



NC DEPARTMENT
of INSURANCE
MIKE CAUSEY, COMMISSIONER

COMPANY SERVICES GROUP
FINANCIAL EXAMINATION DIVISION

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I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina, do hereby certify that: I have caused to Delta Dental of North Carolina, as of December 31, 2019, with the original on file at this Department and find the same to be a correct copy of the whole said original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this the 8th day June 2021.



Mike Causey
Commissioner of Insurance

Ke Xu, CPA, CFE
Chief Financial Examiner
Financial Examination Division

Delta Dental of North Carolina

Raleigh, North Carolina

Report on Examination

As of December 31, 2019

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May 26, 2021

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 (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of the Company.

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. The following report on examination is respectfully submitted.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2017 to December 31, 2019, 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, 2016.

The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

This was a coordinated financial examination of eight (8) insurance company subsidiaries of Renaissance Health Service Corporation collectively known as the "Group". Michigan served as the Lead State and the participating states included North Carolina, Arkansas, Indiana, New Mexico, Ohio, and New York.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process and the following key functional activities were identified:

Investments
Taxes and Expenses
Capital and Surplus
Reinsurance
Reserves, Claims and Actuary
Premiums and Underwriting
Related Parties

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58 and evaluating management's compliance with Statutory Accounting Principles. This examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified the impact of such adjustment will be documented separately from the Company's financial statements.

This examination report includes significant findings of fact, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to the Company.

The Company's Annual Statements ("AS"), work papers, and the independent audit work papers were reviewed and relied upon whenever possible. Trial balance reconciliations of the AS were performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from the Company's management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Plante & Moran, PLLC of East Lansing, Michigan the designated independent public accountant of the Company, issued an unmodified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2019.

REPORT ABBREVIATIONS

Annual Statement	“AS”
Board of Directors	“Board”
Delta Dental Plan Association	“DDPA”
Delta Dental Plan of Michigan	“DDPMI”
Delta Dental of Minnesota	“DDMN”
Delta Dental of North Carolina	“Company”
Financial Condition Examiners Handbook	“Handbook”
General Statutes of North Carolina	“GS”
Information Technology General Controls	“ITGCs”
Information Technology Planning Questionnaire	“ITPQ”
National Association of Insurance Commissioners	“NAIC”
North Carolina Department of Insurance	“Department”
Renaissance Life & Health Insurance Company of America	“Renaissance America”
Renaissance Health Service Corporation	“RHSC”
“Group” includes the following companies:	
Delta Dental of Kentucky, Inc.	None
Delta Dental of North Carolina	“Company”
Delta Dental of Tennessee, Inc.	None
Delta Dental Plan of Arkansas, Inc.	None
Delta Dental Plan of Indiana, Inc.	None
Delta Dental Plan of Michigan, Inc.	(“DDPMI”)
Delta Dental Plan of New Mexico	None
Delta Dental Plan of Ohio, Inc.	None

SUMMARY OF SIGNIFICANT FINDINGS

Comments, Recommendations and Directives

The Company did not maintain adequate fidelity bond coverage from January 1, 2017 through December 31, 2019. The fidelity policy contains a rider which limits coverage for the Company to \$300,000. The NAIC’s recommended minimum range for the Company’s fidelity bond coverage is \$500,000 to \$600,000. We recommend that the Company maintain fidelity bond coverage for no less than the minimum recommended by the NAIC.

