REPORT ON EXAMINATION

OF THE

DELAWARE PROFESSIONAL INSURANCE COMPANY,
RISK RETENTION GROUP

AS OF

DECEMBER 31, 2010

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

I, **Karen Weldin Stewart**, Insurance Commissioner of the State of Delaware, do hereby certify that the attached **Report on Examination**, made as of **December 31, 2010**, of

**DELAWARE PROFESSIONAL INSURANCE COMPANY,
A RISK RETENTION GROUP**

is a true and correct copy of the document filed with this Department.

Attest By: ____________________

Date: May 7, 2012

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 7th day of May, 2012.

____
Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT ON EXAMINATION

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DELAWARE PROFESSIONAL INSURANCE COMPANY, A RISK RETENTION GROUP

AS OF

DECEMBER 31, 2010

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been 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.

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 7th day of May, 2012.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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SALUTATION

January 31, 2012

Honorable Karen Weldin-Stewart-CIR-ML
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 11.158 dated June 9, 2011, an examination has been made of the affairs, financial condition and management of the

DELAWARE PROFESSIONAL INSURANCE COMPANY,

RISK RETENTION GROUP

hereinafter referred to as "Company", incorporated under the laws of the State of Delaware. The examination was conducted at the offices of the I. David Gordon Associates, Inc. (I. David Gordon Associates), located at 845 Third Avenue – 20th floor, New York, New York 10022-6601.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was as of December 31, 2007. This examination covered the period of January 1, 2008, through December 31, 2010, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2008. Transactions subsequent to the examination date were reviewed where deemed necessary.

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 Laws and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination 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 included 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 domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues reviewed during the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Johnson Lambert & Company, LLP (JLC). Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICNAT FINDINGS

The recorded minutes of the Board of Directors (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, except for the approval of investment transactions in accordance with 18 Del. C. §1304.

Therefore,

It is recommended that the Board of Directors or a committee thereof authorize or approve the investments as required by 18 Del. C. §1304.

SUBSEQUENT EVENTS

There were no significant events subsequent to the examination date.

COMPANY HISTORY

The Company was incorporated in the State of Delaware on May 23, 1990, as a mutual captive insurer. With the approval of the Delaware Insurance Department effective October 4, 2007, the Company was converted to a captive risk retention group. The purpose of the

Company is to participate in the medical malpractice insurance program covering the Delaware Physicians Insurance Purchasing Group, Inc. (DPIPG) and its members as well as Sovereign Risk Purchasing Group, LLC (SRPG) and its members (originally named the New Jersey Professional Risk Purchasing Group, LLC when the name was changed November 9, 2009). The members of DPIPG and SRPG have complete control over the Company in a manner consistent with its bylaws.

Corporate Records

The recorded minutes of the shareholders, Board of Directors (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, except for the approval of investment transactions in accordance with 18 Del. C. §1304.

Therefore,

> **It is recommended that the Board of Directors or a committee thereof authorize or approve the investments as required by 18 Del. C. §1304.**

Capitalization

As of December 31, 2010, the Company's reported policyholder surplus of $3,583,222 complies with the minimum requirement of $1,000,000 for a captive risk retention group in Delaware.

MANAGEMENT AND CONTROL

Members of the Company are those individuals, partnerships and corporations who are members of DPIPG and SRPG and acquire insurance from the Company through its indemnity agreements with DPIPG and SRPG. Membership in DPIPG and SRPG is not transferable and ceases upon a member's death. Members are divided between Class A members (DPIPG) and Class B and Class C members (SRPG). Class A members have full voting rights and powers and, voting as a separate class, shall elect all directors of the Company except for the Class B and Class C director. Class A members have one vote per $1,000 of annual premium such member is required to pay. The Class B and Class C members have no voting rights or powers except to elect, voting as a separate class, one director of the Company.

In conjunction with the conversion to a risk retention group, the Company amended and restated its articles of incorporation and bylaws effective October 4, 2007. The Company's current bylaws, which were amended and restated effective October 27, 2009, specify that a Board of Directors shall consist of not less than three nor more than fifteen members and that directors need not be members. The following nine directors were duly elected in October 2010 and were serving at December 31, 2010:

Ben C. Corballis, M.D. (Chairman)	Gregory W. DeMeo, M.D.	Steven L. Edell, D.O.
Stephen L. Hershey, M.D.	I. David Gordon	Robert A. Portz, M.D.
Neil Jasani, M.D.	Eric Johnson, M.D.	Leonard A. Nitowski, M.D.

.

