

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF TARGET FINANCIAL AND LIMITED MARKET CONDUCT
EXAMINATION

OF

**RDS DENTAL PLAN, INC.
ROSEBURG, OREGON**

NAIC COMPANY CODE 47006

AS OF

December 31, 1995

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October 4, 1996

Honorable Kerry Barnett
Director of Consumer and Business Services
State of Oregon
350 Winter Street NE, Room 440-4
Salem, Oregon 97310

Dear Director:

In accordance with your instructions and pursuant to ORS 731.300, we have examined the business affairs and financial condition of

RDS Dental Plan, Inc.
1813 W. Harvard Avenue, #431
Roseburg, Oregon 97470

NAIC Company Code 47006

hereinafter referred to as the "Plan." The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

This target examination of the Plan was conducted as of December 31, 1995, and included subsequent events that are considered material to the financial condition and compliance with the Oregon Insurance Code. The examination was called as a result of numerous discrepancies and the \$21,200 net loss reported in the December 31, 1995, annual statement.

Previously a target examination was conducted as of June 30, 1995. It was called as a result of the Plan's impaired financial condition as reflected in the June 30, 1995, quarterly financial statement. The examination documented the events that lead to the Plan's state of impairment and the corrective actions taken to increase the Plan's reserves and unassigned funds to a level that complies with the requirements of ORS Chapter 750.

The examination was conducted pursuant to the provisions of ORS 731.300 and in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Plan's financial condition, ability to fulfill and the manner of fulfillment of its obligations, the nature of its operations, and compliance with the Insurance Code. Accounting methods, records, and other supporting evidences were examined or tested by appropriate methods to the extent deemed necessary and appropriate for the type, volume, and complexity of the accounting system and operations utilized by the Plan. The record testing included, but was not limited to, assets, liabilities, income and expense related items. A review was also made of the corrective actions taken by the Plan with respect to comments and or recommendations made in the previous financial reports of examination.

In addition to the above, the examiner reviewed work papers prepared by Coopers & Lybrand LLP, the Plan's independent auditors, in their examination of the Plan's accounts for the year ended December 31, 1995. A portion of the auditors' work papers

have been incorporated into the work papers of the examiner and have been utilized in determining the scope and areas of emphasis in conducting the examination.

A management affirmation attesting to the Plan's compliance with Oregon laws relating to location of accounts and records, conduct of the Plan's affairs in a nonhazardous manner, and exercise of managerial control by a duly qualified and constituted Board of Directors was signed by and received from the Chairman of the Board of Directors.

HISTORY OF THE PLAN

The Plan was incorporated on October 13, 1994, as a for profit corporation. On March 3, 1995, the Plan received a limited Certificate of Authority to transact business as a health care service contractor, restricted to dental service only, pursuant to the provisions of ORS Chapter 750. The Plan commenced business on April 1, 1995.

The Plan was granted a Certificate of Authority, effective March 3, 1995, on the basis of the results of a qualifying report of examination dated January 25, 1995. During that examination it was determined the Plan possessed assets of \$157,074, unassigned funds in the form of contributed capital of \$157,074, and no liabilities. Subsequent to that examination, the Plan filed its first quarterly statement with the Oregon Insurance Division, for the period ending June 30, 1995, and reported reserves and unassigned funds of \$44,800. That amount was below the minimum capital and surplus required by the provisions of ORS 750.045(3)(a). This section of ORS Chapter 750 required the Plan to possess and thereafter maintain capital and surplus of not less than \$50,000 or an amount equal to 50% of average incurred claims for the preceding 12 month period, whichever was greater.

It was concluded during the target examination conducted as of June 30, 1995 that the primary source of the reduction in reserves and unassigned funds, was attributable to a note payable to the Plan's parent, Roseburg Dental Services, LLC. The note payable

had a principal balance of \$103,995 with interest payable at 7% per annum. The note payable was made September 29, 1994, for the purpose of establishing start up capital for the Plan. The unaudited financial statements that were relied upon to assess the financial condition of the applicant for a certificate of authority, at the time of the qualifying examination, did not disclose the note payable. The Plan, in a memorandum to the Insurance Division dated September 8, 1995, described this note payable as an "internal, unsecured note". During June 30, 1995, targeted examination, the president conveyed to the examiner that the note payable was not disclosed at the time of the qualifying examination because he did not consider this to be a liability due the closely held relationship of the Plan by its parent. In addition, it was noted the Plan's parent did not record a corresponding note receivable. The Plan corrected its condition of impairment through an immediate infusion of \$6,000 from the parent Plan in the form of cash. The amount was classified as a capital contribution with no corresponding liability. In addition, the Plan's parent forgave \$53,995 of the \$103,995 note payable and submitted a proposal to the Insurance Division to classify the remaining \$50,000 note balance as a subordinated surplus note. This surplus note was approved by the Director on November 6, 1995.