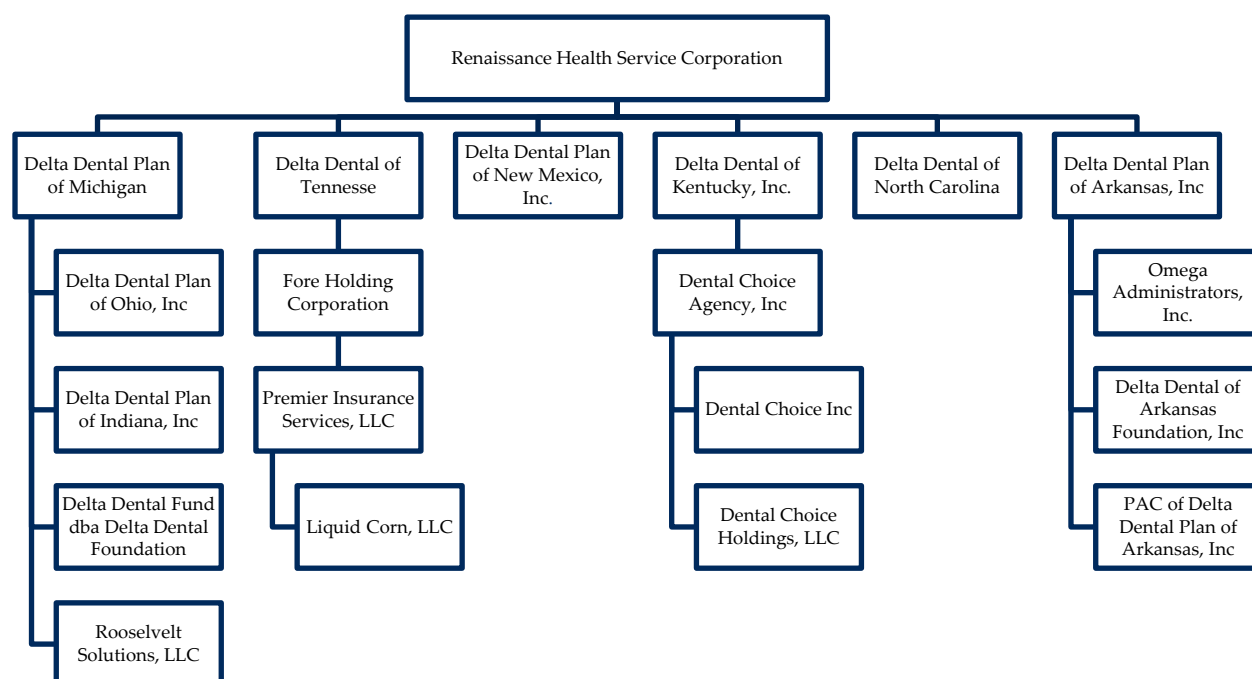
ORGANIZATIONAL STRUCTURE

The Company is part of an insurance holding company system as defined in GS § 58-19. Renaissance Health Service Corporation (“RHSC”), a Michigan nonprofit holding corporation, is the sole corporate member of the Company, Delta Dental Plan of Arkansas, Inc., Delta Delta Dental Plan of Michigan, Inc. (“DDPMI”), Delta Dental of Kentucky, Inc., Delta Dental Plan of New Mexico, Inc. and Delta Dental of Tennessee. DDPMI controls both Delta Dental Plan of Ohio, Inc. and Delta Dental Plan of Indiana, Inc. The Delta Dental affiliates are member companies of the Delta Dental Plans Association (“DDPA”), a nationwide system of independently operated dental health service plans offering subscribers access to dental care through a national network of providers.

DDPMI also owns the majority of the common stock of Renaissance Holding Company, which owns Renaissance Life & Health Insurance Company of America and Renaissance Life & Health Insurance Company of New York. The two Renaissance life and health affiliates offer life, accident, disability, dental and vision insurance products.

ORGANIZATIONAL CHART

The Company’s 2019 AS Schedule Y contains a complete organizational chart. The following is a summarized organizational chart of the Company within the holding company group as of December 31, 2019:



COMPANY HISTORY

The Company is a nonstock, nonprofit dental service corporation licensed under GS § 58-65. It was incorporated on September 28, 1970, and commenced business on September 11, 1973.

In August 2007, the Company entered into a shared services agreement with Delta Dental of Minnesota (“DDMN”). On December 4, 2007, the Company received a certificate of contribution of \$3,000,000 from DDMN. Effective December 21, 2009, the Company received an additional certificate of contribution of \$1,500,000 from DDMN. Both certificates of contribution were paid in full with accrued interest on December 10, 2010. The shared services agreement between the Company and DDMN was terminated effective October 1, 2011.