All of the Company's directors are members of DPIPG or SRPG, with the exception of I. David Gordon, who is an insurance broker and, through an agreement with I. David Gordon Associates, the general manager of the Company.

In compliance with its current bylaws, the Board of Directors maintains an Executive Committee, who shall be responsible for the management of the Company between meetings of the Board of Directors, consisting of;

Ben C. Corballis, M.D.

Steven L. Edell, D.O.

I. David Gordon

Stephen L. Hershey, M.D.

The Board of Directors also maintains a Finance Committee, consisting of:

Ben C. Corballis, M.D.

Steven L. Edell, D.O.

Leonard A. Nitowski, M.D.

The following officers were duly elected and serving at December 31, 2010:

Ben C. Corballis, M.D.	President
I. David Gordon	Vice President and Secretary
Stephen L. Hershey, M.D.	Vice President and Treasurer

Affiliated Agreements

The Company has entered into an agreement with I. David Gordon Associates, Inc. (IDGA), whereby IDGA serves as management, broker and risk management consultant for DPIPG, SRPG and the Company. An officer of IDGA serves as an officer and director of the

Company. The Company incurred $127,747 and $197,471 in consulting fees under this agreement during 2010 and 2009, respectively.

FIDELITY BOND

The minimum amount of coverage suggested by the NAIC for a company this size is $125,000. As of December 31, 2010, the Company was covered by a surety bond effective April 23, 2010, and expiring April 23, 2013, in the amount of $150,000.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2010, the Company maintains a certificate of authority in Delaware and is registered as a risk retention group in New Jersey.

DPIPG is a non-profit corporation set up to execute a medical malpractice insurance program for its Delaware member physicians and physician groups. The components of the DPIPG insurance program are two-fold:

(1) Under a master policy issued to DPIPG by Continental Casualty Company (Continental Casualty), effective December 31, 2009, and expiring December 31, 2010, (renewable annually thereafter each January 1st) individual insured members receive standard malpractice insurance coverage of $1,000,000/$3,000,000 each claim/aggregate with optional increased coverage to each insured member of either $2,000,000/$4,000,000 each claim/aggregate or $3,000,000/$5,000,000 each claim/aggregate. The master policy includes a self-insured retention of $300,000 each claim, with an aggregate policy limit on a stand-alone basis of $3,502,000, which applies only to the Delaware physicians, and

an aggregate policy limit on a combined basis of $3,456,000, which applies to both the Delaware physicians and the New Jersey physician members. The aggregate retention is based on the number of "physician equivalents" participating in the program. The physician equivalent programs seeks to equalize the various physician specialties within an identified scale, with higher risk specialties graded a higher physician equivalent score. It is the number of "class one" equivalent physicians that will determine the aggregate retention under the Continental Casualty policy. Each individual insured member receives a certificate of coverage.

(2) The Company's function is to provide insurance coverage to fund the retentions (both individual and aggregate) of DPIPG and its members. It is noted, with emphasis, that Continental Casualty is not reinsuring the Company. Premiums for each type of coverage (medical malpractice and retention) are rated separately. Of significance is that paid allocated loss adjustment expenses are included in the Company's coverage and are provided in addition to the Continental Casualty coverage. Paid expenses are included in the retention.

Effective April 28, 2008, the Company began providing coverage for New Jersey physicians through SRPG, a non-profit corporation set up to execute a medical malpractice insurance program for its New Jersey member physicians and physician groups. Under a master policy issued to SRPG by Columbia Casualty Company (Columbia Casualty), an affiliate of Continental Casualty in the CNA Group, effective January 1, 2010, and expiring December 31, 2010, (renewable annually thereafter each January 1st) individual insured members receive standard malpractice insurance coverage of $1,000,000/$3,000,000 each claim/aggregate. The master policy includes a self-insured retention of $400,000 each claim, an aggregate policy limit on a combined basis of $3,702,000, which applies to both the Delaware physicians and the New Jersey physician members.

Insurance provided by the Company is on a claims-made, calendar-year basis. The Company anticipates collecting sufficient premiums each term to fund the annual retention. In this way, no additional losses will develop. It is the Company's intention to close each policy year as quickly as possible after its expiration. Profits, if any, are intended to be distributed to members in the form of a premium reduction, the amount of which is based on premiums paid. Member dividends totaling $9,762 were distributed in 2010.

The Company, DPIPG and SRPG are administered jointly. DPIPG and SRPG fund joint operations through the levying of initiation and membership fees.

