

**REPORT ON EXAMINATION**  
**OF**  
**DELTA DENTAL OF DELAWARE, INC.**  
**AS OF**  
**DECEMBER 31, 2019**

Office of the  
Commissioner



Delaware  
Department of Insurance

REPORT ON EXAMINATION  
OF  
DELTA DENTAL OF DELAWARE, INC.  
AS OF  
DECEMBER 31, 2019

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 blue ink that reads "Trinidad Navarro".

Trinidad Navarro  
Insurance Commissioner

Dated this 28 day of June, 2021

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May 27, 2021

Honorable Trinidad Navarro  
Commissioner of Insurance  
Delaware Department of Insurance  
1351 West North Street  
Suite 101  
Dover, Delaware 19904-2465

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Examination Authority No. 20.025, dated March 26, 2020, an examination has been made of the affairs, financial condition and management of

**DELTA DENTAL OF DELAWARE, INC.**

hereinafter referred to as the Company or DDD. The Company was incorporated under the laws of the State of Delaware as a non-stock company with its registered office located at 203 NE Front Street, Suite 101, Milford, Delaware. Due to the COVID-19 Pandemic, the examination was conducted offsite. The administrative office of the Company is located at One Delta Drive, Mechanicsburg, Pennsylvania. The report of examination thereon is respectfully submitted.

**SCOPE OF EXAMINATION**

We have performed our multi-state examination of DDD. The last examination was conducted as of December 31, 2015 by the Delaware Department of Insurance (Department). This examination covered the period of January 1, 2016 through December 31, 2019. Our examination was performed as part of the multi-state coordinated examination of the Dentegra Group of

Delta Dental of Delaware, Inc.

regulated entities wherein Delaware is the lead state. The examination was conducted concurrently with that of the Company's following affiliated companies:

Delta Dental Sub-group

<u>NAIC No.</u>	<u>Name</u>	<u>Domicile</u>
81396	Delta Dental Insurance Co (DDIC)	DE
11132	Delta Dental of Delaware Inc. (DDD)	DE
73474	Dentegra Insurance Co (DIC)	DE
55263	Delta Dental of New York (DDNY)	NY
54798	Delta Dental of Pennsylvania (DDP)	PA
12329	Delta Dental of West Virginia (DDWV)	WV
12210	Dentegra Insurance Co of New England (DICNE)	MA

Alpha Sub-Group

95366	Alpha Dental of Arizona Inc. (ADAZ)	AZ
47092	Alpha Dental of New Mexico Inc. (ADNM)	NM
11174	Alpha Dental of Utah Inc. (ADUT)	UT
95163	Alpha Dental Programs Inc. (ADP)	TX

To the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

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 Code and Regulations of the State of Delaware. The NAIC 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. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The 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 following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Laws of the State of Delaware as required by 18 *Del. C.* §321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Armanino LLP (Armanino). Certain auditor work papers of the 2019 Armanino audit of the Company 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 risk mitigation and substantive testing.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings or material changes in financial statements as a result of this examination.

## **COMPANY HISTORY**

The Company is a non-profit dental service corporation subject to 18 *Del. C.* Ch. 38 ‘Dental Plan Organization Act’ of the Delaware Insurance Code and is a tax-exempt corporation under Section 501(c)(4) of the Internal Revenue Code. The Company was originally organized as a non-stock corporation under the laws of the State of Delaware on October 24, 2004, by representatives of DDP, for the particular purpose of merging the existing wholly owned corporation of the same name but being domiciled in Pennsylvania, (DDD Pennsylvania). The Company received Certificate of Authority No. 111 as a domestic dental plan organization from the Department on October 24, 2004. Effective November 15, 2004, DDD Pennsylvania, was merged into the Delaware domiciled Company, which became the surviving corporation. As the surviving corporation in the merger, the Company assumed all the assets, liabilities and other obligations of DDD Pennsylvania, which subsequently dissolved.

### **Dividends**

The Company’s Board of Directors (Board) did not approve or authorize any dividends during the exam period.

## **MANAGEMENT AND CONTROL**

### **Directors**

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company’s Certificate of Incorporation and bylaws, the property and affairs of the Company must be managed by or under the direction of its Board. The Board shall consist of not less than three (3) and no more than thirteen (13) directors, all of whom shall be citizens of the United States. Any person elected as a director, except to fill an unexpired term of a predecessor, shall serve for

a period of one (1) year, or until a successor is elected. Further, the number of Directors who are not dentists must exceed the number of Directors who are dentists by at least one.