Effective December 10, 2010, the Company became affiliated with RHSC, a Michigan nonprofit holding corporation of various Delta Dental Plan companies and for-profit entities. Pursuant to an affiliation agreement, RHSC became the sole corporate member of the Company. On December 10, 2010, the Company received certificates of contribution totaling \$15 million from various RHSC affiliates with an annual interest rate of 4%, of which a total of \$10 million was repaid as of December 31, 2016. The Company repaid \$2 million of the outstanding certificates of contribution each year in 2017 and 2018 along with the interest payments totaling \$546,667 and \$631,113, respectively. The payment for the remaining certificates of contribution totaling \$1 million and the related interest totaling \$326,146 was approved by the Department on July 2, 2019. The Company had no outstanding surplus notes as of December 31, 2019.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Membership

The bylaws provide that an annual meeting of the member, RHSC, shall be held for the election of directors and for the transaction of general business at such time and place as the Board of Directors (“Board”) may designate. Special meetings of the member may be called by the chair of the Board of the member or the chair of the Board of the Company.

Board of Directors

All corporate powers of the Company shall be exercised by or under the authority of the Board. The number of directors of the Company shall consist of no more than fifteen voting members. As of the effective date of the amended and restated bylaws in 2018, the Board shall consist of nine (9) voting members and shall remain at nine (9) voting members until such time as the Board adopts resolutions specifying a different number of voting members. In the absence of a resolution adopted by the Board, the number of directors elected at the annual meeting plus the number of directors continuing in office shall constitute the number of directors of the corporation until the next annual meeting unless the number is changed by action of the directors. The directors shall be elected at the annual meeting of the member. The terms of the directors shall be for three (3) years, unless sooner displaced, and thereafter until their successors shall be elected and qualified. The following individuals served as directors as of December 31, 2019:

Name	Business Location	Principal Occupation
Alan Clarke	Raleigh, NC	Chief Executive Officer - Capital Associated Industries, Inc.
Carl Exner	Durham, NC	Treasurer of the Company
Thomas Fleszar	Okemos, MI	Interim President & Chief Executive Officer - DDNM
Moira LoCascio	Charlotte, NC	Chief Executive Officer - McLaughlin Young Group
Bradford Pressley	Charlotte, NC	Director - Senior Dental Care
Kathleen Trusch	Rocky Mount, NC	Vice President of Human Resources - Boddie-Noell Enterprises, Inc.
Stewart Holmes	Winston-Salem, NC	Senior Vice President - Pinnacle Financial Partners
James Rose, Jr.	Raleigh, NC	State President - United Community Bank
Courtney Crowder	Raleigh, NC	President - Crowder Consulting Company

The Board has the authority to establish committees as it deems appropriate including, but not limited to, an Audit and Finance Committee, a Nominating Committee, and an Executive Committee.

The following individuals served on committees as of December 31, 2019:

Executive Committee

Moira LoCascio - Chair
James Rose, Jr.
Alan Clarke
Kathleen Trusch
Carl Exner

Audit and Finance Committee

Carl Exner – Chair
Thomas Fleszar
Stewart Holmes
James Rose, Jr.

Nominating Committee

Moira LoCascio - Chair
Courtney Crowder
Bradford Pressley
James Rose, Jr.
Kathleen Trusch

Compensation Sub-Committee

Moria LoCascio - Chair
Alan Clarke
James Rose, Jr.

Officers

The bylaws provide that the Board will elect the officers, which shall consist of a Chair of the Board, a Vice Chair, Immediate Past Chair, a Secretary, a Treasurer, and a Chief Executive Officer. The Chief Executive Officer shall be elected consistent with the terms and conditions of any and all voting agreements, proxies and/or Affiliation agreements entered into by the Company. The other officers of the Company shall be elected by the Board at the annual meeting. The Vice Chair, the Immediate Past Chair, Secretary and Treasurer serve for a term of one (1) year and for a maximum of two such terms, unless otherwise provided for by a resolution adopted by the Board. Each officer may be elected or appointed for consecutive terms consistent with the terms and conditions of the amended and restated bylaws.

