retired/Transition Analyst at AFTCO Transition Consultants
Paul Carruth	Raleigh, NC	Member at Paul Carruth, Attorney at Law, PLLC
James Robert Rose Jr.	Raleigh, NC	Regional President of Yadkin Bank
Bradford Roy Pressley	Raleigh, NC	Associate Dentist at Night and Day Dental
Moira Sinead LoCascio	Charlotte, NC	CEO at McLaughlin Young

COMMITTEES

The Board has the authority to establish committees including, but not limited to, an Audit and Finance Committee that is comprised of four (4) members of the directors. The following individuals served on the committee as of December 31, 2016:

Audit and Finance Committee
Alan Bruce Clarke
Thomas James Fleszar
Carl Arnold Exner
Moira Sinead LoCascio

OFFICERS

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president, secretary, treasurer and any other officers deemed necessary by the Board. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. Any two offices, not inconsistent with each other, may be held by the same person.

The following individuals served as officers of the Company as of December 31, 2016:

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Name	Title
Curtis Randal Ladig	President and CEO
Carl Arnold Exner	Secretary
Kathleen Ann Trusch	Treasurer
Paul Carruth	Chairperson of the Board
Alan Bruce Clarke	Vice Chairperson of the Board

CORPORATE RECORDS

We reviewed the minutes of the Board and committee meetings for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events and that the Board approved these transactions and events.

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. Based on the review, there have not been any amendments to the Articles of Incorporation. However, the Bylaws have been updated as of March 21, 2017, and have been disclosed to the Department as of March 28, 2017.

ACCOUNTS AND RECORDS

The Company's books and records are maintained at DDPMI's main administrative and statutory home office at 4100 Okemos Road, Okemos, Michigan, 48864.

The Company utilizes DDPMI for administrative and management services and most of its business is processed electronically. DDPMI has an IT department that monitors all IT activities. The hardware platform for DDPMI is located in Okemos, Michigan.

AFFILIATED COMPANIES

HOLDING COMPANY

The Company is part of an insurance holding company system as defined in G.S.58-19. RHSC is the ultimate controlling entity of the Company. RHSC is a Michigan-based nonprofit holding corporation, which is comprised of various organizations, including DDPMI, DDPIN, DDPOH, DDPNM and RLHICA.

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TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five-year period ended December 31, 2016:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income (Loss)
2016	\$12,433,904	\$6,456,760	\$43,202,326	\$43,202,326	\$2,190,731
2015	\$11,830,537	\$6,244,940	\$36,931,948	\$36,931,948	\$1,272,823
2014	\$11,856,270	\$8,005,331	\$29,769,871	\$29,769,871	\$1,324,764
2013	\$10,294,763	\$6,660,548	\$25,438,476	\$25,438,476	\$1,089,133
2012	\$9,263,994	\$5,515,441	\$20,553,075	\$20,553,075	(\$1,495,345)

ACTUARIAL OPINION

The statutory reserves and related items for 2016 were reviewed and certified by the Company's Appointed Actuary, Toby L. Hall, FSA, MAAA, with DDPMI. Actuarial opinions regarding the Company's reserves for claims and claim adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the claims and claim adjustment expense reserves. According to the actuarial opinions, the Company's reserves on the claims and claim adjustment expenses met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made reasonable provisions for all unpaid claims and claim adjustment expense obligations of the Company.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2016. The supporting notes and exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. No examination adjustment was made to surplus as a result of the examination. The financial statements and supporting schedules as of December 31, 2015, are unexamined and are presented for comparative purposes only.

Delta Dental of North Carolina
Statutory Statement of Admitted Assets
December 31, 2016

	2016	2015 <i>(unexamined)</i>
Bonds	\$ 52,329	\$ 51,628
Cash and short-term investments	10,908,225	10,041,521
Total cash and invested assets	10,960,554	10,093,149
Investment income due and accrued	174	2,190
Premiums and agents' balances in course of collection	921,763	513,085
Amounts receivable relating to uninsured plans	523,968	1,200,494
Electronic data processing equipment and software	11,878	20,011
Receivables from parent, subsidiaries and affiliates	-	1,608
Health care and other amounts receivable	15,567	-
Total admitted assets	\$12,433,904	\$11,830,537

Delta Dental of North Carolina
Statutory Statement of Liabilities, Capital and Surplus
December 31, 2016

	2016	2015
		<i>(unexamined)</i>
Claims unpaid	\$ 2,791,657	\$ 2,161,041
Unpaid claims adjustment expenses	70,012	61,724
Aggregate health policy reserves	244,000	274,000
Premiums received in advance	702,816	839,557
General expenses due or accrued	868,366	809,142
Amounts withheld or retained for the account of others	38,110	22,975
Amounts due to parent, subsidiaries and affiliates	467,804	738,967
Liability for amounts held under uninsured plans	335,000	301,700
State dated checks	365,456	290,471
Uninsured admin reserve	93,923	86,020
Total Liabilities	5,977,144	5,585,597
2016 ACA Fee	-	26,277
Surplus notes	5,000,000	7,000,000
Statutory reserve	3,562,647	3,126,636
Unassigned funds	(2,105,887)	(3,907,973)
Total capital and surplus	6,456,760	6,244,940
Total Liabilities, Capital and Surplus	\$12,433,904	\$11,830,537

Delta Dental of North Carolina
Statutory Statement of Operations
December 31, 2016

