

**PROCEEDINGS BEFORE MICHAEL D. RIELY  
ACTING INSURANCE COMMISSIONER  
OF THE STATE OF WEST VIRGINIA**

**IN RE: DELTA DENTAL OF WEST VIRGINIA**

**Administrative Proceeding No.: 12-AP-FINCON-02001**

**AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION  
AND DIRECTING ACTION**

COMES NOW Michael D. Riley, Acting Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the REPORT OF FINANCIAL EXAMINATION as of December 31, 2009, of WEST VIRGINIA INSURANCE COMPANY (hereinafter referred to as "Company") based upon the following findings, to wit:

**JURISDICTION**

1. Michael D. Riley is the Acting Insurance Commissioner of the State of West Virginia (hereinafter the "Insurance Commissioner") and is charged with the duty of administering and enforcing the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.

2. The Company was incorporated on June 15, 1962 and authorized by the Insurance Commissioner to transact business in the State of West Virginia as permitted and authorized under Chapter 33, Article 24 of the West Virginia Code.

## **FINDINGS OF FACT**

1. An examination of the financial condition and operational affairs of the Company for period beginning January 1, 2005 and ending December 31, 2009, was conducted in accordance with West Virginia Code §33-2-9(c) by the Insurance Commissioner.

2. On December 9, 2011, the examiner filed a REPORT OF FINANCIAL EXAMINATION with the Insurance Commissioner pursuant to W.Va. Code § 33-2-9(j)(2). A copy of the REPORT OF FINANCIAL EXAMINATION is attached hereto as Exhibit A and incorporated herein as if set forth in full.

3. On or about December 20, 2011, a true and accurate copy of the REPORT OF FINANCIAL EXAMINATION was forwarded to the Company by certified mail, return receipt requested. On December 20, 2011, the Company received a copy of the REPORT OF FINANCIAL EXAMINATION.

4. Pursuant to W.Va. Code § 33-2-9(j)(2), the Company was notified and afforded a period of thirty (30) days after receipt of the REPORT OF FINANCIAL EXAMINATION within which to make a submission, rebuttal, or objection concerning any matter contained in the REPORT OF FINANCIAL EXAMINATION.

5. By letter dated January 24, 2012, management of the Company indicated that they had reviewed the REPORT OF FINANCIAL EXAMINATION

and concurred with the findings of the examination. A copy of the Company's response letter of January 24, 2011, is attached hereto as Exhibit B.

### **CONCLUSIONS OF LAW**

W.Va. Code § 33-2-9(j)(3)(A) provides that following a review of the REPORT OF FINANCIAL EXAMINATION, the examination work papers, and any written submission, rebuttal, or objection the Insurance Commissioner shall enter an ORDER adopting the REPORT OF FINANCIAL EXAMINATION as filed or with modifications or corrections.

### **ORDER**

It is therefore AGREED by the Parties and ORDERED the following:

1. It is **ORDERED** that the REPORT OF FINANCIAL EXAMINATION of DELTA DENTAL OF WEST VIRGINIA attached hereto as Exhibit A, is hereby ADOPTED and APPROVED by the Insurance Commissioner.

2. It is further **ORDERED** that a copy of this AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION AND DIRECTING ACTION and the adopted REPORT OF FINANCIAL EXAMINATION shall be mailed to DELTA DENTAL OF WEST VIRGINIA by certified mail, return receipt requested upon entry of this Order by the Insurance Commissioner.

3. It is **ORDERED** that DELTA DENTAL OF WEST VIRGINIA shall file with the Insurance Commissioner, within thirty (30) days of the issuance of this ORDER, affidavits executed by each of its directors stating under oath that they have received a copy of the adopted REPORT OF FINANCIAL

EXAMINATION and a copy of this AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION and DIRECTING ACTION, in accordance with W.Va. Code § 33-2-9(j)(4).

4. It is **ORDERED** that DELTA DENTAL OF WEST VIRGINIA take whatever actions are required to comply with the recommendations set forth in the REPORT OF FINANCIAL EXAMINATION and shall demonstrate compliance to the satisfaction of the Insurance Commissioner.

5. That DELTA DENTAL OF WEST VIRGINIA waives any right to any notice, administrative hearing or appeal there from for the actions taken by the Insurance Commissioner herein this Agreed Order Adopting Report of Financial Examination and Directing Action. DELTA DENTAL OF WEST VIRGINIA reserves herein its rights to notice, administrative hearing or appeal for any future enforcement actions taken by the Commissioner that might result from this Agreed Order, if any.

6. It is finally **ORDERED** that this administrative matter be hereby dismissed from the administrative docket of the Insurance Commissioner.

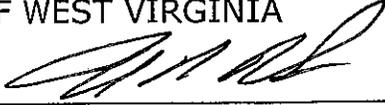
Entered this 13<sup>th</sup> day of February, 2012.



