



**STATE OF TENNESSEE**  
**DEPARTMENT OF COMMERCE AND INSURANCE**

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**REPORT ON EXAMINATION**  
**OF**  
**DELTA DENTAL OF TENNESSEE**  
**(NAIC # 54526)**  
**NASHVILLE, TENNESSEE**

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**AS OF**  
**December 31, 2017**

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Nashville, Tennessee  
February 22, 2019

Honorable Julie Mix McPeak  
Commissioner  
Tennessee Department of Commerce and Insurance  
500 James Robertson Parkway  
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated (“Tenn. Code Ann.”) § 56-1-408, a full-scope financial examination and a market conduct review, as of December 31, 2017, has been made of the condition and affairs of:

**DELTA DENTAL OF TENNESSEE**  
NAIC # 54526  
240 Venture Circle  
Nashville, Tennessee 37228

hereinafter referred to as the “Company” and a report thereon is submitted as follows:

## **INTRODUCTION**

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or “Department”). The examination was conducted by duly authorized representatives of the Department.

## **SCOPE OF EXAMINATION**

The last examination of the Company was made as of December 31, 2012. This examination covers the period from January 1, 2013, through December 31, 2017, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of the examination. The Company has authority to write business only in the State of Tennessee; therefore, no examination coordination with any other states was necessary.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee and in accordance with practices and

procedures promulgated by the National Association of Insurance Commissioners (NAIC) in the *Financial Condition Examiners Handbook* (“Handbook”), as deemed appropriate. The examination sought to identify prospective risks by obtaining information about the Company, including its corporate governance. Significant inherent risks within the Company were reviewed and assessed. Controls and mitigation for those significant risks were also reviewed. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management’s compliance with statutory accounting principles and annual statement instructions.

All significant risks were reviewed when planning which key activities and accounts would be examined. The key activities included: Underwriting; Reserving; Claims; Related Parties; Investments; Expenses; and Reinsurance.

The Company’s 2017 annual statement was reconciled to the corresponding general ledger account balances.

Independent information technology specialist services, provided by Lewis & Ellis, Inc., were utilized in the examination review of the Company’s information technology general controls.

A separate market conduct review was also performed concurrently with the financial examination. See the “Market Conduct Activities” section of this report for more information.

The actuarial firm of Lewis & Ellis, Inc. was utilized in the examination review of the Company’s reserving practices.

The Company’s Certified Public Accountant (CPA) workpapers were reviewed for the 2017 audit and copies were incorporated into the examination, as deemed appropriate.

## **COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS**

The examination included a review to determine the current status of the comment in the previous report on examination, as of December 31, 2012, which covered the period from January 1, 2008, through December 31, 2012. A summary of the examination comment and the Company’s response is discussed below:

### **Comment**

The Company is a named insured on a fidelity bond issued to its affiliate, Renaissance Health Service Corporation, with a separate single loss limit of coverage of \$500,000, and a deductible of \$1,000. It is suggested that the Company evaluate the adequacy of its coverage and consider increasing its fidelity bond protection to the amount suggested in the NAIC Handbook.

### **Current Status**

The Company assessed its fidelity protection and determined that it was comfortable with the level of protection provided by the fidelity bond issued to RHSC. It is suggested that the Company continue to evaluate the adequacy of its coverage and consider increasing its fidelity bond protection to the amount suggested in the NAIC Handbook.

## **COMPANY HISTORY**

The Company was incorporated under Tennessee law on September 20, 1965, as the Tennessee Dental Service Corporation. It was organized pursuant to the "Dental Service Plan Law, 1961," Tenn. Code Ann. § 56-30-101 *et seq.* The Company was issued a Certificate of Authority on July 17, 1969, to commence the business of a dental service plan. On October 6, 1970, the Company's name was changed to Delta Dental Plan of Tennessee. The Company formed Delta Dental Service, a nonprofit corporation, on February 19, 1993. Effective June 29, 1993, Delta Dental Service and the Company merged and Delta Dental Plan of Tennessee became the surviving corporation. Effective March 12, 2005, the Company changed its name to Delta Dental of Tennessee.