	2016	2015
		<i>(unexamined)</i>
Revenues		
Net premium income	\$43,202,326	\$36,931,948
Aggregate write-ins for other health care related revenues	173,308	113,097
Total Revenues	43,375,634	37,045,045
Hospital and Medical		
Other professional services	34,509,443	29,823,412
Claims adjustment expenses, including \$152,741 cost containment expense	1,529,574	1,184,613
General administrative expenses	4,728,536	4,059,247
Increase in reserves for life and accident and health contracts	(30,000)	115,000
Total underwriting deductions	40,737,553	35,182,272
Net underwriting gain	2,638,081	1,862,773
Investment Income		
Net investment income earned	(448,863)	(592,909)
Other Income		
Net gain from agents' or premium balances charged off	1,513	2,959
Net Income	\$ 2,190,731	\$ 1,272,823

Delta Dental of North Carolina
Statutory Statement of Capital and Surplus
December 31, 2016

Capital and Surplus Account	2016	2015
		<i>(unexamined)</i>
Capital and surplus, beginning of year	\$6,244,940	\$8,005,331
Net Income	2,190,731	1,272,823
Change in non-admitted assets	21,089	(33,214)
Change in surplus notes	(2,000,000)	(3,000,000)
Change in capital and surplus as regards policyholders for the year	211,820	(1,760,391)
Capital and surplus, end of year	\$6,456,760	\$6,244,940

Delta Dental of North Carolina
Statutory Statement of Cash Flow
December 31, 2016

	2016	2015
		<i>(unexamined)</i>
Cash From Operations		
Premium collected net of reinsurance	\$42,632,218	\$37,154,654
Net investment income	(446,847)	(594,642)
Miscellaneous income	173,308	113,097
Total	42,358,679	36,673,109
Benefit and loss related payments	33,848,828	29,073,171
Commissions, expenses paid and aggregate write-ins	5,737,631	4,454,899
Total	39,586,459	33,528,070
Net cash from operations	2,772,220	3,145,039
Cash (Used By) Investments	(701)	-
Cash (Used By) Financing and Miscellaneous Sources		
Surplus notes	(2,000,000)	(3,000,000)
Other cash provided	95,185	5,745
Net cash (used by) financing and miscellaneous sources	(1,904,815)	(2,994,255)
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	866,704	150,784
Cash and short-term investments, beginning of year	10,041,521	9,890,737
Cash and short-term investments, end of year	\$10,908,225	\$10,041,521

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NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

Bonds: Bonds not backed by other loans are stated at amortized costs using the interest method.

Cash and short-term investments: Carried at amortized cost, which approximates fair value, and includes money market instruments and debt securities with maturities of less than one year.

Premiums: Earned ratably over the terms of the related insurance contracts or policies.

Acquisition costs: Charged to operations as incurred.

Contingency Reserve: G.S. 58-65-95(b) requires dental service corporations to maintain a special contingency reserve equal to specified percentages of its gross annual premium collections. The Company must increase this reserve until the reserve equals three times its average monthly expenditures. The Company reported a reserve of \$3,562,647 and \$3,126,636 at December 31, 2016 and 2015, respectively.

2. Analysis of Assets

The following represents an analysis of the Company's net admitted assets:

	December 31, 2016		
	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$52,329	-	\$52,329
Cash and short-term investments	10,908,225	-	10,908,225
Total cash and invested assets	10,960,554	-	10,960,554
Investment income due and accrued	174	-	174
Premiums and agents' balances in course of collection	927,858	6,095	921,763
Amounts receivable relating to uninsured plans	523,991	23	523,968
Electronic data processing equipment and software	11,878	-	11,878
Health care and other amounts receivable	15,567	-	15,567
Prepaid Expense	22,763	22,763	-
Total admitted assets	\$12,462,785	28,881	\$12,433,904

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3. Summary of Reserves

The following provides a reconciliation of the Company's reserves for claims and claim adjustment expenses:

	<u>2016</u>	<u>2015</u> <i>(unexamined)</i>
Reserve for claims and claim adjustment expenses, beginning of year	\$ 2,222,765	\$ 1,342,728
Add:		
Provision for claims and claim adjustment expenses, current year	36,188,437	31,127,109
Change in estimated claims and claim adjustment expenses, prior years	(149,419)	(119,084)
Total incurred	<u>36,039,018</u>	<u>31,008,025</u>
Deduct:		
Claims and claim adjustment expenses paid, current year	33,341,427	28,914,603
Claims and claim adjustment expenses paid, prior year	2,058,687	1,213,385
Total paid	<u>35,400,114</u>	<u>30,127,988</u>
Reserve for claims and claim adjustment expenses, end of year	<u>2,861,669</u>	<u>2,222,765</u>
Increase in reserve for claims and claim adjustment expenses	<u>\$ 638,904</u>	<u>\$ 880,037</u>

4. Contingencies and Commitments

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. The Company is of the opinion that these proceedings will not have a material effect on the financial position of the Company.

SUBSEQUENT EVENTS

On August 18, 2017, the Company requested an approval from the Department to repay a total of \$2,000,000 in surplus notes and approximately \$546,667 in accrued interest. The Department approved the Company's request on October 9, 2017. The Company completed the repayment transaction and the funds were distributed on October 11 and 12, 2017, accordingly.

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APPENDIX A – REPORT DISTRIBUTION
December 31, 2016

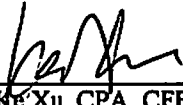
Curtis Ladig, President and CEO
Delta Dental of North Carolina
4242 Six Forks Road, Suite 970
Raleigh, NC 27609

Glenn Simon, Manager-Financial & Regulatory Reporting
Delta Dental of Michigan, Ohio, and Indiana
4100 Okemos Road
Okemos, MI 48864

CONCLUSION

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,



Ky Xu, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

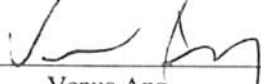
October 31, 2017

NOTARY

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Venus Ang, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by her, is true and correct to the best of her knowledge and belief.

Signature:  Date: 12/4/2017
Venus Ang

Sworn and subscribed before me this 4 day of December, 2017

Notary Public Signature:  Notary Public