Michael D. Riley  
Acting Insurance Commissioner

THE PARTIES DO SO AGREE:

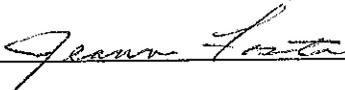
OFFICES OF THE INSURANCE COMMISSIONER  
STATE OF WEST VIRGINIA

By:   
Andrew R. Pauley, Associate Counsel  
Attorney Supervisor, APIR

2/10/12  
Date

DELTA DENTAL OF WEST VIRGINIA

BY: Jeanne M. Foster  
[Print Name]

Signed: 

Its: Vice President, Finance

Dated: February 8, 2012

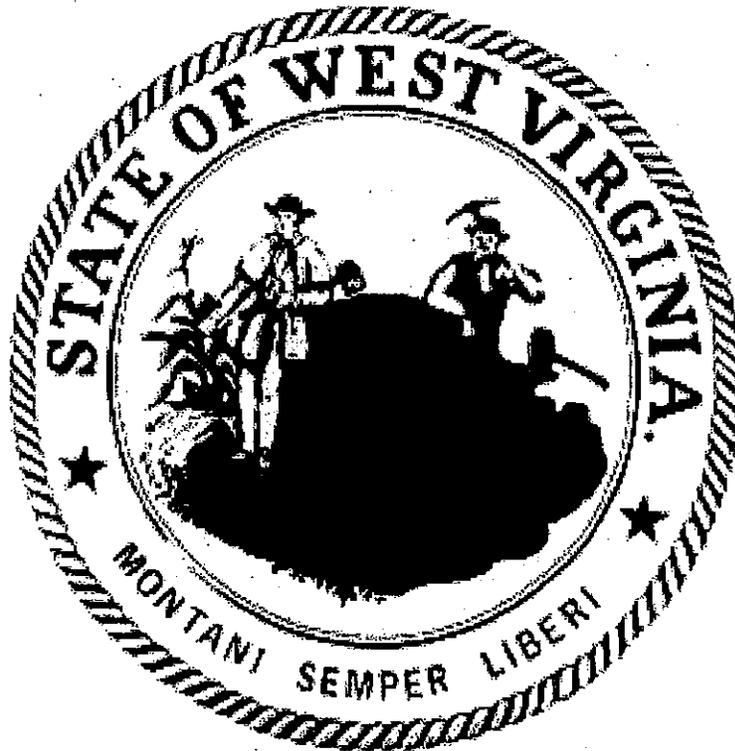
**REPORT OF FINANCIAL EXAMINATION**

OF

**DELTA DENTAL PLAN OF  
WEST VIRGINIA, INC.**

AS OF

DECEMBER 31, 2009.



EXHIBIT

A

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December 1, 2011

Honorable Michael D. Riley  
West Virginia Insurance Commissioner  
1124 Smith Street, 4<sup>th</sup> Floor  
Charleston, West Virginia 25301

Dear Commissioner:

Pursuant to the authority vested in the West Virginia Offices of the Insurance Commissioner, an examination has been made of the affairs and financial condition of:

**DELTA DENTAL PLAN OF WEST VIRGINIA, INC.**  
**One Delta Drive**  
**Mechanicsburg, Pennsylvania**

Delta Dental Plan of West Virginia, Inc. hereinafter referred to as "the Company" or "DDWV", is a domestic tax-exempt non-profit dental service corporation incorporated pursuant to the provisions of Article 24, Chapter 33 of the West Virginia Code. The financial examination was conducted at the Company's home office in Mechanicsburg, Pennsylvania, and remotely at the West Virginia Offices of the Insurance Commissioner.

The Report of Financial Examination, reflecting the status of the Company as of December 31, 2009, is hereby submitted.

## SCOPE OF FINANCIAL EXAMINATION

Delta Dental Plan of West Virginia, Inc. ("Company" or "DDWV") is a West Virginia domestic tax-exempt non-profit dental service corporation incorporated June 15, 1962, pursuant to the provisions of Article 24 Chapter 33 of the West Virginia Code. Pursuant to this statute the Company is subject to regulation by the West Virginia Offices of the Insurance Commissioner ("WVOIC"). The Company is authorized to provide dental services to West Virginia residents and groups. Dental services are provided through the Company's contracted network of West Virginia licensed dentists.

A single-state examination was conducted by representatives of the WVOIC and covered the exam period from January 1, 2005, through December 31, 2009. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted pursuant to the instruction, procedures and guidelines prescribed by the WVOIC and in accordance with the National Association of Insurance Commissioners' ("NAIC") Financial Examiners Handbook ("Handbook"). The Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company including corporate governance, identifying and assessing inherent risks within the company and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to and required by West Virginia Code.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## SUMMARY OF SIGNIFICANT FINDINGS

Per examination DDWV invested in shares of DRC common stock prior to and throughout the exam period. Prior to the exam period DDWV held five shares of DRC common stock and consistently reported the investment at cost value in the annual statutory financial statements. During the exam period DDWV increased its investment in DRC common stock and as of December 31, 2009 held seventy-four shares. Per examination there appear to be various areas of non-compliance with statutory investment provisions of West Virginia Code as relates to DDWV's investment in DRC common stock:

It appears that by reporting the value of DRC common stock at cost DDWV understated the value required to be reported by West Virginia Code § 33-7-11 (c) and West Virginia Code § 33-8-7 (see Note 1);

It appears that had the reported value of the DRC common stock not been understated, DDWV's investment would not comply with the West Virginia Code § 33-8-10 (a) statutory limitation to not invest more than three percent of admitted assets in investments of all kinds issued, assumed, accepted, insured or guaranteed by a single person;

It appears that had the reported value of the DRC common stock not been understated, DDWV's investment would not comply with the West Virginia Code § 33-8-17 statutory limitation to not invest more than three percent of admitted assets in an investment as to a foreign jurisdiction that has a NAIC Securities Valuation Office ("SVO") sovereign debt rating of less than NAIC 1; and,

It appears that had the reported value of the DRC common stock not been understated, DDWV would have been required to report the value of DRC common stock exceeding the statutory investment limitations of West Virginia Code § 33-8-10 (a) and West Virginia Code § 33-8-17 as non-admitted assets and as deductions from gross assets (assets not allowed) in compliance with West Virginia Code § 33-7-4.

