

EXAMINATION REPORT
of
DOMINION DENTAL SERVICES, INC.
Arlington, Virginia
as of
December 31, 2021

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Dominion Dental Services, Inc. as of December 31, 2021, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 20th day of March 2023

Scott A. White
Commissioner of Insurance



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Richmond, Virginia
February 21, 2023

Honorable Scott A. White
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by the authority of Section 38.2-4315 of the Code of Virginia, an examination of the records and affairs of

DOMINION DENTAL SERVICES, INC.

Arlington, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

SCOPE OF THE EXAMINATION

The last examination of the Company was made by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2016. This examination covers the five-year period from January 1, 2017 through December 31, 2021.

This examination was conducted in accordance with the NAIC Financial Condition Examiners' Handbook (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's 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.

The examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary

information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

HISTORY

The Company was incorporated in the Commonwealth of Virginia effective June 19, 1996. Its sole business purpose is the provision of dental and vision benefits to individuals, groups, associations, and health plans. The Company became licensed in Virginia as a limited health care services health maintenance organization (HMO) pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on May 28, 1997.

On September 30, 1998, Dominion Dental USA, Inc. (DDUSA) was incorporated under the laws of Delaware. DDUSA was formed under a stock exchange and reorganization agreement, dated December 11, 1998, whereby the shareholders of the Company exchanged their shares for substantially equivalent shares of DDUSA. As a result of this transaction, the Company became a wholly-owned subsidiary of DDUSA.

On December 31, 2008, all of the outstanding shares of DDUSA were acquired by Capital Advantage Insurance Company (CAIC), a Pennsylvania stock casualty for-profit insurance corporation. CAIC is a direct wholly-owned subsidiary of Capital Blue Cross, a Pennsylvania domiciled non-profit (non-stock) hospital plan corporation. The acquisition of the shares of DDUSA by CAIC was affected through a merger with Diamond Ancillary Services, Inc., an indirect wholly-owned subsidiary of Capital Blue Cross. DDUSA was the surviving corporation of the merger. The Company remains a wholly owned subsidiary of DDUSA.

On October 1, 2009, the Company was re-licensed as a dental plan organization (DPO) pursuant to Chapter 61 of Title 38.2 of the Code of Virginia.

On December 31, 2015, DDUSA acquired DentaQuest Mid-Atlantic, Inc., a Maryland Dental Plan Organization, and DentaQuest Virginia, Inc., a Virginia Dental Plan Organization. Effective July 1, 2016, the acquired dental plans were merged into the Company.

On June 15, 2018, the Company was re-licensed as a stock accident and sickness company licensed under and subject to the general insurance laws of Title 38.2 of the Code of Virginia. The Company is authorized to sell accident and sickness and managed care health insurance plans.

On March 18, 2020, the Company merged with affiliate Dominion National Insurance Company (DNIC), a New Jersey Life, Accident & Health Insurer. The Company was the sole surviving entity after the merger.

CAPITAL AND SURPLUS

At December 31, 2021, the Company's capital and surplus was \$27,769,920. According to the Amended and Restated Articles of Incorporation, the Company has the authority to issue 100 shares of common stock with a par value of \$10,000 per share. At December 31, 2021, the Company reported common capital stock of \$1,000,000, with gross paid in and contributed surplus of \$9,027,259, and unassigned funds of \$17,742,661.

CAPITAL AND SURPLUS REQUIREMENT

Code of Virginia Section 38.2-1028 states no stock insurer shall be licensed to transact the business of insurance in this Commonwealth unless it has fully paid in capital stock of at least \$1,000,000 and surplus of at least \$3,000,000.

MANAGEMENT AND CONTROL

The Company's bylaws provide that the Board of Directors (Board) shall be responsible for the management of the business of the Company. The number of directors shall be five or such other number as may be designated by the Board, but never less than three or more than twenty. However, if the number of shareholders of the Company is less than three, the number of directors may equal the number of shareholders. The directors shall be elected at the annual meeting of the shareholders to serve for a term of one year. Each elected director shall serve until the next succeeding annual meeting of the stockholders and until a successor has been elected and qualified. Directors can be elected without limitation on the number of terms they may serve.