CAPITALIZATION

The capitalization requirements for a dental plan are defined by ORS 750.045(3) which requires the Plan possess and thereafter maintain capital and surplus of not less than \$50,000 or an amount equal to 50% of average incurred claims for the preceding 12 month period, whichever is greater. However, this amount shall not exceed \$500,000. The Plan is a wholly owned subsidiary of Roseburg Dental Services, LLC, which is comprised of 31 member dentists, as of the date of this examination.

Roseburg Dental Services, LLC, capitalized the Plan as follows by acquiring 1,000 shares of no par common stock for \$10 a share. The capitalization is reconciled as follows:

Common stock	\$ 10,000
Additional paid in capital	147,074
Internal loan	(103,995)
Surplus notes	50,000
Loan forgiven	53,995
Interest on surplus note	4,400
Net loss for 1995	(21,200)
Unreconciled difference	<u>(952)</u>
Reserves & unassigned funds - December 31, 1995	<u>\$139,322</u>

Surplus notes and unpaid interest comprised 39.04% of the Plan's surplus as of December 31, 1995.

AFFILIATED COMPANIES

The Plan is a wholly owned subsidiary of Roseburg Dental Services, LLC. Both companies are managed by ABCT, Inc., and therefore, neither has any direct employees.

Affiliated companies are described as follows:

Roseburg Dental Service, LLC - This company was incorporated in 1994. It is currently under contract with the State of Oregon, Department of Human Resources, Office of Medical Assistance Program to provide prepaid dental services in Douglas County. Mr. Marlin Larsen, PhD, BLD, is the administrator for this company.

ABCT, Inc. - This company was incorporated in 1985 and provides management and consultant services to other companies of the medical profession in Douglas County.

The following is a list of shareholders as of December 31, 1995:

<u>Stockholder</u>	<u>% of Ownership</u>
Marlin Larsen, PhD, BLD	45%
Harold F. Anderson, MD	45
Robert J. Bennett, MD	<u>10</u>
Total	<u>100%</u>

MANAGEMENT AND CONTROL

The Plan's Bylaws state the Board of Directors shall consist of not more than 6 members elected at the annual meeting of the shareholders.

Members of the Board of Directors, duly elected and serving as of December 31, 1995 were:

Name and Address

Position and Affiliation

Marlin L. Larsen
1813 W Harvard, Suite 431
Roseburg, OR 97470

Administrator and President
ABCT, Inc.

Ronald K. Culbertson
546 NE Woodcrest Drive
Myrtle Creek, OR 97457

Retired, Chief Executive Officer
South Umpqua State Bank

Bruce L. Hanna
128 Songbird Court
Roseburg, OR 97470

President
Douglas County Bottling Co, Inc.

James Opdahl, DDS
1813 W. Harvard, Suite 207
Roseburg, OR 97470

Dentist - Oral Surgeon

Alan Liesinger*
1813 W. Harvard, Suite 214
Roseburg, OR 97470

Dentist - Endodontist

James V. Lawson, DMD
434 NE Second Avenue
Myrtle Creek, OR 97457

Dentist - Primary

*Chairman of the Board

One half of the Board are representatives of the public which exceeds the one third minimum required by the provisions of ORS 750.015(1).

Officers

Officers appointed by the Board and serving at December 31, 1995, were as follows:

<u>Name</u>	<u>Title</u>
Marlin Larsen, Ph.D., BLD	President
James Opdahl, DDS	Secretary
James Lawson, DMD	Treasurer

All officers of the Plan are affiliated with the medical profession and have no prior experience in the health care insurance industry. Given the relative lack of direct insurance Plan management experience by the Plan's officials and its inability to substantially comply with the entire Insurance Code, I recommend the Plan take the necessary steps to immediately hire or train key management personnel with sufficient qualifications and insurance Plan managerial experience in the areas of accounting, investments, underwriting, and claims to avoid the application of the provisions of ORS 731.386(1).