Other examination findings not directly related to DDWV's investment in DRC common stock:

Per examination it appears that the reinsurance treaty whereby DDWV cedes to affiliated reinsurer Delta Reinsurance Corporation ("DRC") ninety percent (90%) of all premium and claims does not include a clause indicating the agreement constitutes the entire contract between the parties in compliance with West Virginia Code § 33-4-15 (g);

Per examination it appears that DDWV did not file a reconciliation and summary of its assets and reserve requirements as required by West Virginia Code § 33-8-22 (c) for exam years 2006, 2007, 2008 and 2009;

Per examination it appears that DDWV did not obtain and file an Awareness Letter from the current CPA firm of Armanino McKenna, LLP ("AMLLP") in compliance with West Virginia Code § 33-33-5 (b); and,

Per examination it appears that AMLLP would not be considered a "qualified independent certified public accountant for purposes of performing the annual audited financial report" in compliance with West Virginia Code § 33-33-6 due to inclusion of indemnity language in the AMLLP audit engagement letter.

### COMPANY HISTORY

Delta Dental of West Virginia, Inc. is a West Virginia domestic tax-exempt non-profit dental service corporation incorporated June 15, 1962.

DDWV is a member of the Delta Dental Plans Association which is a national association of dental service corporations. Delta Dental Plans Association members are provided various types of services and support including interplan administrative agreements, participation in national account contracts, national advertising, etc. In exchange for administrative fees DDWV may process claims of subscribers located in this state covered by dental services contracts issued by association members in other states.

Since November 1, 1987, DDWV has been contractually affiliated with Delta Dental of Pennsylvania ("DDP") and DDP affiliated companies by execution, termination and replacement of multiple management services agreements between the parties. Pursuant to the various management services agreements, DDWV has had no employees and all DDWV business operations have been administered by DDP since November 1, 1987.

Since 1999, DDP has extended a guarantee to maintain DDWV's unencumbered surplus at or above the amount needed to exceed 125% of the company action level under the NAIC risk based capital calculation for insurers writing a single line of health insurance.

The Company is contractually affiliated with DDP pursuant to a surplus note in the form of a subordinated loan agreement. WVOIC approved the loan agreement between the Company and DDP on April 11, 2005. Per the agreement the Company borrowed from DDP an amount of One Million Dollars (\$1,000,000) for the purpose of increasing surplus to an amount exceeding the West Virginia statutory minimum surplus requirement of Two Million Dollars (\$2,000,000). DDWV regained authorization to provide prepaid dental services in West Virginia upon meeting the statutory minimum surplus requirement in compliance with West Virginia Code § 33-3-5b.

Per DDWV bylaws adopted December 19, 2005, the directors of Dentegra Group, Inc. ("Dentegra") are the corporate members of the Company. Further pursuant to the bylaws DDWV corporate members (the Dentegra directors) elect the DDWV board of directors.

Dentegra is a Delaware domiciled taxable stock non-profit holding company. Dentegra members providing dental services operate in sixteen states, the District of Columbia, Puerto Rico and Mexico. Dentegra is one of the largest providers of dental benefits in the United States. Delta Dental of California ("DDC") and DDP are the primary dental services provider members of the Dentegra insurance holding company.

DDC is a nonprofit corporation organized and licensed under the laws of the State of California as a specialized health care service plan. DDP is a Pennsylvania domiciled nonprofit dental service plan company.

Ultimate control of DDWV lies with DDC. DDC elects five (5) of the seven (7) members of the Dentegra board of directors. DDP elects two (2) of the seven (7) members of the Dentegra board of directors.

Effective March 28, 2010, DDWV moved its principal administrative office location to DDP offices located at One Delta Drive, Mechanicsburg, PA. Prior notice was forwarded to WVOIC December 9, 2009. DDWV maintains a registered office in Charleston, WV.

### CORPORATE RECORDS

The Articles of Incorporation, Bylaws, and the recorded minutes of annual members meetings and Board of Directors and its Committees meetings were examined for statutory compliance and support. Other than any matters noted in the above Summary of Significant Findings section of this report, the Company appears to comply with all reviewed statutory requirements and to adhere with the provisions of its Articles of Incorporation and Bylaws.

## MANAGEMENT AND CONTROL

Examination indicates that administration of the company's affairs is currently under the direction of Gary Dennis Radine. Mr. Radine serves as President and CEO of the Company. Certain of the Company's Officers serve in equivalent capacities for DDP and other affiliated companies.