Directors duly elected and serving as of December 31, 2019, were as follows:

<u>Name</u>	<u>Company Title</u>
Peter Harry Drake DDS	
Kevin Lee Jackson	Chair
Jeanne Marie Foster	Treasurer
Marty Ann Sheetz	

### Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a Chair, a Secretary and Treasurer all of whom shall be elected annually by the Board at the annual meeting of the Board and shall hold office for a period of one year or until their successors are elected. The primary officers serving as of December 31, 2019 were as follows:

<u>Name</u>	<u>Title</u>
Kevin Lee Jackson	Chair
Jeanne Marie Foster	Treasurer
Ashley Christina Singer	Secretary

### Board Committees

The Company's amended and restated bylaws provide that the Board shall have an Executive Committee and such other Standing Committees as the Board shall designate. The Executive Committee shall consist of not less than two (2) or more than three (3) members of the Board, one of whom shall be the Chair of the Board. The Executive Committee shall have and may exercise the powers of the Board when the Board is not in session.



As of December 31, 2019, the Board had designated the following committee:

Executive Committee

Kevin L. Jackson, Chair  
Ashley C. Singer, Secretary  
Jeanne M. Foster, Treasurer

To provide the audit-related oversight duties as are required by federal and Delaware State law, the company utilizes the Audit Committee as designated by the DDP Board. Its members as of December 31, 2019 were as follows:

Audit Committee

Glen F. Bergert, Chair  
Joseph P. Beck, Jr.  
Eugene F. Carter, Jr.

The Company utilizes the DDP Finance Committee to perform financial oversight and governance duties on its behalf. Its members as of December 31, 2019 were as follows:

Finance Committee

Joseph P. Beck, Jr., Chair  
Eugene F. Carter, Jr.  
Glen F. Bergert

Corporate Records

The recorded minutes of the shareholders and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events including approval of investment transactions in accordance with 18 *Del. C.* §1304. In addition, review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* §4919.

Insurance Holding Company System

The Company is associated with an insurance holding company system known as Dentegra as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code. Delta Dental of California

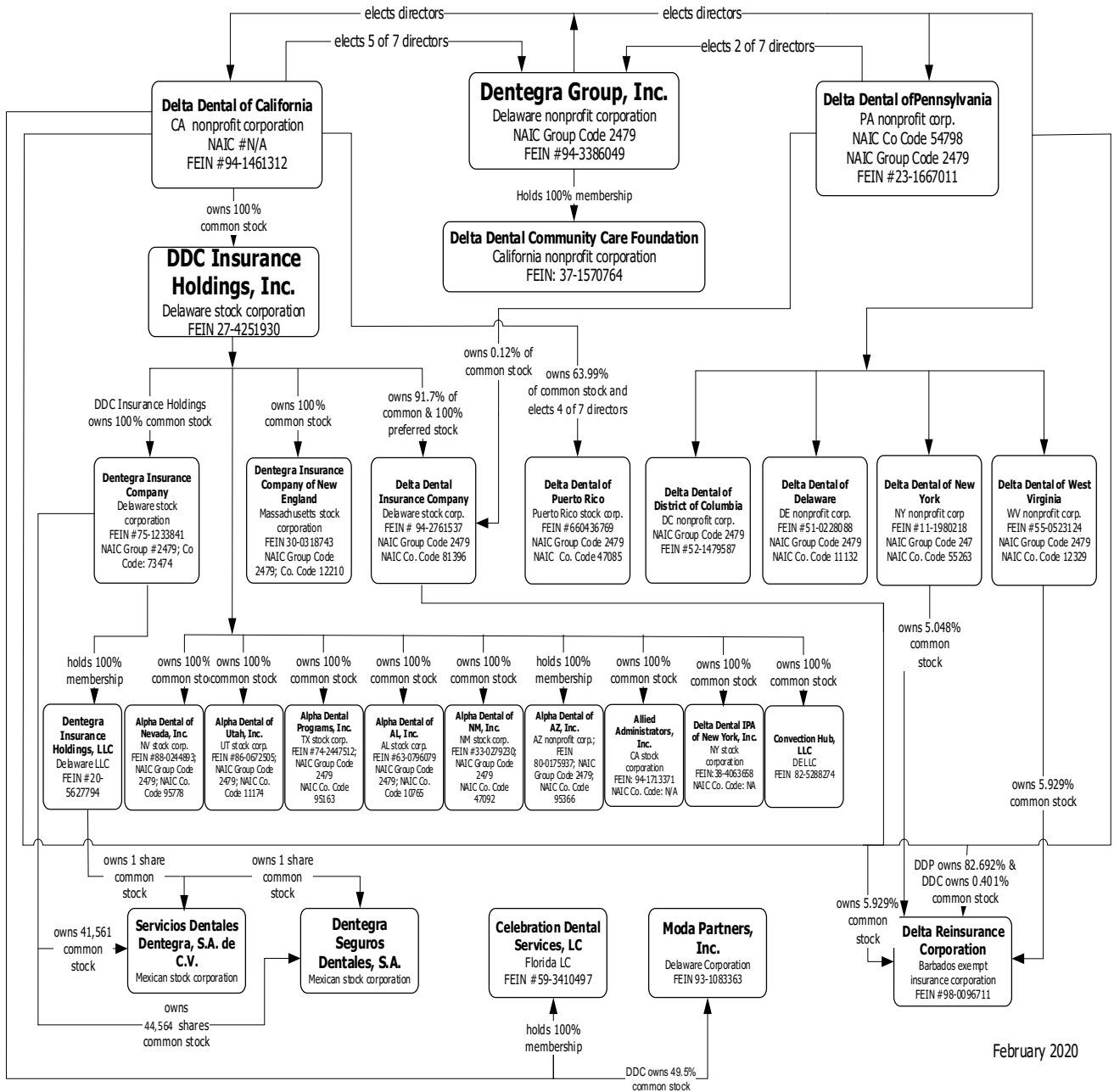
Delta Dental of Delaware, Inc.