MANAGEMENT AFFIRMATION

CONFLICT OF INTEREST

The Plan has an established policy for disclosure of any material interest or affiliation on the part of any of its directors and officers employees which is in, or is likely to, conflict with official duties. No exceptions were noted in a review of such forms for the period under the examination.

CORPORATE RECORDS

Articles of Incorporation

The Articles of Incorporation were found to be in conformity with Oregon statutes.

Bylaws

The Bylaws were found to be in conformity with Oregon statutes.

Board Minutes

Regular Board meetings are held annually. Minutes of the Board of Directors meetings were reviewed for the period under examination. Although, the meetings were held in accordance with the Plan's Bylaws and a quorum was achieved at all meetings, on 2 occasions the minutes did not support the transactions of the Plan and the actions taken by its officers. As an example, the Board did not specifically approve the signatories on the bank accounts.

Also one of the bonds matured during 1996 and the proceeds were reinvested in a similar security. This transaction was not shown as being specifically approved in the minutes. This is contrary to the provisions of ORS 733.730. I recommend future Board of Directors minutes be written to reflect the transactions and actions taken by the Board and hereafter comply with the provisions of ORS 733.730.

FIDELITY BONDS AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits and retentions, and the solvency of the insurers providing the coverages.

The Plan is insured under a crime policy which met the NAIC's recommended limits for the Plan's risk exposure. The fidelity bond covers only "Employee Dishonesty." Other perils such as "Forgery or Alteration," "Theft, Disappearance & Destruction" and "Robbery and Safe Burglary" are not covered by the policy. This is contrary to the provisions of ORS 731.302(1) and NAIC Examiners Handbook (Section 3 -Procedure for each account - page 3-1, item 7) which requires that "all officers and employees be appropriately bonded whose duties and responsibilities require the carrying of such coverage." I recommend the Plan comply with the provisions of the above code section by adequately protecting itself against the losses from "Forgery or Alteration," "Theft, Disappearance & Destruction" and "Robbery and Safe Burglary."

As of December 31, 1995, the Plan did not carry "Directors and Officers Liability," "General Liability," "Errors and Omission Liability" and "Professional Liability" coverages. On September 13, 1996, before the last day of the examination, the Plan has secured the binders for the above coverages from its insurance agent. As of the date of this report, the Plan has not received the actual policies and, therefore, I have only reviewed the binders to determine the adequacy the above coverages. It appears that the Plan's contract employees are adequately covered by a professional liability and a directors and officers policy with respect to their involvement in the daily administration of the Plan. It also appears that the Plan is protected against the losses from "General Liability" and "Professional Liability."

The Plan does not carry an umbrella liability coverage.

TERRITORY AND PLAN OF OPERATION

The Plan markets 3 types of dental insurance plans in the greater Douglas County area, including: a fee for service plan, preferred provider plan, and a capitation plan. In addition, the Plan anticipates offering administrative services to self insured groups. The Plan arranges services through primary care dentists (PCD) and specialists. The PCDs are compensated through capitated fees while specialists are paid a negotiated fee for covered services provided to subscribers. The Plan contracts with 31 member dentists to provide the covered services and as of the date of this report, the Plan provides coverage to 8 employer groups in the Douglas County area.

MANAGEMENT AGREEMENT

The Plan is party to a management agreement with ABCT, Inc., an affiliate Oregon corporation. The terms of the agreement authorize ABCT to perform certain services with respect to the operations of the Plan. In consideration of the services performed, ABCT is compensated for the direct costs incurred, such as the marketing expenses, indirect costs incurred, such as day to day accounting and bookkeeping, utilities, and rent, plus 3% of gross revenue. The total of direct and indirect costs incurred plus 3% ABCT fees are not to exceed 13.8% of total revenues for the first 12 months and are not to exceed 12.8% of total revenues for years 2 through 4.

GROWTH OF THE PLAN AND CLAIMS EXPERIENCE

Since this is the first year of operation for the Plan, growth of the Plan and claims experience exhibits were not presented. It should be noted that the loss ratio (including loss adjustment expenses) for 1995 was 80.67%. However the total incurred administrative expenses for 1995 were \$39,290, which resulted in an underwriting loss of (\$17,650). Most of the administrative expenses were due to costs incurred for legal services, independent CPA audits and actuarial services. The net loss for the year was \$22,100.