The Company is owned by Renaissance Health Service Corporation (RHSC or "Member"), a Michigan-based non-profit corporation. RHSC is the ultimate controlling party for a number of other dental insurance entities operating under the "Delta Dental" name. Tennessee's insurance holding company law (Tenn. Code Ann. Title 56 Chapter 11) specifies that it does not apply to dental service plan corporations like the Company; so, the Company is exempt from the holding company filing and examination requirements.

## MANAGEMENT AND CONTROL

### MANAGEMENT

#### Directors

The operation and administration of the Company are the responsibility of a Board of Directors ("Board") consisting of not less than nine (9) nor more than eleven (11) directors. The Board is composed of dentists and public (non-dentist) directors. Pursuant to the Bylaws of the Company, the Board should be comprised primarily of public directors.

The Board shall be elected each year by RHSC, the sole member of the Company. The terms of the directors elected each year shall be for three (3) years. Directors may serve for up to three (3) full terms, but not to exceed ten (10) years.

The following persons were duly elected to serve on the Board as of December 31, 2017:

<u>Name</u>	<u>Principal Occupation</u>
Paul Bacon, Jr., DDS	Dentist, Paul Bacon, Jr., DDS
Victor Beck, Jr., DDS	Dentist, Beck Dental Care
Fredrick "Rick" Guthrie, Jr., DDS	Dentist, Guthrie Dentistry
Jed Jacobson, DDS	Chief Science Officer, Delta Dental of MI
Brad Lampley	Attorney, Adams & Reese LLP
Drew Robinson	Attorney, Law Offices of Drew Robinson
Leslie Sellers	Appraiser, Sellers Realty Company
Evette White	Chief Executive Officer (CEO), Executive Selection
Philip Wenk, DDS	CEO, Delta Dental of TN
Laura Czelada	CEO, Delta Dental of MI, OH, and IN

#### Officers

Pursuant to the Bylaws, the officers of the Company shall consist of a Chair of the Board, Vice Chair, Second Vice Chair, Immediate Past Chair, President, Secretary and Treasurer, and any other officers as may be elected or appointed by the Board. Officer elections are held annually and terms for officers other than the President, Secretary, and Treasurer last for three (3) years.

The following persons served as the Company's officers as of December 31, 2017:

<u>Name</u>	<u>Title</u>
Victor Beck, Jr. DDS	Chair
Drew Robinson	Vice Chair
Paul Bacon, Jr. DDS	Second Vice Chair
Leslie Sellers	Immediate Past Chair
Philip Wenk, DDS	President
Jeffrey Ballard, CPA	Secretary and Treasurer

### Committees

Pursuant to the Bylaws, the Company is required to have an Executive and Compensation Committee, an Audit and Finance Committee, a Nominating Committee, an Investment Committee, and a Quality Assurance and Improvement Committee. In addition to these, the Board has established a Corporate Citizenship Committee.

### CONTROL

Control of the Company is vested in its member pursuant to Tenn. Code Ann. § 56-30-103. The sole member of the Company is RHSC, which is a Michigan Non-Profit Corporation. RHSC is also the sole member of other Delta Dental Plans located in other states. A further discussion of the relationship is contained in the "Management Agreements" section of this report.



### **Dividends**

No dividends or distributions have been paid to RHSC since the inception of the Company.

### **CORPORATE RECORDS**

The minutes of meetings of the Company's Board and Committees were reviewed for the period under examination. They appear to adequately reflect the acts of the respective bodies.

The Company's Charter did not have any amendments during the examination period. The Company's Bylaws were amended by the Board on May 13, 2014, March 20, 2015, and March 24, 2017, but no significant changes were made. The Company's responses to the General Interrogatories each year during the period under examination indicated there were no changes to the Bylaws during this period. See the "Comments and Recommendations" section for more information.