(DDC) operates as the ultimate controlling entity. Dentegra is bifurcated into two (2) parent companies, DDC and DDP. DDC and DDP, operating as non-profit companies, combine their resources in an effort to eliminate duplication in the areas of market development and technology, to share best practices, develop economies of scale, increase competitiveness on a national scale and to bring new services to its subscribers, clients and partner dentists.

Certain companies within the holding company system are members of the Delta Dental Plans Association (DDPA). DDPA is a nationwide association of independently-operated dental health service plans which have a key feature of offering subscribers access to the national provider networks under the Delta USA program and access to the local provider networks maintained by Dentegra.

The following organizational chart reflects the identities and interrelationships between the entities with the holding company group:

### Insurance Holding Company System of Delta Dental of California



February 2020

### Agreements with Affiliates

As of December 31, 2019, the Company was party to the following affiliated agreements, which were disclosed in the annual Form B filings with the Department:

#### *Amended and Restated General Agency Agreement*

Effective January 1, 2006, the Company entered into an Amended and Restated General Agency Agreement with DDP and DDIC, whereby the Company will act as a general agent for DDIC in Delaware and DDP provides management services to the Company and DIC.

#### *Guarantee Agreement*

Effective December 3, 1999, the Company executed a Guarantee Agreement with DDP whereby DDP unconditionally guarantees the punctual payment of all contractual policyholder's obligations of the Company. In addition, DDP unconditionally guarantees that it will, by means of surplus or subordinated loans, infuse capital into the Company in an amount necessary to bring the Company's unencumbered surplus up to the amount needed to exceed 125% of the "Company Action Level" under the Risk Based Capital calculation for health insurers.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2019, the Company was licensed to transact business solely in the State of Delaware. In 2019, the Company had direct premiums written of \$39,434,344. The Company is authorized as a non-profit corporation to transact business as a Dental Plan Organization as defined in 18 *Del. C.* §3802(3) "Dental plan organization."

#### Plan of Operation

The Company, a non-profit dental service corporation, administers dental care programs under agreements with various subscriber groups and/or clients in the State of Delaware. These dental care programs are offered through their affiliation with the DDPA. The Company provides

cost-effective dental benefits from local programs, such as managed fee-for-service and Preferred-Provider Programs (PPO), as well as customized programs, such as Delta Dental Premier® and Delta Dental PPO.

### Distribution System

The Company's sales distribution system involves three (3) key channels: direct sales to purchasers; coordination of sales to purchasers through independent brokers, consultants and general agents and sales to purchasers through co-marketing arrangements with other carriers.