HOLDING PLAN REGISTRATION

The Plan is a member of a holding Plan system and for the year end 1995, an incomplete holding Plan registration was filed by the Plan. This is contrary to the provisions of ORS 732.551 and OAR 836-27-010. Subsequent to the year end and before the last date of examination the Plan filed a proper registration statement with the Insurance Division and as of the date of this report the Plan was in compliance with the provisions of the above code sections.

I recommend in the future the Plan maintain compliance with the provisions of ORS 732.551 and OAR 836-27-010 by properly filing a complete holding Plan registration on or before the due date.

STATUTORY DEPOSIT

As of the date of the examination, the Plan maintained a deposit with the Oregon Insurance Division, Department of Consumer and Business Services, in the sum of \$72,000 (US Treasury strips - statement value \$53,645 - market value \$57,600, maturity date February 15, 2000) pursuant to the provisions of ORS 750.045(2). The deposit was verified with the records of the Insurance Division.

DIVIDENDS

No dividends were paid or declared during the course of this examination.

REINSURANCE

The Plan does not have any reinsurance contracts and has limited risk exposure with a maximum benefit on any individual policy up to \$2,000. As a result of this individual policy limit, the Plan's retention on any one risk will not exceed 10% of its surplus and is therefore in compliance with ORS 731.504(1).

MARKET CONDUCT

Underwriting

The Plan has only 8 policies. One policy form appears to have been written using a form that had been filed but not approved. In addition, 3 policies were written using “unique” forms. Upon inspection the forms appear to be largely the same and, therefore, were not unique. This is contrary to the provisions of ORS 742.003(1), which requires, in part, that no basic policy form, or application form where written application is required and is to be made a part of the policy, or rider, endorsement or renewal certificate form shall be delivered or issued for delivery in this state until the form has been filed with and approved by the director. This section does not apply to:

- (a) Forms of unique character which are designed for and used with respect to insurance upon a particular risk or subject;
 - (b) Forms issued at the request of a particular life or health insurance policy owner or certificate holder and which relate to the manner of distribution of benefits or to the reservation of rights and benefits thereunder; or
 - (c) Forms of group life or health insurance policies, or both, which have been agreed upon as a result of negotiations between the policyholder and the insurer.
- (4) The director may at any time request an insurer to furnish the director a copy of any form exempted under subsection (1) of this section.

Since the above forms were not considered unique, I recommend the Plan use only forms that are filed and approved pursuant to the provisions of ORS 743.003. The only forms which are exempt are truly unique forms, negotiated from scratch for an individual risk, and unlike other forms in use.

Claims

The Plan pays claims once a month. As a result of this practice, the Plan is not meeting the requirement to acknowledge, pay or deny all claims within 20 business days on all claims. The policy form filed with the Insurance Division also indicates that all claims will be paid within 20 business days.

From of a randomly selected sample of 25 claims, 13 claims (52% of the sample) were paid within 20 working days, while 12 claims (48% of the sample) were not acknowledged or paid within 20 working days. This is contrary to the provisions of ORS 746.230(1), OAR 836-80-225(4) and OAR 836-80-225(1) which require an insurer to acknowledge notification of a claim or pay the claim within 20 working days. Furthermore, the provisions of ORS 746.230(1)(e), (f), & (L), OAR 836-80-235(1), and OAR 836-80-225(1) require an insurer to resolve all claims in a timely manner. I recommend the Plan comply with the provisions of ORS 746.230(1), OAR 836-80-225(4) and OAR 836-80-225(1) by acknowledging or paying all claims within 20 working days and comply with the provisions of ORS 746.230(1)(e), (f), & (L), OAR 836-80-235(1), and OAR 836-80-225(1) by resolving all claims in a timely manner.

The Plan does not send a delay notice or letter acknowledging the receipts of the claim to insureds. This is contrary to the provisions of OAR 836-80-235(3) which requires an insurer to communicate with the claimant in a timely manner during the course of a claim investigation. I recommend the Plan comply with the provisions of OAR 836-80-235(3) by sending a delay letter to the insured if a claim is delayed for more than 20 business days.

The Plan has been made aware of the significant deficiencies. The majority of claims recommendations would be resolved if claims were paid twice a month. I recommend a target market conduct be done on the claims at a later date.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Plan has complied with all recommendations made in the previous examinations.

ACCOUNTS AND RECORDS

Records are kept on a system of personal computers at the home office in Roseburg, Oregon. Assets are all located in Oregon in accordance with the provisions of ORS 732.245. Disbursements were evidenced by bills, invoices, or statements pursuant to the provisions of ORS 732.320.