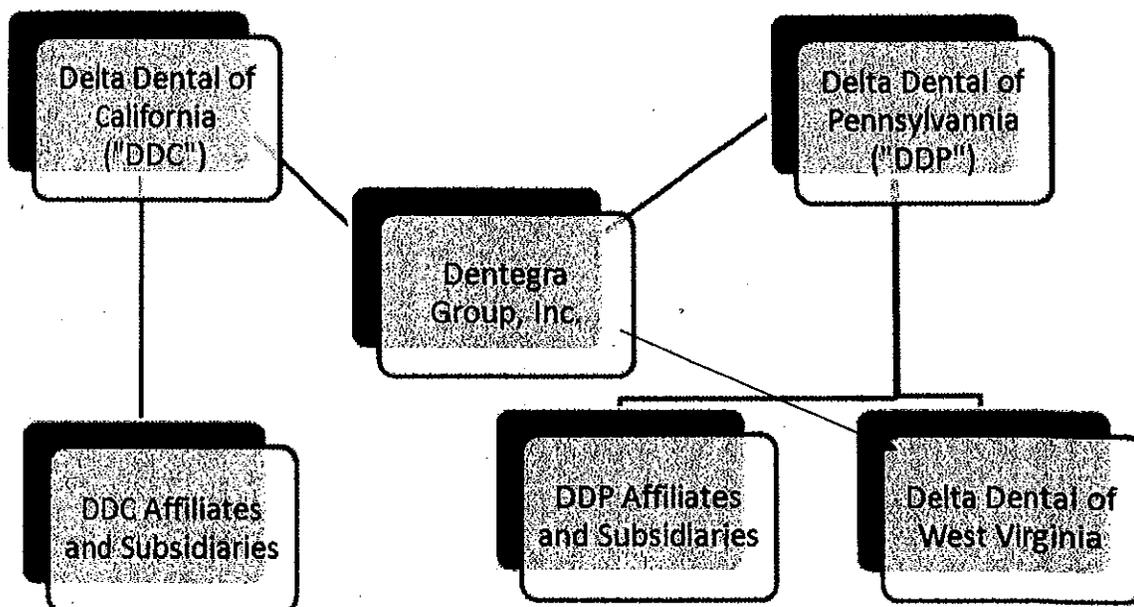
### Board of Directors

<u>Name and Address</u>	<u>Principal Occupation</u>
John Paul White, DDS Beckley, WV	Dentist - Retired Chairperson of the Board
James Sherrill Wilson, DDS Glen Dale, WV	Dentist Vice Chairperson
Kenneth Michael Perdue South Charleston, WV	Ex-President WVAFL-CIO Treasurer
Everette Eugene Sullivan Dunbar, WV	Retired Secretary
Paulina Elizabeth Diller Charleston, WV	Retired Director
Jesse Wade Samples Hurricane, WV	CEO - WV HCA Director
Ronald Neal Walters Charleston, WV	President - R. N. Walters & Associates (Insurance) Director

### Officers

<u>Name</u>	<u>Position</u>
Gary Dennis Radine	CEO, President
Kenneth Michael Perdue	Treasurer
Everette Eugene Sullivan	Secretary
Michael James Castro	Chief Financial Officer
Anthony Scott Barth	Sr. Vice President
Charles Lamont Esq.	Compliance Officer

### Organizational Chart



### Related Party Agreements

The Company is affiliated with Delta Dental Insurance Company ("DDIC"), pursuant to a dental administration agreement between DDWV, DDIC and DDP. The agreement was filed with WVOIC as a Form D holding company filing on September 23, 2005, and received WVOIC approval November 17, 2005.

Pursuant to the agreement DDP provides the following services to DDWV and/or DDIC: personnel; accounting and financial reporting; contract administration; individual, group and Administrative Service Contracts ("ASC") marketing; claims administration; provider professional relations; indemnification; premium collection and disbursement; and, ASC prefund collection and disbursement. With DDP acting as administrator, DDWV is responsible for marketing of ASC on behalf of DDIC in West Virginia. The agreement was executed with an effective date of January 1, 2006. This agreement super-ceded a prior agreement dated October 23, 1996. Payment for services with respect to DDWV insured (risk) contracts are based upon a percentage of premium received each month. The applicable percentage is applied on a sliding scale between seven and twenty-five point eight percentage points (7% to 25.8%) relevant to the size of the insured group. DDWV retains any underwriting surplus resulting from the insured

contracts issued. Risk and ASC administrative fees paid to DDP through December 31, 2009 and 2008 were \$1,515,326 and \$1,343,850, respectively.

On March 25, 2009, WVOIC approved a Form D holding company filing amending the above dental administration agreement between DDWV, DDIC and DDP.

Pursuant to the amendments DDWV provides funds for payment of DDIC ASC claims and records a receivable for these funds until payments are received from the clients. DDWV receives point two five percent (0.25%) of the DDIC ASC claims paid for use of its funds. Payment is due from DDP and is to be deducted from the fees DDP receives for administration of the DDIC ASC contracts. The parties executed the amended agreement with an effective date of January 1, 2009. DDWV retained \$22,595 through December 31, 2009.

DDWV reported it owns six point two four five percent (6.245%) of affiliated reinsurer Delta Reinsurance Corporation on Schedule D, Part 6, Section 1 of the 2009 filed annual financial statement. DRC reinsures on a quota share treaty basis ninety percent (90%) of all dental service contracts sold or renewed by DDWV. A complete description of the reinsurance arrangement is provided in the Reinsurance section of this report.

### **FIDELITY BOND AND OTHER INSURANCE**

Per examination the WVOIC examiner determined that pursuant to the various management services agreements, DDWV has had no employees and all DDWV business operations have been administered by DDP since November 1, 1987. WVOIC examiner relied upon Pennsylvania Department of Insurance ("PA DOI") review of DDP fidelity bond coverage. Per PA DOI review DDP held Ten Million Dollars (\$10,000,000) of fidelity bond insurance which covers DDP affiliated subsidiaries including DDWV.

### **EMPLOYEE WELFARE**

Pursuant to the various management services agreements, DDWV has had no employees and all DDWV business operations have been administered by DDP since November 1, 1987. DDWV has no direct liability for the benefit or welfare of DDP employees.

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

DDWV is licensed only in West Virginia. Since the last examination DDWV regained authorization to directly provide prepaid dental services in West Virginia upon meeting the statutory minimum surplus requirement in 2005. The Company provides dental services to West Virginia residents and groups. Dental services are provided through the Company's contracted network of West Virginia licensed dentists. With DDP acting as administrator, DDWV markets its products with licensed appointed agents. Additionally, with DDP acting as administrator, DDWV is responsible for marketing of ASC on behalf of DDIC in West Virginia.

## GROWTH OF COMPANY

The following exhibit depicts growth as reported by the Company for the exam period.