### REINSURANCE

The Company reported the following distribution of premiums written for the years ended December 31, 2019 and the prior examination date of December 31, 2014 as follows:

	<u>2019</u>	<u>2015</u>
Direct	\$ 39,434,344	\$ 32,911,014
Reinsurance assumed	<u>-</u>	<u>-</u>
Total direct and assumed	\$ 39,434,344	\$ 32,911,014
Reinsurance ceded (to affiliates)	<u>29,984,889</u>	<u>25,544,481</u>
Net Premiums Written	<u>\$ 9,449,455</u>	<u>\$ 7,366,533</u>

### Ceded Reinsurance

During the examination period, the Company maintained a 90% quota share reinsurance agreement with affiliate Delta Reinsurance Corporation (DRC), a Barbados reinsurance corporation. Under this agreement, effective January 1, 1987, DRC reinsures ninety percent (90%) of the dental contract risks under the Delta Dental Premier® and Delta Dental PPO dental service contracts sold or renewed by the Company. In 2019, the Company ceded approximately \$29.9 million of premium to DRC, with recoverables and other debits from DRC totaling approximately \$4.8 million. As of December 31, 2019,

Delta Dental of Delaware, Inc.

under this agreement, funds withheld and other credits from DRC totaled approximately \$6.0 million.

### **FINANCIAL STATEMENTS**

The following financial statements, as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets as of December 31, 2019
- Statement of Liabilities, Capital and Surplus as of December 31, 2019
- Statement of Income for the year ended December 31, 2019
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2015 to December 31, 2019

**Statement of Assets**  
**As of December 31, 2019**

	Assets	Non Admitted Assets	Net Admitted Assets
Bonds	\$ 4,142,519	\$ 249,120	\$ 3,893,399
Cash	1,935,725		1,935,725
Subtotals, cash and invested assets	<u>\$ 6,078,244</u>	<u>\$ 249,120</u>	<u>\$ 5,829,124</u>
Investment income due and accrued	27,986		27,986
Uncollected premiums and agents' balances in the course of collection	463,522	29,674	433,848
Amounts recoverable from reinsurers	1,969,775		1,969,775
Other amounts receivable under reinsurance companies	1,537,940		1,537,940
Amounts receivable relating to uninsured plans	905,725		905,725
Receivable from parent, subsidiaries and affiliates	35,208		35,208
Aggregate Write-ins for other than invested assets	9,876	9,876	
Totals	<u><u>\$ 11,028,276</u></u>	<u><u>\$ 288,670</u></u>	<u><u>\$ 10,739,606</u></u>

**Statement of Liabilities, Capital and Surplus  
As of December 31, 2019**

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>	<u>Notes</u>
Claims unpaid (less \$1,315,800 reinsurance ceded)	\$ 174,200		\$ 174,200	1
Unpaid Claims adjustment expenses	42,000		42,000	1
Premiums received in advance	122,991		122,991	
General Expenses due or accrued	441,707		441,707	
Ceded reinsurance premium payable	2,591,756		2,591,756	
Payable to parent, subsidiaries, and affiliates	138,075		138,075	
Funds held under reinsurance treaties (\$3,469,700 unauthorized)	3,469,700		3,469,700	
Liabilities for amounts held under uninsured plans	88,723		88,723	
Aggregate write-ins for other liabilities	1,021		1,021	
Total liabilities	<u>\$7,070,173</u>	<u>\$ -</u>	<u>\$ 7,070,173</u>	
Aggregate write-ins for special surplus funds			\$ 59,551	
Common capital stock			-	
Gross paid in and contributed surplus			-	
Unassigned funds (surplus)			3,609,882	
Surplus as regards policyholders			<u>\$ 3,669,433</u>	
Totals			<u><u>\$10,739,606</u></u>	



**Statement of Income**  
**For the Year Ended December 31, 2019**

	Uncovered	Total
Member Months		1,204,653
Net premium income		\$ 9,449,455
Change in Unearned premium reserves for rate credits		(25,963)
Total Revenues		\$ 9,423,492
<b>Hospital and Medical:</b>		
Hospital/medical benefits		32,878,561
Subtotal		\$ 32,878,561
<b>Less:</b>		
Net reinsurance recoveries		29,087,028
Total Hospital and Medical		\$ 3,791,533
Claims adjustment expenses, including \$282,175 cost containment expenses		2,366,166
General administrative expenses		2,750,046
Total underwriting deductions		\$ 8,907,745
Net underwriting gain or (loss)		\$ 515,747
Net investment income earned		120,849
Net realized capital gains (losses) less capital gains tax (0)		152
Net investment gains (losses)		\$ 121,001
Net gain or (loss) from agents or premiums balances charged off		(7,075)
Aggregate write-ins for other income or expenses		(35,172)
Net income or loss after capital gains tax and before all other federal income taxes		\$ 594,501
Federal and foreign income taxes incurred		-
Net income		\$ 594,501
<b>Capital and Surplus Account</b>		
Capital and surplus prior reporting period		\$ 3,349,039
Net Income		594,501
Change in non admitted assets		(274,107)
Net change in capital and surplus		\$ 320,394
Capital and surplus end of reporting period		\$ 3,669,433

**Reconciliation of Capital and Surplus  
For the Period from the Prior Examination  
As of December 31, 2014 to December 31, 2019**

	Common Stock	Special Surplus Funds	Gross Paid In Capital	Unassigned surplus	Total
Opening Balance					
1/1/2016	\$ -	\$ 37,904		\$ 1,866,370	\$ 1,904,274
2016 (1)				434,876	434,876
2016 (2)		(37,904)		37,904	-
2017 (1)				527,130	527,130
2017 (2)		39,338		(39,338)	-
2018 (1)				482,759	482,759
2018 (2)		(39,338)		39,338	-
2019 (1)				320,394	320,394
2019 (2)		59,551		(59,551)	-
Ending Balance	<u>\$ -</u>	<u>\$ 59,551</u>	<u>\$ -</u>	<u>\$ 3,609,882</u>	<u>\$ 3,669,433</u>

- (1) Change in non admitted assets - net income, Change in unrealized gain (loss), Change in net deferred tax and Change in unauthorized reinsurance  
(2) Change in special surplus for ACA.

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE  
EXAMINATION**

There were no changes made to the financial statements as a result of this examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

Note 1:

Losses	\$ 174,200
Loss Adjustment Expenses	\$ 42,000

The examination liability for the aforementioned captioned items of \$174,200 and \$42,000 are the same as reported by the Company as of December 31, 2019. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with Generally Accepted Actuarial Principles and Statutory Accounting Principles, including NAIC *Accounting*

*Practices and Procedures Manual*, Statement of Statutory Accounting Principles No. 55 (SSAP No. 55).

### **SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic and national, state and local governments have implemented a range of policies and actions to combat it. The extent of the impact of COVID-19 on world economies and the Company will depend on future developments, which are highly uncertain and difficult to predict, including the severity and duration of the pandemic and the actions taken by government authorities and other third parties to contain or address its impact. Various government officials, including U.S. state insurance commissioners, have taken actions to protect consumers from hardship caused by COVID-19 that, in the aggregate, may adversely impact the Company's results of operations in the near term. While it is likely that certain lines of business may experience increased loss activity due to COVID-19, there are also segments in which the Company operates that may benefit from improved loss experience due to reduced exposures. Company management will continue to monitor developments, and their impacts on the Company including its operations, capital position (including the risk-based capital ratio), the fair value of investments and estimates reported in the financial statements and accompanying notes.

At the date of this report, the extent and severity of the COVID-19 pandemic is not yet fully clarified by the Company. The Company does not expect a material adverse effect on any specific lines of business or products and the Company was fully operational and was providing services to its members.

The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position and continues to closely monitor any impact on the Company and will take necessary action if a solvency concern arises.

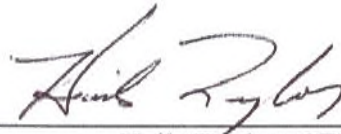
There were no other material subsequent events noted.

**SUMMARY OF RECOMMENDATIONS**

There were no recommendations as a result of this examination.

The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the Company's outside audit firm, Armanino, and the Company's management and staff is appreciated and acknowledged.

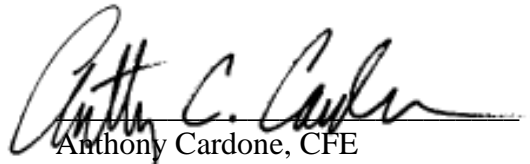
Respectfully submitted,



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Hails Taylor, CFE

Examiner In-Charge  
State of Delaware



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Anthony Cardone, CFE  
Supervising Examiner  
State of Delaware

Delta Dental of Delaware, Inc.

I, Hails Taylor, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 20.025.

A handwritten signature in black ink, appearing to read "Hails Taylor", is written above a horizontal line.

Hails Taylor, CFE