The following individuals served as officers of the Company as of December 31, 2019:

Name	Title
Curtis Ladig	President & Chief Executive Officer
Alan Clarke	Immediate Past Chair
Carl Exner	Treasurer
Kathleen Trusch	Secretary
Moira LoCascio	Chair of the Board
James Rose, Jr.	Vice Chair
Amy Basel	Chief Financial Officer

CODE OF CONDUCT AND CONFLICT OF INTEREST

The Company has an established policy and procedure to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Company requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed the Company acted in accordance with its policy and procedures for disclosure of conflicts of interest.

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board and its committees 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 directors approved these transactions and events.

The Company’s articles of incorporation and bylaws were reviewed for any changes during the period under examination. On August 16, 2018, the Company amended and restated its bylaws to change its Board composition. Based on our review, it appears that the Company acted in accordance with its articles of incorporation and bylaws.

STATUTORY DEPOSITS

A statutory deposit is not required with the state of North Carolina for the Company.

INFORMATION TECHNOLOGY CONTROLS

Michigan served as the Lead State of the coordinated examination and performed a risk-based assessment and review of the Group’s IT General Controls (“ITGCs”) in accordance with the NAIC requirements as outlined in the Handbook. The Company was included in the scope of the ITGC review. The guidance and direction used to perform the review of the Group’s ITGCs was derived from Exhibit C Part 1 -Information Technology Planning Questionnaire (“ITPQ”) and Exhibit C Part 2 – Information Technology Work Program (collectively, “Exhibit C”). The Group’s responses to the ITPQ were evaluated, and certain controls within the IT control environment were tested to assess whether the selected controls were designed effectively and were functioning properly.

The objectives were to obtain reasonable assurance about whether:

- a. The Group had a process in place to effectively identify, mitigate and manage its IT risks.
- b. The Group's control structure and policies and procedures were suitably designed to achieve the control objectives specified in Exhibit C; and
- c. The Group was complying with those policies and procedures.

The objectives above were achieved through a combination of reviewing the Group's policies and procedures, testing in key areas related to Exhibit C, interviewing the Group's IT management, reviewing IT risk assessment processes, and leveraging relevant risk assessment procedures performed by the Group's independent accountant.

Based upon the risk-based assessment and review, the Group's ITGC's were determined to be effective.

FIDELITY BONDS AND OTHER INSURANCE

The Company is a named insured under a fidelity bond issued to RHSC with coverage totaling \$300,000. The coverage does not meet the minimum requirements recommended by the Handbook. (Refer to the Summary of Significant Findings.)

In addition, the Company has a property and liability policy, which appears to be adequate to cover risks in the normal course of business.

EMPLOYEE BENEFITS AND PENSION PLANS

The Company has a 401(k) Defined Contribution Plan for employees eligible upon completing 90 days of service with the Company. To comply with safe harbor requirements, the Company makes a basic contribution on behalf of each participant equal to 3% of compensation. Also, the Company may make a discretionary profit-sharing contribution under this provision. A participant is always fully vested in their contributions to this plan and any contributions made on their behalf by the Company. The Company incurred expenses related to this plan totaling \$102,541 and \$78,976, in 2019 and 2018, respectively.

RELATED PARTY AGREEMENTS

The Company has a Network Access Agreement with Renaissance Life & Health Insurance Company of America ("Renaissance America"), effective June 1, 2012 and amended on October 28, 2015, whereby the Company provides its preferred provider network to Renaissance America for utilization by their individual policyholders. In 2019, the Company received network access fees totaling \$53,290.

The Company contributed \$175,000 and \$125,000 to Delta Dental Fund, Inc. in 2019 and 2018, respectively.

Administrative Services Agreement

The Company has an Administrative Services Agreement with RHSC and affiliates including, but not limited to, Renaissance America, DDPMI, Tesia Clearinghouse, LLC, and Delta Dental Fund, Inc., effective February 1, 2017 to exchange various services. The agreement requires outstanding amounts to be settled monthly. The following transactions occurred under the Administrative Services Agreement:

The Company paid DDPMI management fees totaling \$4,347,811 and \$3,288,160 to DDPMI in 2019 and 2018, respectively.