The officers of the Company shall consist of a Chief Executive Officer, a President, a Chief Operating Officer, a Secretary, a Treasurer and such other officers as the Board deems necessary. The officers shall be elected annually by the Board. At December 31, 2021, the Board of Directors and the Officers of the Company were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Michael J. Davis, Jr	President and Chief Operating Officer Dominion Dental Services, Inc. Arlington, Virginia
Glenn P. Heisey	Executive Vice President and Chief Operating Officer Capital Blue Cross Harrisburg, Pennsylvania

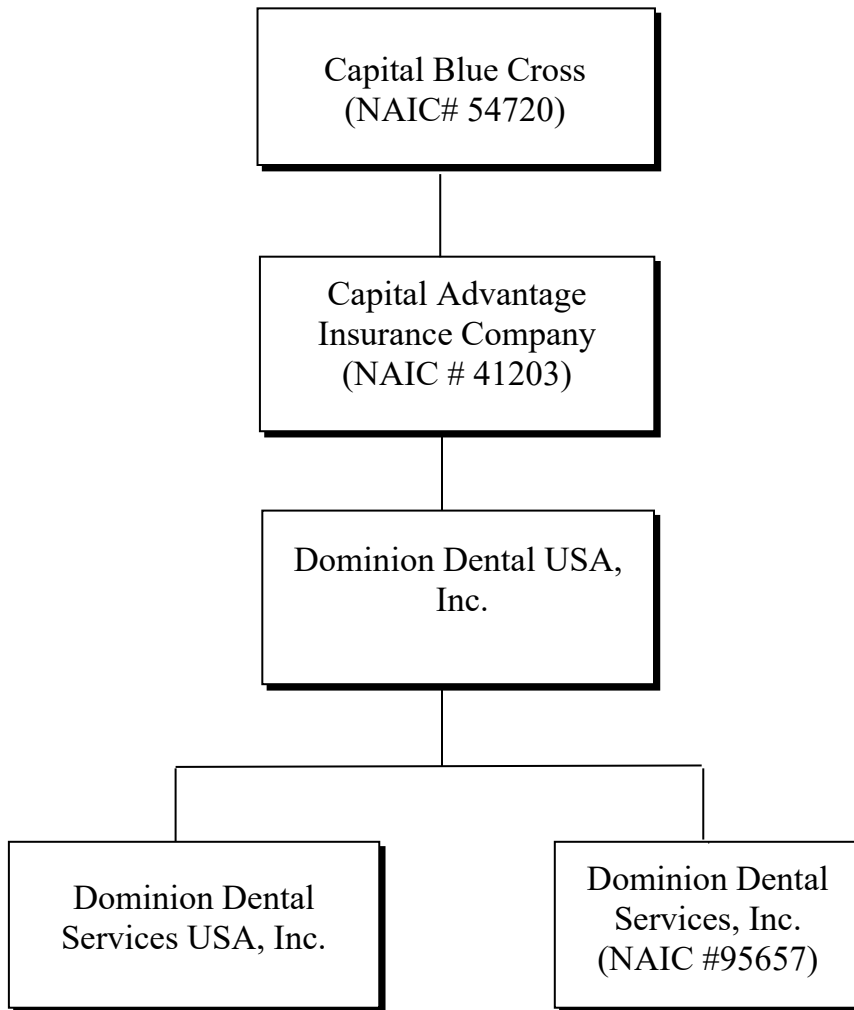
Todd A. Shamash	President and Chief Executive Officer Capital Blue Cross Harrisburg, Pennsylvania
April L. Wilbert	Vice President-Subsidiaries and Vendor Alliances Capital Blue Cross Harrisburg, Pennsylvania
T. Ralph Woodard	Senior Vice President and Chief Financial Officer Capital Blue Cross Harrisburg, Pennsylvania

Officers

Todd A. Shamash	Chief Executive Officer
Michael J. Davis, Jr.	President and Chief Operating Officer
T. Ralph Woodard	Treasurer
Renae L. Kluk Kiehl	Secretary

AFFILIATED COMPANIES

The Company is a wholly-owned subsidiary of DDUSA, which is ultimately owned by Capital Blue Cross (CBC). By virtue of this ownership, the Company is a member of an insurance holding company system as defined in Section 38.2-1322 of the Code of Virginia. The following chart summarizes the Company's relationship within the holding company system:



TRANSACTIONS WITH AFFILIATES

Management Services Agreement

Effective January 1, 1999, the Company entered into a management services agreement with DDUSA. This agreement shall continue and automatically renew on January 1 of each year thereafter for successive one-year terms unless either party provides notice of its intent not to renew at least 90 days prior to the expiration of the term in effect. Pursuant to the terms of the agreement, DDUSA shall provide the Company management services that include senior management, underwriting and actuarial, provider networks, utilization management, advertising and public relations, marketing, purchasing, corporate and legal, regulatory compliance and governmental affairs, accounting, tax compliance, facilities management, risk management, information systems, payroll and human resources. As compensation for these services, the Company shall pay DDUSA a management fee equal to a maximum of 20% of premium and risk revenue. At year end 2021 and 2020, the fee was 20% of premium and risk revenue. The Company incurred \$13,712,520 and \$13,466,941 in fees related to the Agreement in 2021 and 2020, respectively.

Consolidated Federal Income Tax Agreement

Effective January 1, 2009, the Company became a party to a Consolidated Federal Income Tax Agreement with CBC and selected subsidiaries. The agreement establishes methods for allocating the consolidated federal income tax liability of the consolidated group among its members. The Company's federal income tax liability or refund is determined as if it was filing its own separate federal income tax return. If, at the end of any taxable year, the Company would have been entitled to a refund on a separate company basis, then CBC shall pay the amount of the refund to the Company. Conversely, if the Company has incurred a tax liability on a separate company basis, it must pay CBC the amount of such liability. Final settlement for a tax year shall be paid within 60 days after the filing of the consolidated federal income tax return.

Dividends

The Company paid cash dividends of \$2,300,000 on May 17, 2017, \$1,500,000 on December 27, 2017, \$4,000,000 on December 31, 2018, and \$3,600,000 on July 17, 2020 to parent DDUSA. The May 17, 2017, December 27, 2017, and December 31, 2018 dividends were extraordinary dividends and were approved by the Bureau on May 15, 2017, November 29, 2017, and December 7, 2018, respectively.

TERRITORY AND PLAN OF OPERATION

At December 31, 2021, the Company's service area included 125 Virginia counties and cities, the District of Columbia and the entire states of Connecticut, Delaware, Georgia, Illinois, Maryland, Massachusetts, New Jersey, North Carolina, Oregon, Pennsylvania, and Washington.

Services are provided by dentists in independent practice within the Company's service area. The Company markets dental HMO (DHMO), preferred provider organization (PPO) and exclusive preferred provider organization (ePPO) plans in a variety of plan designs. DHMO plans require each member to choose a participating general dentist from a list of the Company's participating general dentists. Members can also receive treatment from participating specialists with a referral from their primary dentist. Under the PPO plans, members can receive treatment from any licensed dentist or choose from a list of participating dentists. PPO plan members may go to a specialist without a referral. Under the ePPO plans, members must use only participating in-network dentists, but no prior selection of a dentist is required. These members may also go to a participating in-network specialist without a referral.

PROVIDER AGREEMENTS

The Company has entered into agreements with numerous participating general dentists and specialists to provide dental services to members. The Company utilizes leased networks to supplement its own PPO network. Most DHMO plan participating general dentists are paid a monthly capitation fee based on the number of members enrolled with the participating general dentist and on the type of product chosen by the member. Under the DHMO plan, specialists are paid on a discounted fee for service basis. PPO and ePPO plan providers are paid on a discounted fee for service basis.

CONTRACT FORMS

Contracts are available on both an individual and group basis. Basic contract services include office visits, oral examinations, cleanings, x-rays, fillings, crowns and bridges, dentures, oral surgery, root canals, periodontics and orthodontics. Under the DHMO and ePPO plans, any treatment received from a non-participating dentist or specialist, other than emergency services, is not covered by the Company and the member is fully liable for all charges. PPO plan benefit amounts vary depending on whether the member receives services from a participating or a non-participating provider. The above are abbreviated descriptions of the coverages and each contract may vary.

GROWTH OF THE COMPANY

The following data is representative of the growth of the Company for the ten-year period ending December 31, 2021. The data is compiled from the Company's filed Annual Statements, previous examination reports, and the current examination report. In accordance with SSAP No. 68, Business Combinations and Goodwill, the 2015 financial data includes DentaQuest Mid-Atlantic, Inc. and DentaQuest Virginia, Inc., which merged with the Company effective July 1, 2016. The 2019 financial data includes Dominion National Insurance Company, which merged with the Company effective March 18, 2020.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital and Surplus</u>
2012	\$6,723,034	\$2,535,195	\$4,187,839
2013	7,081,696	2,556,215	4,525,481
2014	8,619,960	2,638,890	5,981,070
2015	18,256,319	5,635,652	12,620,667
2016	20,779,083	9,250,964	11,528,119
2017	17,880,869	7,660,131	10,220,738
2018	16,521,146	7,027,382	9,493,764
2019	23,357,258	6,608,074	16,749,184
2020	30,218,776	9,035,712	21,183,064
2021	35,415,477	7,645,557	27,769,920

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gain (Loss)</u>	<u>Dental Expenses</u>	<u>Administrative Expenses</u>	<u>Pre-Tax Income (Loss)</u>
2012	\$19,296,895	\$25,057	\$13,739,863	\$5,046,143	\$535,946
2013	22,028,813	23,423	15,654,278	5,879,050	518,908
2014	25,592,232	23,256	15,537,740	7,742,836	2,334,912
2015	62,287,522	33,954	36,924,576	19,243,936	6,152,964
2016	67,220,739	41,279	41,550,162	19,738,207	5,973,649
2017	66,430,922	(129,120)	41,012,395	21,392,675	3,896,732
2018	66,339,528	155,230	39,754,734	22,231,567	4,508,457
2019	63,012,501	247,899	38,206,386	20,323,335	4,730,679
2020	67,334,707	220,019	36,084,735	21,157,342	10,312,649
2021	68,562,599	181,782	40,325,058	20,117,792	8,301,531

The Company's enrollment data at year-end is illustrated as follows:

<u>Year</u>	<u>Number of Members</u>
2012	90,360
2013	95,522
2014	107,486
2015	212,301
2016	198,306
2017	192,147
2018	180,468
2019	165,739
2020	150,192
2021	148,750

SPECIAL RESERVES AND DEPOSITS

At December 31, 2021, the Bureau required the Company to maintain a minimum deposit of \$1,550,000 with the Treasurer of Virginia. Of the total amount held with Virginia, \$50,000 is to meet Virginia's deposit requirements. The remaining \$1,500,000 is for the benefit of all policyholders and meets Illinois' deposit requirements. Additionally, the Company maintains the following minimum deposits to meet the respective states' deposit requirements: \$200,000 for Georgia, \$100,000 for Maryland, \$100,000 for Massachusetts, \$100,000 for New Jersey, \$400,000 for North Carolina, and \$55,000 for Oregon. The Company also has a surety bond in the amount of \$150,000 to meet Washington's deposit requirement.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Bureau and present the financial condition of the Company for the period ending December 31, 2021. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2021.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$16,299,257		\$16,299,257
Cash, cash equivalents and short-term investments	<u>12,934,782</u>		<u>12,934,782</u>
Subtotals, cash and invested assets	\$29,234,039		\$29,234,039
Investment income due and accrued	49,484		49,484
Uncollected premiums and agents' balances in the course of collection	5,334,445		5,334,445
Amounts receivable relating to uninsured plans	525,451		525,451
Net deferred tax asset	106,756		106,756
Guaranty funds receivable or on deposit	157,050		157,050
Aggregate write-ins for other than invested assets	<u>88,911</u>	<u>80,659</u>	<u>8,252</u>
Total assets	<u>\$35,496,136</u>	<u>\$80,659</u>	<u>\$35,415,477</u>

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	\$3,219,672
Unpaid claims adjustment expenses	95,418
Aggregate health policy reserves	15,762
Premiums received in advance	1,168,663
General expenses due or accrued	810,665
Current federal income tax payable	122,737
Amounts due to parent, subsidiaries and affiliates	407,725
Aggregate write-ins for other liabilities	<u>1,804,915</u>
Total liabilities	<u>\$7,645,557</u>
Common capital stock	\$1,000,000
Gross paid and contributed surplus	9,027,259
Unassigned funds (surplus)	<u>17,742,661</u>
Total capital and surplus	<u>\$27,769,920</u>
Total liabilities, capital and surplus	<u><u>\$35,415,477</u></u>

STATEMENT OF REVENUES AND EXPENSES

Net premium income	\$40,592,140
Change in unearned premium reserve and reserve for rate credits	(4,521)
Risk revenue	<u>27,974,980</u>
Total revenues	<u>\$68,562,599</u>
Hospital and Medical	
Hospital/medical benefits	\$31,137,595
Outside referrals	<u>9,187,463</u>
Total hospital and medical	\$40,325,058
Claims adjustment expenses	1,108,835
General administrative expenses	<u>19,008,957</u>
Total underwriting deductions	<u>\$60,442,850</u>
Net underwriting gain	<u>\$8,119,749</u>
Net investment income earned	<u>\$181,782</u>
Net investment gains	<u>\$181,782</u>
Net income before federal income tax	\$8,301,531
Federal income taxes incurred	<u>1,718,601</u>
Net income	<u><u>\$6,582,930</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Capital and surplus prior reporting year	<u>\$11,528,119</u>	<u>\$10,220,738</u>	<u>\$9,493,764</u>	<u>\$16,749,184</u>	<u>\$21,183,064</u>
Adjustment from prior examination	\$1,046,338				
Adjustment to reflect merger*			\$3,588,710		
GAINS AND LOSSES TO CAPITAL AND SURPLUS					
Net income	1,912,207	\$3,352,596	3,696,189	\$7,981,126	\$6,582,930
Change in net unrealized capital gains (losses)	(307)				
Change in net deferred income tax	(165,620)	16,194	14,305	(31,812)	(32,065)
Change in nonadmitted assets	(49,999)	(95,764)	(43,784)	84,566	35,991
Change in surplus notes	(250,000)				
Capital changes:					
Transferred to surplus			(452)		
Surplus adjustments: Paid in			452		
Dividends to stockholders	<u>(3,800,000)</u>	<u>(4,000,000)</u>		<u>(3,600,000)</u>	
Net change in capital and surplus	<u>(\$1,307,381)</u>	<u>(\$726,974)</u>	<u>\$7,255,420</u>	<u>\$4,433,880</u>	<u>\$6,586,856</u>
Capital and surplus end of reporting year	<u>\$10,220,738</u>	<u>\$9,493,764</u>	<u>\$16,749,184</u>	<u>\$21,183,064</u>	<u>\$27,769,920</u>

*For comparison purposes, 2019 financial data includes Dominion National Insurance Company which merged with the Company effective March 18, 2020.

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$39,160,371
Net investment income	247,980
Miscellaneous income	27,974,980
Total	<u>\$67,383,331</u>
Benefit and loss related payments	\$42,316,310
Commissions, expenses paid and aggregate write-ins for deductions	19,426,660
Federal income taxes paid	1,581,332
Total	<u>\$63,324,302</u>
Net cash from operations	<u>\$4,059,029</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$7,706,000
Total investment proceeds	<u>\$7,706,000</u>
Cost of investments acquired (long-term only):	
Bonds	\$11,378,036
Total investment acquired	<u>\$11,378,036</u>
Net cash from investments	<u>(\$3,672,036)</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	\$245,384
Net cash from financing and miscellaneous sources	<u>\$245,384</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$632,377
Cash and short-term investments:	
Beginning of the year	12,302,405
End of the year	<u>\$12,934,782</u>

SUBSEQUENT EVENTS

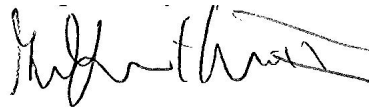
On March 31, 2022, the Company filed a notice with the Bureau to pay an ordinary cash dividend of \$6.5M to DDUSA. The Bureau did not object to the payment and the dividend was paid on April 25, 2022.

On October 31, 2022, the Company filed a notice with the Bureau to pay an ordinary cash dividend of \$8.1M to DDUSA. The Bureau did not object to the payment and the dividend was paid on November 21, 2022.

ACKNOWLEDGEMENT

The courteous cooperation extended by the Company's officers and employees during the course of the examination is gratefully acknowledged. In addition to the undersigned, Kevin Knight, CFE, Ben MacKercher, CFE, and Alyssa Marinoble participated in the work of the examination.

Respectfully submitted,



Gerald Tyrone Hicks II, AFE
Senior Insurance Examiner



March 15, 2023

Mr. David H. Smith, CFE, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

RE: Dominion Dental Services, Inc.
Examination Report as of December 31, 2021

Dear Mr. Smith:

In reference to your letter dated March 14, 2023, this letter serves as written acknowledgement of receipt of the draft Examination Report of Dominion Dental Services, Inc. ("Dominion") as of December 31, 2021.

Dominion does not require additional copies of the report.

We would also like to acknowledge the courtesy and professionalism of Gerald Hicks and the rest of the team performing this examination.

Sincerely,

DocuSigned by:
Mike Davis
BC40E32C3ED34AE...
Michael J. Davis, Jr.
President