Year	Net Admitted Assets	Policyholder Surplus	Premium Revenue	Net Income
2005	\$ 3,084,617	\$ 2,145,434	*	\$ 3,776
2006	\$ 3,324,428	\$ 2,258,303	\$ 1,256,331	\$ 123,797
2007	\$ 3,561,058	\$ 2,183,024	\$ 2,541,353	\$ 236,456
2008	\$ 4,091,639	\$ 2,608,341	\$ 3,148,657	\$ 294,286
2009	\$ 4,430,380	\$ 2,878,153	\$ 3,899,008	\$ 157,514

\* Company only administered ASC business. DDWV did not receive premium for pre-paid dental services contracts during calendar year 2005.

## REINSURANCE

Effective April 11, 2005, DDWV regained authorization to provide prepaid dental services in West Virginia upon meeting the West Virginia statutory minimum surplus requirement of Two Million Dollars (\$2,000,000). The Company filed a Form D holding company filing with WVOIC on September 23, 2005. WVOIC approved the Form D holding company filing effective November 17, 2005. The nature of the Form D holding company filing was a quota share reinsurance treaty whereby DDWV cedes to DRC ninety percent (90%) of all premium and claims under any and all Delta Premier and DPO dental service contracts sold or renewed by DDWV during the term of the treaty. DDWV and DRC executed the agreement effective January 1, 2006, for a five year term.

Reinsurer:	Delta Reinsurance Corporation
Type of contract:	90% Quota Share
Intermediary:	None
Effective date:	January 1, 2006
Term:	Automatically renewable for successive five (5) year terms unless terminated by either party with at least ninety (90) days written notice
Business covered:	All claims under any and all Delta Premier and DPO dental service contracts sold or renewed by DDWV during the term of the treaty except in specific situations by mutual consent of DDWV and DRC. The liability of DRC for claims under the treaty shall be strictly limited to the ninety percent (90%) quota share percentage.
Company's retention:	Ten (10%)
Reinsurance limits:	None noted other than contract limits per subscriber.

Other than any matters noted in the above Summary of Significant Findings section of this report, the reinsurance agreement reviewed was found to meet West Virginia Code and NAIC Handbook guidelines with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information requirements.

DDWV reported amounts due DRC as of December 31, 2009 and 2008 of \$596,574 and \$603,279, respectively.

### ACCOUNTS AND RECORDS

Other than any matters noted in the above Summary of Significant Findings section of this report, the Company was audited annually by a certified public accountant (CPA) for the years 2005, 2006, 2007, 2008 and 2009, in compliance with West Virginia Code § 33-33-1, et. seq. and NAIC annual statement instructions.

Per examination the WVOIC examiner determined that the Company maintains its books and records at the administrative office it shares with DDP in Mechanicsburg, Pennsylvania. Due to close affiliation with DDP and pursuant to the dental administration agreement between DDWV, DDIC and DDP, WVOIC examiner relied upon work performed by an information technology examiner contracted for by the PA DOI during its examination of DDP for the period ending December 31, 2008.

Per the published PA DOI examination report of DDP as of December 31, 2008:

“ER’s review encompassed the financially significant information systems defined by the NAIC Handbook as “the computer and software, including system programs and application programs, which are used to perform automated processing of a financially significant account balance or set of transactions.” As such, ER’s assessment of controls focused on the following in-scope significant applications:

<u>Application</u>	<u>Function</u>
System A - Mainframe	Claims Adjudication
Tesla	Real time claim submission by providers
Optare – SQL-based application	Billing, Eligibility and Claims
Entrendex	Workflow System
MACCESS	Imaging System
Oracle Financials	General Ledger System
*Financial Database (FDb)	Access Database for Finance Department – billing

\* Multiple systems are used to process premium bills. All data is loaded into the Finance Database and subsequently into the Oracle Financials.

... There were no significant issues that were identified as high risk during the review for the current examination period; ...”

WVOIC examiner agreed the trial balance prepared from DDWV’s general ledger and work papers to the Annual Statement for the year ended December 31, 2009. In general, it appears to the WVOIC examiner that DDWV’s accounting and corporate records were maintained in a manner in which the Company’s financial condition was readily verifiable.

### **STATUTORY DEPOSITS**

The Company is licensed and operates only in the State of West Virginia. DDWV is organized as a West Virginia domestic tax-exempt non-profit dental service corporation pursuant to the provisions of Article 24 Chapter 33 of the West Virginia Code. Pursuant to that statute DDWV is not subject to statutory deposit requirements of Section 6 Article 3 Chapter 33 of the West Virginia Code. Consistent with Article 24 Chapter 33 of the West Virginia Code DDWV does not report statutory deposits in its annual financial statements.

### **FINANCIAL STATEMENTS**

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

**DELTA DENTAL PLAN OF WEST VIRGINIA, INC.**

**Assets**

**December 31, 2009**

	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds	\$1,740,633		\$1,740,633
Common Stock (Note 1)	714,947	(184,180)	530,767
Cash \$-595,329; cash equivalents \$0 and short-term investments \$2,333,422	1,738,092		1,738,092
Subtotals; cash and invested assets	\$4,193,672	(\$184,180)	\$4,009,492
Investment income due and accrued	18,729		18,729
Uncollected premiums and agents' balances in the course of collection	50,379		50,379
Amounts recoverable from reinsurers (reinsurance)	0		0
Funds held by or deposited with reinsured companies (reinsurance)	0		0
Other amounts receivable under reinsurance contracts (reinsurance)	0		0
Amounts receivable relating to uninsured plans	0		0
Receivables from parent, subsidiaries and affiliates	0		0
Health care and other amounts Receivable	0		0
Aggregate write-ins for other than invested assets	167,600		167,600
Total Assets	<u>\$4,430,380</u>	<u>(\$184,180)</u>	<u>\$4,246,200</u>

**DELTA DENTAL PLAN OF WEST VIRGINIA, INC.**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2009**

	Per Annual Statement	Examination Adjustments	Per Examination
Claims unpaid (less \$600,975 reinsurance ceded)	\$66,775		\$66,775
Unpaid claims adjustment expense	12,138		12,138
Aggregate health policy reserves	0		0
Aggregate health claim reserves	0		0
Premiums received in advance	5,554		5,554
General expenses due or accrued	129,170		129,170
Ceded reinsurance premiums payable	596,574		596,574
Amounts withheld or retained for the account of others	9,637		9,637
Amounts due to parent; subsidiaries and affiliates	73,313		73,313
Funds held under reinsurance treaties with (\$0 authorized reinsurers and \$500,000 unauthorized reinsurers)	500,000		500,000
Liability for amounts held under uninsured plans	0		0
Aggregate write-ins for other liabilities	159,066		159,066
Total Liabilities	\$1,552,227		\$1,552,227
Surplus notes	1,000,000		1,000,000
Unassigned funds (surplus) (Note 2)	1,878,153	(184,180)	1,693,973
Total Surplus	\$2,878,153	(\$184,180)	\$2,693,973
Total Liabilities and Surplus	\$4,430,380	(\$184,180)	\$4,246,200

**DELTA DENTAL PLAN OF WEST VIRGINIA, INC.**  
**Summary of Operations**  
**December 31, 2009**

	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Member Months	647,250	0	647,250
Net premium income (including \$0 non-health premium income)	\$3,899,008	0	\$3,899,008
Change in unearned premium reserves and reserve for rate credits	39	0	39
Total revenues	<u>\$3,899,047</u>	<u>0</u>	<u>\$3,899,047</u>
Hospital/medical benefits (hospital and medical)	<u>9,728,584</u>	<u>0</u>	<u>9,728,584</u>
Subtotal (hospital and medical)	\$9,728,584	0	\$9,728,584
Net reinsurance recoveries (less)	<u>8,755,726</u>	<u>0</u>	<u>8,755,726</u>
Total hospital and medical (less)	\$972,858	0	\$972,858
Claims adjustment expenses; including \$92,891 cost containment expenses	686,009	0	686,009
General administrative expenses (less)	<u>2,153,094</u>	<u>0</u>	<u>2,153,094</u>
Total underwriting deductions	<u>\$3,811,961</u>	<u>0</u>	<u>\$3,811,961</u>
Net underwriting gain or (loss)	\$87,086	0	\$87,086
Net investment income earned	45,915	0	45,915
Net realized capital gains or (losses) less capital gains tax of \$0	<u>1,826</u>	<u>0</u>	<u>1,826</u>
Net investment gains (losses)	\$47,741	0	\$47,741
Aggregate write-ins for other income or expenses	22,687	0	22,687
Net income (loss)	<u>\$157,514</u>	<u>0</u>	<u>\$157,514</u>

**DELTA DENTAL PLAN OF WEST VIRGINIA, INC.**  
**Comparative Analysis of Changes in Surplus**  
December 31, 2009

The following is a reconciliation of surplus between the amount reported by the Company and as determined by examination:

	Per Annual Statement	Per Examination	Change in Surplus
Capital and Surplus, December 31, 2009 per Company	\$2,878,153		
Assets: (Note 3)	\$4,430,380	\$4,246,200	(\$184,180)
Liabilities:	\$1,552,227	\$1,552,227	0
Capital and Surplus, December 31, 2009 per Examination			(\$184,180)
			<u>\$2,693,973</u>

**Note 1** - Pursuant to West Virginia Code § 33-7-11 (d) and consistent with provisions of West Virginia Code § 33-8-7, DDWV is required to follow the accounting guidance of the Statements of Statutory Accounting Principles ("SSAP") published in the NAIC Accounting Practices and Procedures Manual ("APP"). Per examination DDWV's investment in DRC common stock requires valuation pursuant to provisions of SSAP 97 Section 8(b) iv, "Investments in foreign insurance SCA entities shall be recorded based on the underlying U.S. GAAP equity from the audited U.S. GAAP basis financial statements ..."

Per examination DDWV reported the investment in DRC common stock at cost of \$370,000 as an admitted asset in the 2009 annual statutory financial statement. Per SSAP 97 the correct 2009 value of DRC common stock equaled \$585,117. (U.S. GAAP equity share value of \$7,907 \* 74 shares = \$585,117 rounded for reporting purposes) Per examination DDWV understated the value of DRC common stock \$215,117. (\$585,117 - \$370,000 = \$215,117)

Pursuant to provisions of West Virginia Code § 33-8-10 (a) an insurer may not acquire an investment if, as a result of and after giving effect to the investment, it would hold more than three percent of its admitted assets in investments of all kinds issued, assumed, accepted, insured or guaranteed by a single person. Per examination, three percent (3%) of DDWV's 2009 total assets equaled \$139,365. (\$4,645,497 \* .03 = \$139,365) (See Note 3 for explanation of total asset value of \$4,645,497 as determined by examination.)

Additionally, examination determined that DRC is domiciled in Barbados. Per examination Barbados held a sovereign debt rating equivalent of NAIC 2 each year of the exam period. West Virginia Code § 33-8-17 (a) (2) limits investments held in a single foreign jurisdiction with an SVO sovereign debt rating of less than NAIC 1 to 3% of total admitted assets. Per examination, three percent (3%) of DDWV's 2009 total assets equaled \$139,365. (\$4,645,497 \* .03 = \$139,365)

DDWV's investment in DRC common stock, \$585,117, exceeded the statutory 3% investment limitations of West Virginia Code § 33-8-10 (a) and West Virginia Code § 33-8-17 (a) (2) by \$445,752. ( $\$585,117 - \$139,365 = \$445,752$ ) Examination determined that DDWV is allowed additional investment authority equal to one percent of total admitted assets, \$46,455, pursuant to West Virginia Code § 33-8-20 (a). Per examination the total admitted value of the investment in DRC common stock is \$185,820. ( $\$139,365 + \$46,455 = \$185,820$ )

The examination adjustment of \$184,180 required to correctly report the investment in DRC common stock is equal to the value of the investment as reported by DDWV less the value of the investment as determined by examination. ( $\$370,000 - \$185,820 = \$184,180$ )

**Note 2.** - The examination adjustment required to correctly report DDWV's total admitted assets and unassigned surplus equals the examination adjustment of \$184,180 required to correctly report the investment in DRC common stock.

Per examination unassigned surplus of \$1,693,973 equals unassigned surplus reported by DDWV less the examination adjustment required to correctly report total admitted assets. ( $\$1,878,153 - \$184,180 = \$1,693,973$ )

**Note 3** - Per examination DDWV understated the value of DRC common stock \$215,117. (See Note 1) An examination adjustment of \$215,117 is required to correctly establish the basis for calculating the statutory limitations of three percent (3%) of total assets imposed pursuant to provisions of West Virginia Code § 33-8-10 (a) and West Virginia Code § 33-8-17 (a) (2). Per examination the correct basis of total assets of \$4,645,497 equals the sum of total assets reported by DDWV plus the adjustment required to correctly report the investment in DRC common stock. ( $\$4,430,380 + \$215,117 = \$4,645,497$ )

## SUMMARY OF RECOMMENDATIONS

In compliance with West Virginia Code § 33-7-4 DDWV should report the value of assets not allowed as deductions from gross assets in any statement to the Commissioner.

In compliance with West Virginia Code § 33-7-11 and § 33-8-7 DDWV should value equity investments in accordance with procedures prescribed in the published accounting and valuation standards of the NAIC, including the purposes and procedures of the NAIC Securities Valuation Office ("SVO"), the valuation of securities manual, the accounting practices and procedures manual, the annual statement instructions or any successor valuation procedures officially adopted by the NAIC.

In compliance with West Virginia Code 33-8-10 (a) DDWV should not acquire an investment if, as a result of and after giving effect to the investment, it would hold more than three percent of its admitted assets in investments of all kinds issued, assumed, accepted, insured or guaranteed by a single person.

In compliance with West Virginia Code § 33-8-17 (a) (2) DDWV should not hold an aggregate amount of foreign investments exceeding three percent of its admitted assets in a single foreign jurisdiction that has a SVO sovereign debt rating of less than NAIC 1.

In compliance with West Virginia Code § 33-8-22 (c) DDWV must supplement its annual financial statement filing with a reconciliation and summary of its assets and reserves required pursuant to West Virginia Code § 33-8-22 (a).

In compliance with West Virginia Code § 33-33-6 DDWV must not enter into an agreement of indemnification or release from liability with respect to an audit of the insurer.

In compliance with West Virginia Code § 33-33-5(b) DDWV must obtain a letter from the accountant, and file a copy with the commissioner stating that the accountant is aware of the provisions of this code and legislative rules promulgated pursuant to article three, chapter twenty-nine-a of this code that relate to accounting and financial matters and affirming that the accountant will express his or her opinion on the financial statements in terms of his or her conformity to the statutory accounting practices prescribed or otherwise permitted by the Insurance Commissioner specifying any exceptions as he or she may believe appropriate.

**EXAMINERS ACKNOWLEDGMENT AND SIGNATURE**

The cooperation and assistance extended by the Vice President of Accounting, Director of Finance and staff of the Company during the course of the financial examination is hereby acknowledged.

In addition to the undersigned, WVOIC employees Walter P. Anderson, CPA, and Diana L. Hypes, Programmer Analyst, participated in this examination

**EXAMINERS AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION**

State of West Virginia  
County of Kanawha

Randall A. Price, being duly sworn, states as follows:

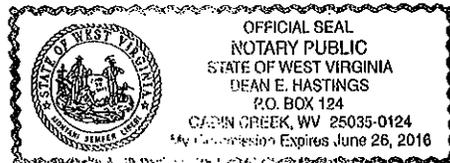
1. I have authority to represent the West Virginia Offices of the Insurance Commissioner in the examination of Delta Dental Plan of West Virginia, Inc.
2. The West Virginia Offices of the Insurance Commissioner are accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report, and the examination of Delta Dental Plan of West Virginia, Inc. was performed per instruction of the Chief Examiner and in a manner consistent with the standards and procedures required by the West Virginia Offices of the Insurance Commissioner.

The affiant says nothing further

*Randall A. Price*  
Randall A. Price, CFE

Subscribed and sworn before me by Randall A. Price on this  
9th day of December 2011.

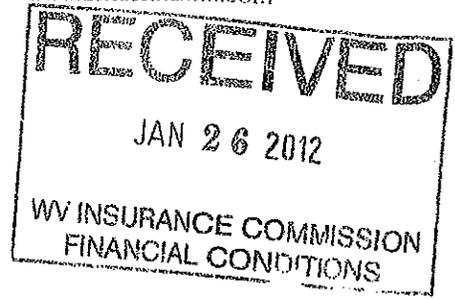
*Dean E. Hastings*  
Notary Public



My Commission expires June 26, 2016 (Date)



www.deltadentalins.com



January 24, 2012

Honorable Michael D. Riley  
Office of the Insurance Commissioner  
State of West Virginia  
P. O. Box 50540  
1124 Smith Street  
Charleston, WV 25305-0540

Re: Delta Dental of West Virginia; NAIC No.: 12329; WV File No.: D034  
Responses to the WVOIC Report of Examination

Dear Commissioner Riley:

This letter serves as Delta Dental of West Virginia's (DDWV) response to the final Report of Examination for DDWV as of December 31, 2009 and outlines the actions DDWV has taken or proposes to take in order to comply with the recommendations contained in the Report.

**Actions Taken to Comply with the Recommendations in the Report**

**ITEM**

1. In compliance with West Virginia Code § 33-7-4 DDWV should report the value of assets not allowed as deductions from gross assets in any statement to the Commissioner.

**The Company has been in compliance with this section of the West Virginia Code for all items where the Company had direct knowledge of the existence of non-admissible assets. This recommendation refers to the valuation and admissibility of DDWV's equity position in Delta Reinsurance Corporation (DRC), which the Company did not value appropriately in accordance with West Virginia Code §33-8-7 and §33-8-17. The Company agrees with the recommendation and will comply in future filings.**

2. In compliance with West Virginia Code § 33-7-11 and § 33-8-7 DDWV should value equity investments in accordance with procedures prescribed in the published accounting and valuation standards of the NAIC, including the purposes and procedures of the NAIC Securities Valuation Office ("SVO"), the valuation of securities manual, the accounting practices and procedures manual, the annual statement instructions or any successor valuation procedures officially adopted by the NAIC.

**The Company is in agreement with the recommendation. The Company will modify its conservative practice of valuing its equity investment in DRC at cost instead of current equity value and take immediate actions to comply.**

Delta Dental of West Virginia  
Administrative Offices  
One Delta Drive  
Mechanicsburg, PA 17055-6999

Administrative: 800-471-7091  
Customer Service: 800-932-0783  
TTY/TDD: 888-373-3582



3. In compliance with West Virginia Code 33-8-10 (a) DDWV should not acquire an investment if, as a result of and after giving effect to the investment, it would hold more than three percent of its admitted assets in investments of all kinds issued, assumed, accepted, insured or guaranteed by a single person.

**The Company is in agreement with the recommendation and will not acquire additional investments whereby the Company would exceed the investment limitations imposed by West Virginia Code §33-8-10(a). It should be noted that West Virginia Code §33-8-20 does allow for additional investment authority above the limitations contained in West Virginia Code §33-8-10. By letter dated January 24, 2012, the Company has respectfully requested approval from the West Virginia Insurance Commissioner for additional investment authority to hold and admit certain investment assets above the limitations of West Virginia Code §33-8-10.**

4. In compliance with West Virginia Code § 33-8-17 (a) (2) DDWV should not hold an aggregate amount of foreign investments exceeding three percent of its admitted assets in a single foreign jurisdiction that has a SVO sovereign debt rating of less than NAIC 1.

**The Company is in agreement with the recommendation. It should be noted that West Virginia Code §33-8-20 does allow for additional investment authority above the limitations contained in West Virginia Code §33-8-17. By letter dated January 24, 2012, the Company has respectfully requested approval from the West Virginia Insurance Commissioner for additional investment authority to hold and admit certain investment assets above the limitations of West Virginia Code §33-8-10.**

5. In compliance with West Virginia Code § 33-8-22 (c) DDWV must supplement its annual financial statement filing with a reconciliation and summary of its assets and reserves required pursuant to West Virginia Code § 33-8-22 (a).

**The Company is in agreement with the recommendation and has initiated immediate action to comply. As of the date of the Report of Financial Examination, the Company has submitted the reconciliation and summary of its assets and reserves as of December 31, 2010, as required by West Virginia Code §33-8-22, and will submit such annual reconciliation reports in the future.**

6. In compliance with West Virginia Code § 33-33-6 DDWV must not enter into an agreement of indemnification or release from liability with respect to an audit of the insurer.

**The Company is in agreement with the recommendation and has initiated immediate action to comply. The 2011 engagement letter does not provide for an indemnification or release of liability of the auditor.**

7. In compliance with West Virginia Code § 33-33-5(b) DDWV must obtain a letter from the accountant, and file a copy with the commissioner stating that the accountant is aware of the provisions of this code and legislative rules promulgated pursuant to article three, chapter twenty-nine-a of this code that relate to accounting and financial matters and affirming that the accountant will express his or her opinion on the financial statements in terms of his or her conformity to the statutory accounting practices prescribed or otherwise permitted by the Insurance Commissioner specifying any exceptions as he or she may believe appropriate.

**The Company is in agreement with the recommendation and has initiated immediate action to comply. As of the date of the Report of Financial Examination, the Company has filed a copy of the required accountant awareness letter with the WV Insurance Commissioner.**

I would like to thank the department and its examination team, specifically, H. Leah Cooper and Randall Price for their time, effort, and responsiveness on this examination. Delta Dental of West Virginia continues to proudly serve West Virginians and provide high quality and competitively priced dental plans. We look forward to our continuing growth in West Virginia and our long term relationship with the department

Respectfully submitted,



Jeanne M. Foster  
Vice President, Finance

JMF/mgh/sac

c: J. Leah Cooper  
Jim Ketelsleger  
Michael G. Hankinson, Esq.