The Company paid Renaissance America management fees totaling \$590,541 and \$518,487 in 2019 and 2018, respectively.

The Company received marketing fees totaling \$53,290 and \$80,020 from Renaissance America in 2019 and 2018, respectively.

The Company paid Tesia Clearinghouse, LLC for claims clearinghouse services totaling \$184,556 and \$154,952 in 2019 and 2018, respectively.

TERRITORY AND PLAN OF OPERATION

At December 31, 2019, the Company was only licensed in the state of North Carolina. The Company writes individual and group dental benefits plans to provide 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 DDPA, which provides the Company with access to a network of dentists throughout the country. DDPA is comprised of a network of 39 independent Delta Dental companies operating in all 50 states, Puerto Rico, and other U.S territories. The Company's policies are marketed through internal sales agents, independent brokers, and e-commerce methods.

GROWTH OF THE COMPANY

The following data, obtained from AS filed with the Department, illustrates the trends of the Company for the five-year period ended 2019:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2019	\$19,095,986	\$10,977,475	\$70,031,253	\$70,031,253	\$3,899,399
2018	\$14,617,837	\$8,047,795	\$59,065,800	\$59,065,800	\$2,846,537
2017	\$14,244,059	\$7,192,924	\$49,965,343	\$49,965,343	\$2,846,840
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

ACTUARIAL OPINION

Every insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary in accordance with GS § 58-2-165 (c).

The statutory reserves and related items for 2019 were reviewed and certified by the Company's Appointed Actuary, Kevin R Sule, FSA, MAAA, with DDMPI. Actuarial opinions regarding the Company's reserves for claims unpaid and unpaid claims 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 unpaid, unpaid claims adjustment expenses and aggregate health policy reserves. According to the actuarial opinions, the Company's reserve on the claims unpaid, unpaid claims adjustment expenses and aggregate health policy reserves 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 a reasonable provision for all claims unpaid, unpaid claims adjustment expenses and aggregate health policy reserves of the Company.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed with the Department and present the financial condition of the Company for the period ending December 31, 2019. The supporting tables and exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statement information related to the prior year is unexamined and is presented for comparative purposes only.

Delta Dental of North Carolina
Statutory Statement of Admitted Assets
December 31, 2019

	2019	2018 <i>(unexamined)</i>
Bonds	\$-	\$52,329
Cash and short-term investments	14,416,468	9,506,259
457B retirement asset	64,799	34,021
Total cash and invested assets	14,481,267	9,592,609
Investment income due and accrued	1,473	2,339
Premiums and agents' balances in course of collection	1,014,054	929,287
Amounts receivable relating to uninsured plans	3,599,186	4,093,102
Receivable from parent, subsidiaries, and affiliates	6	500
Total admitted assets	\$19,095,986	\$14,617,837

Delta Dental of North Carolina
Statutory Statement of Liabilities and Surplus
December 31, 2019

	2019	2018 <i>(unexamined)</i>
Claims unpaid	\$2,832,000	\$2,477,374
Unpaid claims adjustment expenses	89,712	96,213
Aggregate health policy reserves	445,473	424,768
Premiums received in advance	349,077	380,607
General expenses due and accrued	1,520,668	1,135,215
Amounts withheld or retained for the account of others	101,156	61,652
Amounts payable to parent, subsidiaries, and affiliates	1,533,355	858,710
Liability for amounts held under uninsured plans	415,900	415,000
Stale dated checks	649,858	533,099
Uninsured admin reserve	181,312	187,404
Total Liabilities	8,118,511	6,570,042
2020 Affordable Care Act fee	327,617	-
Surplus notes	-	1,000,000
Statutory contingency reserve	5,376,629	4,668,914
Unassigned funds (surplus)	5,273,234	2,378,881
Total surplus	10,977,475	8,047,795
Total Liabilities and Surplus	\$19,095,986	\$14,617,837