Pursuant to a general management agreement in effect through July 15, 2008, with Wilmington Professional Associates, Inc. (Wilmington Professional Associates), the Company utilized the services of Wilmington Professional Associates, a licensed Delaware captive manager and approved by the Delaware Insurance Department as a captive manager, for full captive management services. Pursuant to a general management agreement effective July 15, 2008, the Company has utilized the services of I. David Gordon Associates, a licensed New York captive manager and approved by the Delaware Insurance Department as a captive manager, for full captive management services. This agreement replaces the general management agreement with Wilmington Professional Associates described earlier in this paragraph. I. David Gordon is the controlling person of I. David Gordon Associates.

Johnson Lambert & Co., LLP, an independent certified public accounting firm approved in Delaware, audits the Company's annual financial statement. Fees paid under this agreement during 2010 amounted to $ 34,968.

Huggins Actuarial Services, Inc. acts as an actuarial consultant to the Company and prepares actuarial feasibility studies as well as annually certifies the Company's reported loss and loss adjustment expense reserves. Fees paid under this agreement during 2010 amounted to $ 16,648.

The Barnett Group, LLC, pursuant to a claims administration agreement effective December 2003, provides claims administration and consulting services related to claims handling. This agreement was terminated due to insolvency of The Barnett Group. Fees paid under this agreement were $61,768. The services provided ended on June 30, 2010. Subsequently, AEJA, INC. (Adrienne Auryansen) was engaged as Third Party Administrator and I David Gordon Associates, Inc. was assigned the responsibility for claim data management.

Breckenridge Consulting LLC, pursuant to an investment advisory agreement effective August 30, 2010, provides investment portfolio management services for the Company's invested assets.

Marcum & Kleigman LLP, pursuant to an administrative services agreement, provided accounting, regulatory reporting and tax preparation services to the Company until August 18, 2009. This agreement was terminated and replaced with a similar administrative services agreement with HSBC Insurance Agency (USA), Inc. (HSBC) effective August 18, 2009. Effective March 24, 2011, HSBC was sold to Kane (USA), Inc. (Kane) and all administrative services originally provided by HSBC are now be provided by Kane pursuant to a novation agreement with HSBC. Fees paid under this agreement during 2010 amounted to $43,072.

GROWTH OF THE COMPANY

The financial growth of the Company covers the period from its last examination at December 31, 2007, to this examination at December 31, 2010, and is summarized as follows based on information obtained from the Company's filed annual statements:

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Premiums	Net Income
2007	$9,106,637	$7,859,421	$1,247,216	$209,849	$19,077
2008	10,162,137	7,569,700	2,592,437	2,810,034	353,621
2009	11,103,342	8,535,398	2,567,944	2,527,603	-24,251
2010	11,752,111	8,168,889	3,583,222	2,684,888	1,092,069

The growth over the examination period is summarized as follows:

29.0% increase in admitted assets

3.9% increase in liabilities

187% increase in policyholder surplus

1,179% increase in premiums earned

5,624% increase in net income

The 187% increase in policyholder surplus is attributable primarily to new membership in the RRG with contributed surplus of $1,021,738 in 2008. Additionally the Company was very profitable in 2010 with net income of $1,008,043. The Company's profitability was substantial in 2010 due to much lower incurred losses during the year. Premium increases are due to expansion into New Jersey.

LOSS EXPERIENCE

The Company experienced favorable development of prior years as recorded in 2010 and 2009. The favorable development was the result of actual claim activity behaving better than originally anticipated. The development recorded in 2010 relates primarily to the 2006 and 2008 policy years and the development recorded in 2009 relates primarily to the 2005 policy year, which was offset by unfavorable development on the 2006 policy year.

ACCOUNTS and RECORDS

The Company maintains its records with the various service providers that have been contracted. Those providers use a combination of client server, host, and network applications which utilize various reporting systems to record and report financial information. The Captive Manager regularly monitors these activities performed by the service providers for the Company and reports these results to the Board of Directors.

STATUTORY DEPOSITS

The Company is a risk retention group and is not required to maintain statutory deposits.

FINANCIAL STATEMENTS

The financial statements, as determined by this examination, are presented as follows:

Analysis of Assets as of December 31, 2010

Liabilities, Surplus and Other Funds as of December 31, 2010

Statement of Income for 2010

Reconciliation of Surplus for the Period since the Last Examination

Analysis of Changes in Financial Statements Resulting from Examination

Analysis of Assets

	Assets	Nonadmitted Assets	Admitted Assets	Note
Bonds	$ 8,790,956		$ 8,790,956	1
Cash, Cash equivalents and short-term investments	2,471,506		2,471,506	
Investment income due and accrued	44,227		44,227	
Uncollected premiums and agents' balances in the course of collection	240,727		240,727	
Deferred premiums, agents balances and installments booked but deferred and not yet due	52,223		52,223	
Deferred tax asset	330,275	$ 180,479	149,796	
Aggregate write-in for other than invested asset (letter of credit)	752,675	750,000	2,675	
Total Assets	$ 12,682,590	$ 930,479	$ 11,752,111	

Liabilities, Surplus and Other Funds

Losses	$	4,440,851	2
Loss adjustment expenses		1,882,371	2
Other expenses		141,468	
Taxes, licenses and fees		32,221	
Current federal income tax payable		292,757	
Unearned premiums		1,379,221	
Total Liabilities	$	8,168,889	
Gross paid-in and contributed surplus		973,342	
Unassigned funds (surplus)		2,609,880	
Surplus as regards policyholders	$	3,583,222	
Total Liabilities and Surplus	$	11,752,111	

Statement of Income

Underwriting Income		
Premiums earned	$	2,684,888
Deductions:		
Losses incurred		554,217
Loss expenses incurred		566,250
Other underwriting expenses incurred		482,538
Total underwriting deductions		1,603,005
Net underwriting gain (loss)	$	1,081,883
Investment Income		
Net investment income earned		226,098
Net realized capital gains (losses) net of capital gains tax		149,336
Net investment gain (loss)	$	375,434
Other Income		
Finance and service charges not included in premiums		3,416
Total other income	$	3,416
Net income before federal income taxes	$	1,460,732
Federal income taxes incurred		368,663
Net income	$	1,092,069

Reconciliation of Surplus for the Period since Last Examination

	2010	2009	2008	2007
Beginning Capital and Surplus balance	$ 2,567,943	$ 2,592,437	$ 1,247,216	$ 1,029,328
Net Income	1,092,073	(24,251)	353,621	19,077
Change in Non-Admitted Assets	713,638	27,837	(13,521)	29,305
Change in deferred income tax	(12,274)	1,920	(16,617)	169,506
Member contributions	51,604	70,000	1,021,738	
Return of capital	(70,000)	(100,000)		
Dividends to Stockholders	(9,762)			
Other Gains (Losses) to Surplus	(750,000)			
Change Current year	1,015,279	(24,494)	1,345,221	217,888
Ending surplus	$ 3,583,222	$ 2,567,943	$ 2,592,437	$ 1,247,216

Analysis of Changes in Financial Statements Resulting from Examination

There are no changes in the financial statements resulting from the examination.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds $8,790,956

The categories of bonds at December 31, 2010 include Government Bonds, $978,732 or 11%, US States and territories, guaranteed, $7,425,314 or 84.5% and Industrial and Miscellaneous $386,910 or 4.5%. All of the Companies securities are rated as Class 1 by the NAIC.

Note 2

Losses	$4,440,851
Loss adjustment expenses	$1,882,371

Actuarial services are provided to the Company by Huggins Actuarial Services, a qualified independent actuary, who annually reviews the claims. For those years having no open claims, zero reserves are established. For those years that have one open claim, the individual paid retentions per outstanding claims is subtracted from $200,000 for the period beginning December 1, 2001, and ending December 1, 2004. For the policy years December 1, 2004, through December 31, 2010, the individual paid retentions per outstanding claims is subtracted from $300,000 for Delaware physicians and $400,000 for New Jersey physicians. For years having multiple open claims, aggregate paid retention for all claims, both open and closed, are subtracted from the respective aggregate annual retention. This process was accepted for examination purposes.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations from the prior examination.

SUMMARY OF RECOMMENDATIONS

The recorded minutes of the Board of Directors (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, except for the approval of investment transactions in accordance with 18 Del. C. §1304.

Therefore,

It is recommended that the Board of Directors or a committee thereof authorize or approve the investments as required by 18 Del. C. §1304.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Description	December 31, 2010	December 31, 2007
Assets	$11,752,111	$9,106,637
Liabilities	$8,168,889	$7,859,421
Surplus	$3,583,222	$1,247,216

Since the last examination as of December 31, 2007, the Company's assets increased $2,645,474, or 29%, from $9,106,637 to $11,752,111. Liabilities for the same period increased $309,468, or 3.9%, from $7,859,421 to $8,168,889. Surplus as regards policyholders for the same period increased $2,336,006, or 187.3%, from $1,247,216 to $3,583,222.

Respectfully submitted,

Anthony Cardone, CFE
Examiner-in-Charge
Delaware Department of Insurance