As of December 31, 1995, all assets were invested in amply secured obligations of the United States, a state or a political subdivision of this state, in compliance with the provisions ORS 733.580.

As of December 31, 1995, the Plan did not have a management or exclusive agency contract in effect that were contrary to the provisions of ORS 732.215 and ORS 732.220, respectively.

During the course of this examination the following exceptions to Oregon law were noted:

Abandoned Property

The Plan does not have a system in place to account for abandoned property subject to escheat (a reserve for unclaimed checks). I recommend the Plan report stale dated checks as an annual statement liability, "amounts withheld or retained for account of others," in accordance with the provisions of ORS 733.030.

As of the date of this report, the Plan has not filed "Form 1A" with the Oregon Division of State Lands (the Division). Pursuant to the provisions of OAR 141-45-041(5), all organizations doing business in Oregon have to submit Form 1A to the Division, on or before October 1 of each year, even if they have nothing to report. I recommend the

Plan comply with the provisions of OAR 141-45-041(5) and maintain such compliance at all times in the future.

Annual Statement Filing

The 1995 annual statement and subsequent quarterly statements were inaccurate and erroneous in numerous respects especially with regard to the jurat page, balance sheet, underwriting and investment exhibit, actuarial opinion, schedule D, interest income due and accrued and notes to the financial statements. As a result of these discrepancies the Plan had to file an amended 1995 annual statement twice. I recommend the Plan comply with the provisions of ORS 731.260, 731.574, and OAR 836-13-000 by filing complete and accurate statements in accordance with the instructions provided by the NAIC and maintain such compliance at all times in the future.

Accrual of Expenses

The Plan did not accrue a small amount Federal and State income taxes relating to the year ending 1994 and 1995. This is contrary to the provisions of ORS 733.030. No adjustment was made to this account since the adjustment amount would be immaterial. I recommend the Plan properly accrue expenses at all times and hereafter comply with the provisions of ORS 733.030.

RDS DENTAL PLAN, INC.
STATEMENT OF ASSETS, LIABILITIES, RESERVES & OTHER FUNDS
As of December 31, 1995

<u>ASSETS</u>	<u>Ledger Assets</u>	<u>Non Ledger (Nonadmitted) Assets</u>	<u>Net Admitted Assets</u>
Bonds (Note 1)	\$104,762	\$ 0	\$104,762
Cash (Note 1)	<u>69,941</u>	<u>0</u>	<u>69,941</u>
Total Assets	<u>\$174,703</u>	<u>\$ 0</u>	* <u>\$174,703</u>

LIABILITIES, RESERVES & OTHER FUNDS

Claims unpaid (Note 2)	\$ 22,454
Unpaid claims adjustment expenses (Note 2)	751
Unearned premiums	329
Other expenses due and accrued	<u>11,848</u>
Total Liabilities	<u>\$ 35,382</u>

RESERVES & SPECIAL FUNDS

Common stock	\$ 10,000
Additional paid in capital	147,074
Internal loan	(103,995)
Surplus notes	50,000
Loan forgiven by the parent	53,995
Interest on surplus notes	4,400
Unassigned funds	<u>(22,152)</u>
Total reserves & Unassigned Funds	<u>\$139,322</u>
Total Liabilities & Unassigned Funds	* <u>\$174,704</u>

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE
FINANCIAL STATEMENTS**

No Adjustments Were Made As A Result Of This Examination

*Totals vary slightly due to rounding

RDS DENTAL PLAN, INC.
UNDERWRITING AND INVESTMENT EXHIBIT
For the Year Ended December 31, 1995

UNDERWRITING

Premiums	\$ 115,256
Claims incurred	\$ 91,824
Expenses incurred:	
a. Claims adjustment	1,161
b. Administrative (Note 3)	50,159
c. Soliciting	<u>631</u>
Total Underwriting Deductions	\$ 143,775
Net Underwriting Loss	<u>\$ (28,519)</u>

INVESTMENT

Net investment income earned	\$ 1,102
Net realized capital gains	<u>2,188</u>
Net investment gain	<u>\$ 3,290</u>

OTHER INCOME AND EXPENSES

Net loss premiums balance charge off	\$ 0
Miscellaneous amount	(2,440)
Interest surplus note	<u>(4,400)</u>
Subtotal	<u>(6,800)</u>
Net gain before Federal income tax	\$ (32,069)
Federal income tax accrued	<u>0</u>
Net loss	<u>\$ (32,069)</u>