Delta Dental of North Carolina
Statutory Statement of Operations
December 31, 2019

	2019	2018 <i>(unexamined)</i>
Underwriting Income		
Net premium income	\$70,031,253	\$59,065,800
Miscellaneous income	59,918	81,315
Total Revenues	70,091,171	59,147,115
Hospital and Medical:		
Other professional services	56,519,070	47,522,880
Subtotal	56,519,070	47,522,880
Less:		
Total hospital and medical	56,519,070	47,522,880
Claims adjustment expenses	820,581	1,767,360
General administrative expenses	8,499,963	6,241,218
Increase in reserves for life and accident and health contracts	18,000	29,000
Total underwriting deductions	65,857,614	55,560,458
Net underwriting gain	4,233,557	3,586,657
Investment Income:		
Net investment losses	(164,191)	(505,543)
Net gain(loss) from agents' or premium balances charged off	5,033	(109,577)
Contribution to Delta Dental Fund	(175,000)	(125,000)
Net investment gain	(334,158)	(740,120)
Net Income	\$3,899,399	\$2,846,537

Delta Dental of North Carolina
Statutory Statement of Capital and Surplus
December 31, 2019

	2019	2018 <i>(unexamined)</i>
Capital and surplus, beginning of year	\$8,047,795	\$7,192,924
Net Income	3,899,399	2,846,537
Change in non-admitted assets	30,281	8,334
Change in surplus notes	(1,000,000)	(2,000,000)
Net change in capital and surplus	2,929,680	854,871
Capital and surplus, end of year	\$10,977,475	\$8,047,795

Delta Dental of North Carolina
Statutory Statement of Cash Flow
December 31, 2019

	2019	2018 <i>(unexamined)</i>
Cash From (Used By) Operations		
Premiums collected net of reinsurance	\$69,933,924	\$58,904,469
Net investment income	(163,325)	(500,941)
Miscellaneous income	59,918	81,316
Total	69,830,517	58,484,844
Benefit and loss related payments	56,182,445	47,618,697
Commissions, expenses paid and aggregate write-ins	7,981,717	11,513,009
Total	64,164,162	59,131,706
Net cash from operations	5,666,355	(646,862)
Cash From Investments		
Proceeds from investments sold, matured, or repaid	52,329	-
Net cash from investments	52,329	-
Cash From (Used By) Financing and Miscellaneous Sources		
Surplus notes, capital notes	(1,000,000)	(2,000,000)
Other cash provided	191,525	122,285
Net cash from financing and miscellaneous sources	(808,475)	(1,877,715)
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	4,910,209	(2,524,577)
Cash and short-term investments, beginning of year	9,506,259	12,030,836
Cash and short-term investments, end of year	\$14,416,468	\$9,506,259

COMMENTS ON FINANCIAL STATEMENTS

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:

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: Insurance premiums, net of premiums ceded to reinsurers, are earned over the terms of the policies. The portion of direct premiums written applicable to the unexpired terms of the policies is recorded as unearned premium. Premiums are earned on a pro rata basis.

Non-admitted assets: Certain assets, such as premiums over 90 days past due, excess of book value over market value for securities, prepaid expenses, furniture, equipment, electronic data processing equipment and software, and deferred tax assets are "non-admitted" and are charges against surplus.

Claims Unpaid and Unpaid Claims Adjustment Expenses: Includes amounts determined from individual case estimates and loss reports and amounts, based on experience, for losses incurred but not reported. Estimated amounts of salvage and subrogation and reinsurance recoverable are deducted from the reserve for losses and loss adjustment expenses.

Analysis of Assets:

The Company reported the following assets as nonadmitted at December 31, 2019: premiums and agents' balances in course of collection totaling \$3,067, furniture and equipment totaling \$64,187, and prepaid expenses totaling \$33,688.