## **MANAGEMENT AGREEMENTS**

### **Affiliation Agreement**

In late 2005, the Company entered an affiliation agreement with Delta Dental Plan of Michigan, Inc. (DDPMI), a Michigan nonprofit corporation, and Dental Health Plan, Inc. (subsequently renamed "Renaissance Health Services Corporation"), a Michigan nonprofit corporation. The agreement was amended on September 1, 2008, as part of an effort to make the individual affiliation arrangements of each affiliated Delta Dental Company consistent. In general, the purpose of the affiliation is to enable the companies to achieve certain long-term goals such as improved operational efficiencies and to allow for diversification through other affiliated for-profit companies.

RHSC is the sole voting member of the Company and DDPMI. Under the terms of the affiliation agreement, the Company remains a separate corporation with a separate Board. The Board of the Company continues to designate its own CEO and approve its own budget and investments. Additionally, the Company retains its voting rights in Delta Dental Plans Association (DDPA). RHSC has the right to nominate two (2) individuals to serve as voting directors on the Boards of the Company and DDPMI.

### **Administrative Services**

Effective June 1, 2007, the Company entered into an agreement with DDPMI to provide computer services and related support allowing the Company to process dental claims. This agreement was amended effective February 1, 2008, to allow DDPMI to provide additional administrative services to the Company and to state that the Company would

pay the actual cost incurred and reasonably allocable costs associated with the services provided.

Effective December 21, 2009, the Company and Renaissance Life and Health Insurance Company of America entered into an agreement whereby each party would provide certain administrative services to the other as needed, and the recipient of such services would pay the actual cost incurred and reasonably allocable costs associated with the services provided.

A similar agreement for administrative services superseded the 2009 agreement in February of 2017. Administrative services offered by DDPMI to the Company in 2017 included human resources, group administration, software support, customer service support, actuarial services, underwriting services, accounting and investment services, legal services, and IT services.

### **Claims Processing Services**

Through an administrative services agreement between DDPMI and the Company, DDPMI provides numerous claims processing services to the Company. Claims processing services offered by DDPMI to the Company in 2018 included claims scanning, processing, adjudication, and printing, focused review, automated correspondence, electronic data interchange transaction processing, rating, reporting, dashboards, and individual enrollment and billing system use.

As a best practice, it is suggested that the Company consider amending the three agreements above to include formally-documented service level agreements (SLA). An SLA ensures particular aspects of the services, including quality, availability, and responsibilities, are agreed upon by the parties involved. Given the integral role DDPMI services play in the Company's day-to-day operations, a formally documented and executed SLA is viewed as an essential component of the contracting process. While the Company has properly executed agreements with its affiliates, it is considered a "best practice" to ensure SLAs are in place for these types of agreements. See the "Comments and Recommendations" section later in this report.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company is insured on a fidelity bond issued to its affiliate, RHSC. The Company's current fidelity coverage is below the amount recommended by the NAIC for companies similar to the Company. See the "Comments and Recommendations" section later in this report.

## **TERRITORY AND PLAN OF OPERATION**

### **TERRITORY**

As of December 31, 2017, and as of the date of this report, the Company was licensed to transact business only in the State of Tennessee.

### **PLAN OF OPERATION**

The Company provides services under written contracts which entitle the subscribers to reimbursement for certain dental services provided by licensed dentists. Both local and national contracts are administered, providing subscribers access to the local provider networks maintained by the Company, as well as the national provider networks of the Delta Dental system under the Delta USA program. The Company captures the core of Tennessee's mid-market by targeting small groups and midsized companies, including government programs, domestic agencies, and individuals.

The Company offers two basic products: (1) Delta Premier – a fee-for-service product, and (2) Delta PPO Preferred Option – a discounted PPO product. The usual term of coverage is for one (1) year, and all accounts are billed on a monthly basis. The Company markets its products via direct sales through its internal marketing department and independent agents.

The Company also earns income through administering Administrative Service Contracts. Under these contracts, the Company acts as the dental service plan administrator for clients who wish to self-insure. The Company pays claims for these contracts using Company funds and is reimbursed weekly or monthly by clients, charging an administrative fee in the process.

The Company is also dedicated to providing contributions to nonprofit organizations for the overall goal of oral health.

Due to legislative changes occurring in 2018, the Company is now able to provide vision service plans in addition to its dental service plans. The Company has begun selling vision service plans in 2019. See the "Subsequent Events" section later in this report.

## GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination, as recorded in its annual statements filed with the Department:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Total Capital &amp; Surplus</u>	<u>Net Earned Premiums</u>	<u>Net Income</u>
2017	\$84,476,692	\$24,286,700	\$60,189,992	\$162,986,024	\$4,560,344
2016	\$74,201,672	\$19,212,656	\$54,989,016	\$148,935,837	\$2,068,613
2015	\$71,688,893	\$20,271,831	\$51,417,062	\$169,981,955	\$4,548,992
2014	\$74,713,842	\$28,410,470	\$46,303,372	\$145,583,043	<sup>1</sup> (\$8,291,581)
2013	\$69,836,419	\$16,004,370	\$53,832,049	\$130,157,660	\$5,084,717

## LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements, the ratios of losses and loss adjustment expenses (LAE) to earned premiums for the period subject to this examination were as follows:

<u>Year</u>	<u>Losses &amp; LAE</u>	<u>Earned Premiums</u>	<u>Loss Ratio</u>
2017	\$145,433,366	\$162,986,024	80.63%
2016	\$134,349,837	\$148,935,837	81.43%
2015	\$154,867,371	\$169,981,955	83.28%
2014	\$132,319,718	\$145,583,043	81.93%
2013	\$119,690,385	\$130,157,660	82.48%

## REINSURANCE

The Company was not a party to any reinsurance agreement at December 31, 2017. No reinsurance agreements have existed since the Company's inception.

## ACCOUNTS AND RECORDS

During the period under examination, the Company maintained a custodial agreement with First Tennessee Bank National Association effective May 19, 2008. The TDCI determined that this agreement was not in compliance with the requirements set forth in Tenn. Comp. R. & Regs. 0780-01-46-.02. Subsequent to the period under examination,

<sup>1</sup> The Company declared a \$12,000,000 charitable contribution in 2014 to fund the Smile 180 Foundation.

on January 8, 2018, the Company entered into an updated custodial agreement to comply with this regulation.

In addition to the agreement mentioned above, the Company maintained an agreement with Commonwealth Financial Services, LLC (CFS) for investment advisory services which included a provision for the custody of investments with National Financial Services LLC (NFS). This agreement does not comply with the provisions set forth in the regulation mentioned above. See the "Comments and Recommendations" section later in this report.

The NAIC *Annual Statement Instructions for Health Insurance Companies* (including dental insurers) require the Appointed Actuary of the Company to report to the Board or Audit Committee each year on the items within the scope of the Actuarial Opinion ("Opinion"). The Opinion and Actuarial Memorandum ("Memorandum") must also be made available to the Board. The Company is required to document this presentation, as well as the availability of the Opinion and Memorandum. While reviewing the Board minutes during the examination, sufficient documentation was not found to evidence compliance with these instructions. See the "Comments and Recommendations" section later in this report.

The Company's 2017 annual statement was reconciled to the corresponding general ledger account balances. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. These test checks and reviews revealed no material discrepancies. Accounting records conformed to statutory accounting practices and appear to properly reflect the operations and status of the Company during the period under examination.

The Company's Risk Based Capital Report was reviewed. The Company was in compliance with Tenn. Code Ann. § 56-46-101, *et seq.* (Risk Based Capital for Insurers).

Books and records of the Company are kept at the home office location in Nashville, Tennessee.

## MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company, as of December 31, 2017, in conjunction with this examination. The following items were addressed:

### Operations and Management

The Company's policies and procedures related to privacy and confidentiality implemented in response to the Health Insurance Privacy and Accountability Act were reviewed for adequacy. It was determined the Company does have adequate policies in place to protect the privacy of non-public personal information relating to its customers and former customers. Company anti-fraud initiatives were examined to determine if they are reasonably designed to prevent, detect, or mitigate fraudulent insurance acts. No issues were noted.

### Complaint Handling

The Company maintains a complaint register, as required by various state Unfair Trade Practices Acts, and the register and the accompanying files are maintained for a minimum of five (5) years in accordance with statutory requirements. The Company's complaint procedures and complaint register were examined in accordance with requirements of Tenn. Code Ann. § 56-8-104(11) and the NAIC 2017 *Market Regulation Handbook* ("Market Handbook").

### Advertising

Advertising items were selected for examination. Advertising items were examined in accordance with Tenn. Code Ann. § 56-8-104(1) and the Market Handbook and were found to be in compliance.

### Producer Licensing

Tenn. Code Ann. §§ 56-6-101, *et seq.*, requires the Company to sell its products and services through producers who are properly licensed and appointed by the Company. In the examination of producer licensing, a random sample of producers were selected, and their state issued licensure and appointment by the Company were verified. This review revealed no significant issues.

### Policyholder Services

The Company's timeliness of response to policyholder requests, provision of adequate disclosures, and compliance with applicable statutes and rules were examined. The Company was found to be in compliance with the relevant market conduct standards.

### **Underwriting and Rating**

In the examination of the Company's underwriting procedures and policy administration, policy files for open and closed policies were reviewed in accordance with established Company guidelines. During the examination of these contracts, there were no instances of unfair methods of competition or unfair or deceptive acts found. Underwriting procedures and policy administration conducted by the Company appear to be in compliance with established Company guidelines.

A sample of the policy forms that were used by the Company during the period under examination was reviewed. All rates were noted, without exception, as having been filed with the TDCI prior to their use in accordance with Tenn. Code Ann. § 56-35-111. The filings are consistent in form and included appropriate documents.

### **Claims**

In the examination of claims handling practices, the Company's efficiency of handling, accuracy of payment, adherence to contract provisions, and compliance with applicable statutes and rules were examined. The Company's claims were properly documented and handled in accordance with the Company's policy provisions and applicable statutes and rules. No issues or concerns were identified.

### **Provider Credentialing**

The Company has a credentialing and re-credentialing program in place in order to ensure compliance with Tenn. Code Ann. § 56-30-111(7), which requires the Company to maintain a provider network of at least fifty-one percent (51%) of the resident dentists in each county or twenty-five percent (25%) of all dentists duly licensed to practice in this state under Title 63, Chapter 5.

## **SUBSEQUENT EVENTS**

The Company began selling vision service plans subsequent to the period under examination. Effective April 2, 2018, Tenn. Code Ann. § 56-30-135 allows the Company, and any other entities choosing to become dental service plan corporations in the future, to offer vision service plans in Tennessee under the Vision Service Plan Law, Tenn. Code Ann. Title 56, Chapter 31. This statute allows a dental service plan corporation to offer vision service plans without obtaining a separate license, as long as it is providing dental service plans in Tennessee.

## FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of revenue and expenses, as of December 31, 2017, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its 2017 annual statement.

### ASSETS

	<u>Assets</u>	<u>Non-admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$44,267,758		\$44,267,758
Stocks	20,376,569		20,376,569
Real Estate	1,680,464		1,680,464
Cash and equivalents	4,436,908		4,436,908
Other Invested Assets	738,411	\$220,000	518,411
Accrued Investment Income	358,596		358,596
Uncollected Premiums	2,904,251	16,223	2,888,028
Furniture and Equipment	1,462,206	1,462,206	
Aggregate Write-ins	<u>10,298,617</u>	<u>348,659</u>	<u>9,949,958</u>
<b>Total assets</b>	<u>\$86,523,780</u>	<u>\$2,047,088</u>	<u>\$84,476,692</u>

### LIABILITIES, CAPITAL, AND SURPLUS

Claims unpaid		\$6,779,989
Unpaid claims adjustment expenses		576,996
Aggregate health policy reserves		680,515
Premiums received in advance		2,457,796
General expenses due or accrued		4,263,380
Amounts withheld or retained for the account of others		907,438
Amounts due to parent, subsidiaries, and affiliates		2,952,823
ASC Unpaid Claims		<u>5,667,763</u>
<b>Total liabilities</b>		<b>\$24,286,700</b>
2018 ACA Fees	\$1,419,244	
Statutory Reserve	44,041,119	
Unassigned funds (surplus)	<u>14,729,629</u>	
<b>Total capital and surplus</b>		<u>60,189,992</u>
<b>Totals</b>		<u>\$84,476,692</u>

**STATEMENT OF REVENUE AND EXPENSES**

**UNDERWRITING INCOME**

Premiums earned		\$162,986,024
Deductions:		
Losses incurred	\$131,412,323	
Loss adjustment expenses incurred	14,021,043	
General administrative expenses incurred	<u>8,592,561</u>	
Total underwriting deductions		<u>154,025,927</u>
Net underwriting gain (loss)		8,960,097

**INVESTMENT INCOME**

Net investment income earned	1,748,089	
Net realized capital gains (losses)	<u>1,698,951</u>	
Net investment gain (loss)		3,447,040

**OTHER INCOME/LOSSES**

Contributions		(7,929,687)
Total other income		<u>82,894</u>
Net income		<u>\$4,560,344</u>

**CAPITAL AND SURPLUS ACCOUNT**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total Capital and Surplus, December 31 prior year	\$54,989,016	\$51,417,062	\$46,303,372	\$53,832,049	\$48,713,309
Net Income	4,560,344	2,068,613	4,548,992	(8,291,581)	5,084,717
Change in net unrealized capital gains	139,826	767,201	(53,907)	19,473	1,095,714
Change in non-admitted assets	500,806	736,140	618,605	787,727	(690,074)
Aggregate write-ins for losses in surplus	0	0	0	(44,296)	(371,617)
Net Change in capital and surplus	<u>5,200,976</u>	<u>3,571,954</u>	<u>5,113,690</u>	<u>(7,528,677)</u>	<u>5,118,740</u>
Total Capital and Surplus, December 31 current year	<u>\$60,189,992</u>	<u>\$54,989,016</u>	<u>\$51,417,062</u>	<u>\$46,303,372</u>	<u>\$53,832,049</u>

## ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus

\$60,189,992

Total capital and surplus, as established by this examination, is the same as what was reported by the Company in its 2017 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2017.

## COMMENTS AND RECOMMENDATIONS

### Comments

1. As noted in the "Fidelity Bonds and Other Insurance" section of this report, the Company is a named insured on a fidelity bond issued to its affiliate, RHSC, that is lower than the amount recommended by the NAIC for companies similar in size. It is suggested that the Company evaluate the adequacy of its coverage and consider increasing its fidelity bond protection to the amount suggested by the NAIC.
2. As noted in the "Management Agreements" section of this report, the Company has not executed formal SLAs to support its administrative and affiliate agreements with DDPMI or RHSC. Given the integral role DDPMI IT systems and support plays to the Company's day-to-day operations, a formally documented and executed SLA is viewed as imperative as a component of the contracting process. As a best practice, the Company should consider executing a formally documented SLA to ensure that particular aspects of the services, including quality, availability, and responsibilities, are agreed upon by DDPMI, RHSC, and the Company.

### Recommendations

1. As noted in the "Management and Control" section of this report, the Board voted to amend the Bylaws three (3) times during the period under examination. These amendments were implemented May 13, 2014, March 20, 2015, and March 24, 2017. However, when completing the General Interrogatories in its financial statements for those years, the Company answered "No" to Interrogatory 2.1, which asks, "Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?" It is recommended that the Company always comply with the NAIC *Annual Statement Instructions for Health Insurance Companies* in accordance with Tenn. Code Ann. § 56-1-501(b).

2. As noted in the "Accounts and Records" section of this report, the Company's custodial agreement with CFS, in which investments are in the custody of NFS was not in compliance with Tenn. Comp. R. & Regs. 0780-01-46. It is recommended that the Company maintain all of its invested assets under a custodial agreement that complies with Tenn. Comp. R. & Regs. 0780-01-46.
  
3. As noted in the "Accounts and Records" section of this report, the NAIC Annual Statement Instructions require the Appointed Actuary of the Company to report to the Board or Audit Committee each year on the items within the scope of the Actuarial Opinion ("Opinion"). The Opinion and Actuarial Memorandum ("Memorandum") must also be made available to the Board. The Company is required to document this presentation, as well as the availability of the Opinion and the Memorandum in the Board minutes. While reviewing the minutes, no sufficient evidence was found to comply with these instructions. It is recommended that the Company always comply with the NAIC *Annual Statement Instructions for Health Insurance Companies* in accordance with Tenn. Code Ann. § 56-1-501(b).

## CONCLUSION

The customary insurance examination practices and procedures, as promulgated by the NAIC, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Delta Dental of Tennessee.

In such manner, it was found that, as of December 31, 2017, the Company had admitted assets of \$84,476,692 and liabilities, exclusive of surplus, of \$24,286,700. Thus, there existed for the additional protection of the policyholders, the amount of \$60,189,992 in the form of aggregate write-ins for other than special surplus funds and unassigned funds (surplus). Tenn. Code Ann. §§ 56-2-114 and 56-2-115 require an insurer of this Company's type to maintain a minimum surplus of \$2,000,000. For this examination, as of December 31, 2017, the Company maintained surplus sufficient to satisfy the requirements of Tenn. Code Ann. §§ 56-2-114 and 56-2-115.

The courteous cooperation of the officers and employees of the Company, extended during the course of the examination, is hereby acknowledged.

In addition to the undersigned, Dustin Rice and Kyle Center, Insurance Examiners for the State of Tennessee, and A. Jay Uselton, CFE, Supervising Examiner participated in the work of this examination. An actuarial review was performed by Michael A. Mayberry, FSA, MAAA, of Lewis & Ellis, Inc. of Allen, Texas. A review of the Company's information systems was performed by Lindsey Pittman, CPA, CFE, CISA, MCM, of Lewis & Ellis.

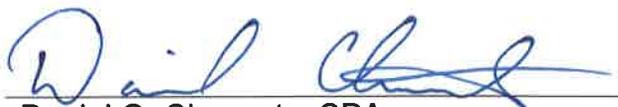
Respectfully submitted,



Daniel O. Clements, CPA  
Examiner-in-Charge  
State of Tennessee

# AFFIDAVIT

The undersigned deposes and says he has duly executed the attached examination report of Delta Dental of Tennessee located in Nashville, Tennessee, dated February 22, 2019, and made as of December 31, 2017, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.



Daniel O. Clements, CPA  
Examiner-in-Charge  
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

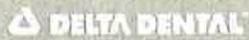
this 14th day of June, 2019

Mindy C. Walker  
(NOTARY)

My Commission Expires: 7-6-2020



# **EXHIBIT B**



Delta Dental of  
Tennessee  
240 Venture Circle  
Nashville, TN 37228  
Ph (800) 223-3104  
Fax: (615) 244-8108

June 11, 2019

E. Joy Little  
Director of Financial Examinations/Chief Examiner  
Tennessee Department of Commerce and Insurance  
500 James Robertson Parkway  
Nashville, TN 37243-1135

**RE: Report of Examination – Delta Dental of Tennessee**

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for **Delta Dental of Tennessee**, made as of December 31, 2017.

By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,

A handwritten signature in blue ink, appearing to read "Philip A. Wenk". The signature is fluid and cursive, with a large initial "P" and "W".

**Dr. Philip A. Wenk, D.D.S**  
**President and CEO**