RESERVES & UNASSIGNED FUNDS

Reserves and unassigned funds, December 31, 1994	\$ 94,396
Net loss	(32,069)
Net unrealized capital gain	4,156
Change in nonadmitted assets (Note 4)	0
Aggregate write-ins for change in reserves & unassigned funds (Note 5)	<u>72,839</u>
Change in reserves and unassigned funds for the year	<u>\$ 44,926</u>
Reserves & unassigned funds, December 31, 1995	<u>\$139,322</u>

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE
FINANCIAL STATEMENTS**

RDS DENTAL PLAN, INC.
RECONCILIATION OF EXAMINATION CHANGES
Examination as of December 31, 1995

After evaluation of the assets and providing for all known liabilities, no changes were made to the reserves and unassigned funds reported by the Plan as of December 31, 1995.

Reserves and unassigned reported per Plan December 31, 1995 \$139,322

<u>Examination Changes</u>	<u>Increase</u>	<u>Decrease</u>
Assets	\$0	\$0
Liabilities	0	0

Reserves and unassigned reported per examination December 31, 1995 \$139,322

Although, no adjustments were made to the reserves and unassigned funds as a result of this examination, the examiner made one reclassification in the financial statement section of this report. I recommend the Plan incorporate the reclassification in the next quarterly statement pursuant to the provisions of ORS 731.574.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Physical Address of Invested Assets

The Plan's bonds and cash comprise 100% of total admitted assets. The invested assets, by amount, are held at the following locations:

Cash

U.S. National Bank of Oregon Roseburg Branch 619 SE Main Street Roseburg, OR 97470	\$69,941
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Bonds

Deposit with the State of Oregon US National Bank of Oregon Investment Division PO Box 4412 Portland, OR 97208	53,645
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U.S. National Bank of Oregon	<u>51,117</u>
Investment Division	
PO Box 4412	
Portland, OR 97208	
Total Invested Assets	<u>\$174,703</u>

Note 2 - Claims Unpaid and Claims Unpaid Adjustment Expenses

Unpaid claims in the amount of \$22,454 and unpaid claims adjustment expenses in the amount of \$751 was determined to be adequate by the examiner.

Note 3 - Administrative Expenses

Balance reported by the Plan	\$39,290
Examination reclassification	<u>10,869</u>
Examined balance	<u>\$50,159</u>

It was noted during the examination that the Plan had capitalized its organizational costs in the amount of \$13,191, which it reported as a nonadmitted asset. This nonadmitted asset was amortized over a period of 60 months. This transaction is reported as follows:

Nonadmitted organizational cost incurred in 1994	\$13,191
Amortization for 1995	<u>(2,322)</u>
Nonadmitted organizational cost incurred reported in 1995	<u>\$10,869</u>

In accordance with the provisions of ORS 733.210 and statutory accounting principal (see- Property-Liability Insurance Accounting and Finance book published by American Institute For Property and Liability Underwriters - 1990 addition - chapter 18) organizational costs should be treated as period expenses when these costs are incurred. As a result, the residual balance of this nonadmitted asset has been written-off to the reserves and unassigned funds as follows:

Dr. Administrative expenses	\$10,869 (1)
Dr. Change in nonadmitted assets (amortization)	2,322 (2)
Cr. Aggregate write-ins for changes to reserves & unassigned funds	\$13,191 (3)

1. Page 4, line 3a of the 1995 annual statement
2. Page 4, line 18 of the 1995 annual statement
3. Page 4, line 19 of the 1995 annual statement

This reclassification has no impact on the reserves and unassigned funds reported in the 1995 annual statement.

Note 4 - Change in the Nonadmitted Asset

Balance reported by the Plan	\$2,322
Examination reclassification	<u>(2,322)</u>
Examined balance	<u>\$ 0</u>

See note 3 for more details.

Note 5 - Aggregate Write-ins for Changes to Reserves and Unassigned Funds

Balance reported by the Plan	\$59,648
Examination reclassification	<u>13,191</u>
Examined balance	<u>\$72,839</u>

See note 3 for more details.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following are issues and concerns the examiner believes should be brought to management's attention as a result of this examination.

Page

- 9 I recommend the Plan take the necessary steps to immediately hire or train key management personnel with sufficient qualifications and insurance Plan managerial experience pursuant to the provisions of ORS 731.386(1).
- 11 I recommend future Board of Directors minutes be written to reflect the transactions and action taken by the Board and hereafter comply with the provisions of ORS 733.730.
- 12 I recommend the Plan comply with the provisions of ORS 731.302(1) and NAIC Examiners Handbook (Section 3 -Procedure for each account - page 3-1, item 7) by adequately protecting itself against the losses from "Forgery or Alteration," "Theft, Disappearance & Destruction" and "Robbery and Safe Burglary."
- 14 I recommend in the future the Plan maintain compliance with the provisions of ORS 732.551 and OAR 836-27-010 by properly filing a complete holding Plan registration on or before the due date.
- 15 I recommend the Plan use only forms that are filed and approved pursuant to the provisions of ORS 743.003.

Page

- 16 I recommend the Plan comply with the provisions of ORS 746.230(1), OAR 836-80-225(4) and OAR 836-80-225(1) by acknowledging or paying all claims within 20 working days and comply with the provisions of ORS 746.230(1)(e), (f), & (L), OAR 836-80-235(1), and OAR 836-80-225(1) by resolving all claims in a timely manner.
- 16 I recommend the Plan comply with the provisions of OAR 836-80-235 (3) by sending a delay letter to the insured if a claim is delayed for more than 20 business days.
- 16 I recommend a target market conduct be done on the claims at a later date.
- 17 I recommend the Plan report stale dated checks as an annual statement liability, "amounts withheld or retained for account of others," in accordance with the provisions of ORS 733.030.
- 17 I recommend the Plan comply with the provisions of OAR 141-45-041(5) by filing "Form 1A" with Division of State Lands and maintain such compliance at all times in the future.
- 18 I recommend the Plan comply with the provisions of ORS 731.260, 731.574, and OAR 836-13-000 by filing complete and accurate statements in accordance with the instructions provided by the NAIC and maintain such compliance at all times in the future.
- 18 I recommend the Plan properly accrue expenses at all times and hereafter comply with the provisions of ORS 733.030.
- 21 I recommend the Plan incorporate the reclassification in the next quarterly statement pursuant to the provisions of ORS 731.574.
- 25 I recommend the Plan submit this business plan to the Insurance Division for review and comment as soon as its available to avoid being in violation with the provisions of ORS 731.385.

CONCLUSION

As noted earlier, at December 31, 1995, the Plan had reserves and unassigned funds in the amount of \$139,322. The loss ratio (including loss adjustment expenses) for 1995 was 80.67%. However the total incurred administrative expenses for 1995 were \$39,290, which resulted in an underwriting loss of (\$17,650). Most of the administrative expenses were due to costs incurred for legal services, independent CPA audits and actuarial services. The net loss for the year was (\$22,100).

Subsequent to the year end, at June 30, 1996, the quarterly filed financial statement reflected the following:

Reserves and unassigned funds	\$126,733
Loss ratio (including loss adjustment expenses)	82.54%
Administrative expenses	37,760
Net underwriting loss	(\$16,884)
Net loss	(\$18,669)

The above numbers were compiled from the Plan's June 30, 1996 filed quarterly statement and these numbers have not been examined.

The above analysis shows that the Plan needs an increased volume of business to keep its operating expenses per unit within the levels supportable by current products. The Plan must decide whether it wants to focus on a mode in which expenses are minimized or move to a plan to substantially increase its business. Because of the risks and costs of any such expansion program, a carefully analyzed business plan should be completed before it is undertaken. The examiner is aware that the Plan is in the course of developing such a business plan. I recommend the Plan submit this business plan to the Insurance Division for review and comment as soon as its available to avoid being in violation with the provisions of ORS 731.385.

ACKNOWLEDGMENT

The cooperation and assistance extended by the contract officers and employees of the Plan during the examination process are gratefully acknowledged.

In addition to the undersigned, Michael P. Phillips, CPA, CFE, insurance examiner, and Jann Goodpaster, CPCU, CIE, supervising insurance examiner for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

Neeraj Gupta, CFE
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Neeraj Gupta, being duly sworn, deposes and says that the foregoing report of examination as of December 31, 1995, of RDS Dental Plan, Inc., Roseburg, Oregon, subscribed by him is true to the best of his knowledge and belief.

Neeraj Gupta, CFE
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn before me this _____ day of _____, 1996.

Notary Public in and for the State of Oregon