Summary of Reserves:

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

	2019	2018
Reserve for claims and claim adjustment expenses, beginning of year	\$2,573,588	\$2,613,400
Add:		
Provision for claims incurred, current year	57,882,078	49,439,649
Change in provision for claims incurred, prior years	(542,427)	(149,409)
Total incurred	57,339,651	49,290,240
Deduct:		
Claims and claim adjustment expenses paid, current year	54,970,581	46,896,914
Claims and claim adjustment expenses paid, prior year	2,020,946	2,433,138
Total paid	56,991,527	49,330,052
Reserve for claims and claim adjustment expenses, end of year	2,921,712	2,573,588
Increase in reserve for claim and claim adjustment expenses	\$2,921,712	\$2,573,588

Statutory Contingency Reserve:

According to GS § 58-65-95(b), dental service corporations are required 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 statutory contingency reserve totaling \$5,376,629 and \$4,668,914 at December 31, 2019 and 2018, respectively.

Capital and Surplus:

The following, in conjunction with the Statutory Statement of Capital and Surplus represents the changes in capital and surplus since the Department's last examination, at December 31, 2016:

	2017
Capital and surplus, beginning of year	\$6,456,760
Capital and surplus increases (decreases):	
Net income	2,846,840
Change in non-admitted assets	(110,676)
Change in surplus notes	(2,000,000)
Capital and surplus, end of year	\$7,192,924

Lease Commitments:

The Company is obligated under an operating lease for office space which expires in 2023. The Company incurred rent expenses related to office space for years ended December 31, 2019 and 2018 totaling \$321,994 and \$361,363, respectively. Future minimum annual lease payments under the noncancelable operating lease subsequent to December 31, 2019 are as follows:

<u>Year</u>	<u>Amount</u>
2020	\$298,309
2021	\$305,531
2022	\$314,584
2023	\$284,410
2024	\$237,298
Thereafter	\$642,767

Contingencies and Commitments:

The Company, along with the DDPA, DeltaUSA, and other independent DDPA member companies, is defending a collection of lawsuits that have been filed in at least 10 different district courts. The parties have requested that the cases be consolidated before a single district court for potential proceedings. The plaintiffs, representing purported classes of dental providers, allege that various DDPA member company licensing standards violate federal antitrust laws. The Company believes the claims are meritless and intends to vigorously defend this case. At this point, it is too early in the proceedings to determine the outcome of the matter or the range or amount of any potential loss.

SUBSEQUENT EVENTS

The full effect of COVID-19 on the United States and global insurance industry is still unknown at the time of releasing this report. The Department is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. The Department and all insurance regulators with the assistance of the NAIC are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. The Department along with the other insurance regulators have been in communication with the Company regarding the impact of COVID-19 on its business operations and the financial position, including its Pandemic Preparedness Plan and material Third Party Vendors business continuity plans. No current material operational, solvency or liquidity concerns resulted from the high-level assessment of the Company's operational and solvency position as a result of COVID-19.

In April 2020, the Board added two new directors, Sheila Ahler and Leah Devlin.

Effective February 11, 2020, the Company entered into an Investment Advisory Agreement with Red Cedar Investment Management, LLC whereby the Company is provided investment advisory services for a fee based on a percentage of the invested assets. This Department approved the Investment Advisory Agreement on February 11, 2020 and it was signed and became effective on February 11, 2020.

Delta Dental of North Carolina
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2019

Curtis Ladig, President and Chief Executive Officer
Delta Dental of North Carolina
4242 Six Forks Road, Suite 970
Raleigh, North Carolina 27609

Glenn Simon, Director of Financial & Regulatory Reporting
Delta Dental of Michigan, Ohio, Indiana, and North Carolina
4100 Okemos Road
Okemos, Michigan 48864

CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-65-95 for the kinds of insurance that the Company has been authorized to write, which is \$5,376,629.

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

Respectfully submitted,



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

May 26, 2021

STATE OF NORTH CAROLINA

COUNTY OF WAKE

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

Signature: Keith Greene Date: 5/26/2021
Keith Greene

Sworn and subscribed before me this 26 day of May, 2021.

Notary Public Signature: Jennifer Ishihara Notary Public Seal:

