

Report  
of the  
Examination of  
Doral Dental Plan of Wisconsin, Inc.  
Mequon, Wisconsin  
As of December 31, 2007

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

**Jim Doyle, Governor**  
**Sean Dilweg, Commissioner**

**Wisconsin.gov**

October 10, 2008

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Honorable Sean Dilweg  
Commissioner of Insurance  
State of Wisconsin  
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Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

DORAL DENTAL PLAN OF WISCONSIN, INC.  
Mequon, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Doral Dental Plan of Wisconsin, Inc., (hereinafter DDPWI, the company, or the LSHO) was conducted in 2003 as of December 31, 2002. The current examination covered the intervening period ending December 31, 2007, and included a review of such 2008 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing
- Enrollee Complaint Procedure
- Underwriting

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

## II. HISTORY AND PLAN OF OPERATION

The Doral Dental Plan of Wisconsin, Inc., is described as a for-profit network model limited service health organization (LSHO) insurer. A LSHO insurer is defined by s. 609.01 (3), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, a limited range of health care services performed by providers selected by the organization." Under the network model, the company provides care through contracts with clinics and otherwise independent physicians operating out of their separate offices. LSHOs compete with traditional fee-for-service health care delivery.

The company was incorporated February 10, 1995, and commenced business on June 30, 1995. The company is 100% owned by Doral Dental USA, LLC (DDUSA). Prior to the February 2004 acquisition by DentaQuest, Inc., DDUSA was 51.4% owned by MOA Investment, Inc. (a holding company), 23.13% by Craig Kasten, and 23.13% by Marie Kasten. The remaining 2.34% ownership of DDUSA was held by several shareholders. Effective February 20, 2004, DDUSA was purchased by DentaQuest, Inc., which is 100% owned by Dental Services of Massachusetts, Inc. (d/b/a Delta Dental of Massachusetts, Inc.).

DDPWI is a "point-of-service" dental plan. Enrollees of DDPWI may use their current dentist or may select a dentist from the plan's dental provider directory. The plan writes group coverage, provides dental services to prepaid health care plans and self-insured employer groups. DDPWI contracts with 81 providers (dentists) who either have an individual or partnership practice or practice in a clinic-operated office. Certain dental procedures require prior approval when performed by an out-of-network dentist. Dental services provided by DDPWI network dentists do not require prior approval with the exception of orthodontic procedures. All orthodontic services require prior approval. The member's coverage percentage depends upon the benefit plan and the member's choice of dentist. Services provided by a DDPWI network provider will result in a higher coverage percentage. Enrollees requesting covered services from an out-of-network

provider will pay the difference between the providers billed charge and the approved fee, when the approved fee is less.

All providers, dentists duly licensed by the state of Wisconsin, who desire to provide dental services to DDPWI enrollees, are required to be contracted through a Dental Provider Service Agreement. Providers agree to provide necessary and appropriate services within the scope of their licensure to enrollees of DDPWI and eligible enrollees of prepaid health care plans offered by other HMOs. Providers agree not to differentiate or discriminate in providing dental service to enrollees, as compared to non-enrollees. All providers will make their services available to enrollees during the same hours and with the same access as they do to non-enrollees.

The LSHO currently contracts with the following providers:

Margaret Aboagye, DDS	Natalie Johnson, DDS	A. Gregory Rodenbeck, DDS
Alvin Asby, DDS	Van Anh Le, DDS	Oren Roesler, DDS
Niles K. Bakke, DDS	Walter E. Lehrer, DDS	Toni M. Rouka, DDS
Barry Baumann, DDS	James M. Lipinski, DDS	Gerald Salinski, DDS
Craig A. Baumann, DDS	Grace L. Machi, DDS	Robert Schaub, DDS
Brian Blocher, DDS	James W. Mack, DDS	John Schoenecker, DDS
Julie Bloy, DDS	James W. Mack, DDS	Joseph Serflek, DDS
David S. Bogenschutz, DDS	John Malensek, DDS	Eugene B. Shoemaker, DDS
Timothy Bullion, DDS	James Markenson, DDS	Paramjit Sidhu, DDS
Craig Byers, DDS	Mark Meinhardt, DDS	Gregory Sobczak, DDS
Munir Chaudhry, DDS	Christopher Meyers, DDS	David Stangl, DDS
Steven Chybowski, DDS	Timothy R. Mielke, DDS	Christopher Stoeckl, DDS
Randy R. Ciepluch, DDS	Matthew Milana, DDS	Tanwir H. Syed, DDS
Colleen E. Conner, DDS	Donald Miller, DDS	Larry Tran, DDS
William Crinzi, DDS	Carlos Miro, DDS	Donald J. Wade, DDS
John M. Dickinson, DDS	Troy Molitor, DMD	L. Steven Ward, DDS
Carlton L Donowa, DDS	Richard Nellen, DDS	John Watson, DDS
Cindy Ebenhoch, DDS	Conrad Nenn, DDS	Scott Wirth, DDS
John Eichholz, DDS	Lanne Nguyen, DDS	Roland Wolferstetter, DDS
Dennis W. Engel, DDS	Christopher Okunseri, DDS	Timolin L. Boyd, DDS
Dale Falk, DDS	Natalie Peterson, DDS	Edward Buchanan, DDS
Lisa A. Fortunato, DDS	Wendy Pietz, DDS	Colleen E. Connor, DDS
Thomas Goddard, DDS	Mary Pryor, DDS	Paul Culver, DDS
Cesar Gonzales, DDS	Sameer Rambhia, DDS	Mark Knutson, DDS
Jon J. Gruchalski, DDS	Asma Razi, DDS	James M. Lipinski, DDS
Michael J. Hansen, DDS	Nagaveni Reddy, DDS	Neil J. Maguire, DDS
Christopher Jean, DDS	Wyanet Robinson, DDS	Thomas Tang, DDS

The provider contracts include hold-harmless provisions for the protection of policyholders and enrollees. The provision prevents providers from seeking "compensation,

remuneration, or reimbursement from, or have any recourse against any Member or persons acting on their behalf for providing covered services.” The contracts may be terminated with written notice by Doral Dental Plan of Wisconsin upon 30 days’ notice and by the provider upon 60 days’ notice. In the event of a material breach of the terms of the contract, either party may terminate the contract upon 60 days’ prior written notice to the other party.

Each service provided by a provider will be assigned an allowable value according to the DDPWI fee schedule attached to the Dental Provider Service Agreement. The allowable fee will be reduced to reflect patient co-payments when applicable.

Amounts deposited to the monthly Provider Liability Pool are computed by multiplying the net premium revenue received by a specified percentage. In the event DDPWI enters into a contract with a prepaid health plan or governmental agency to supply dental services to Medicaid or Medicare beneficiaries, DDPWI will maintain a separate Provider Liability Pool from premiums received by DDPWI for such services.

On a biweekly basis, DDPWI will disburse funds from the Provider Liability Pool by calculating a pro rata allocation based upon each provider’s allowable service fee as a ratio to that of all providers in the panel. The maximum monthly payout from the Provider Liability Pool will be 110% of the allowable fees of services rendered.

The DDPWI service area consists of the following Wisconsin counties:

Milwaukee	Ozaukee	Waukesha
Washington	Racine	Jefferson
Kenosha	Dane	

The LSHO offers a limited range of dental care coverage which may be changed by riders to include deductibles and co-payments. The following basic dental care coverages are provided:

<b>Covered Benefit</b>	<b>Participating Dentist</b>	<b>Non-participating Dentist</b>
Diagnostic & Emergency Services	100%	80%
Preventive Services	100	80
Basic Restorative Services	100	80
Endontic Services	100	80
Periodontic Services	100	80
Special Restorative Prosthetics	100	50
Oral Surgery	100	80

Prior authorization is required when enrollees seek treatment for non-paneled dentists for root canal treatment, periodontal services, complete and partial dentures, and bridge retainers. Orthodontic treatment requires prior authorization regardless of whether the provider is a paneled provider.

The LSHO currently does not actively market any products. Potential new clients approach the company about acquiring coverage instead of being sought out by the company.



### III. MANAGEMENT AND CONTROL

#### Board of Directors

The current board of directors consists of five members, each director serving a one-year term. Officers of the company are elected by consent of the board. The company's directors serve concurrently as members of other boards of directors in the holding company group. The officers and board members receive no compensation for serving.

At the date of this examination the board of directors consisted of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>
Robert E. Hunter Boston, MA	President, DentaQuest, Inc.
Fay Donahue Sudbury, MA	Senior Vice President, DentaQuest, Inc.
William Bradford Boston, MA	Senior Vice President, DentaQuest, Inc.
Patricia C. Ma Boston, MA	Senior Vice President, DentaQuest, Inc.
Steven J. Pollock Cedarburg, WI	President of Doral Dental USA, LLC

#### Officers

The officers appointed by the board of directors and serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>	<b>2007 Compensation</b>
Steven J. Pollock	President	\$0
Patricia C. Ma	Secretary	0
Gary D. Guengerich	Treasurer	0

#### Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The board has formed no committees on behalf of the company.

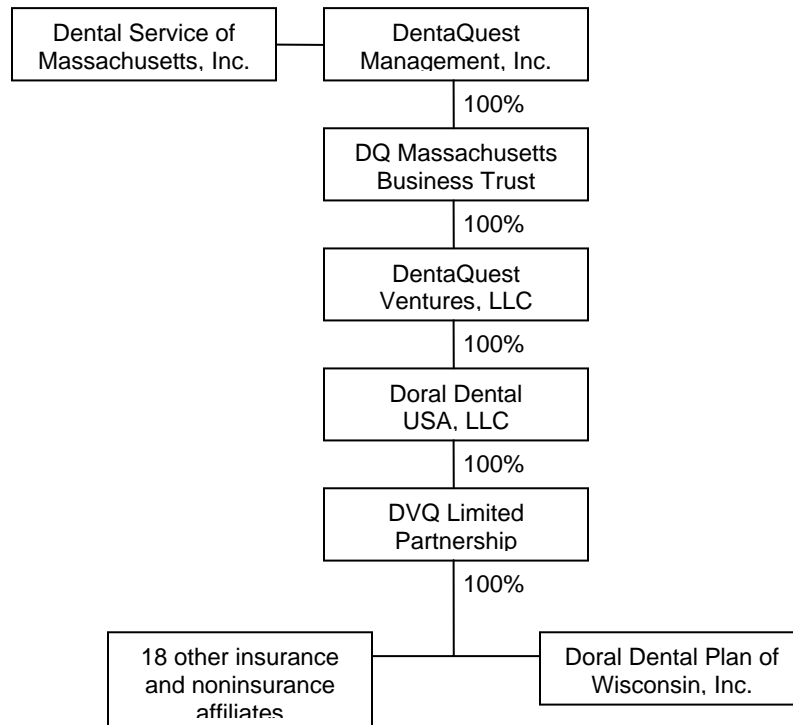
**Employees**

The LSHO has no employees. Staff is provided through a Management and Administrative Services Agreement between Doral Dental USA, LLC, and all of its affiliated dental insurance companies. Under the agreement, effective December 31, 2007, DDUSA agrees to negotiate employer, provider, subscriber, and other contracts; advises the board; maintains accounting and financial records; recruits marketing, utilization review, and claims processing personnel; and provides or contracts for claims processing and MIS. Doral Dental USA, LLC, allocates charges based on the percentage of enrollees for each of the participating subsidiaries. The term of the agreement is perpetual or until terminated by either party as stipulated by the agreement. The LSHO may terminate the agreement upon 120 days written notice or 15 days in the case of default or insolvency of DDUSA.

#### IV. AFFILIATED COMPANIES

Doral Dental Plan of Wisconsin is a member of a holding company system. The ultimate parent is Dental Service of Massachusetts, Inc. The chart below depicts the ownership and organizational relationships among owners and affiliates in the group. A brief description of the significant affiliates of Doral Dental Plan of Wisconsin follows the organizational chart.

##### **Holding Company Chart As of December 31, 2007**



**Dental Service of Massachusetts, Inc.**

Dental Service of Massachusetts, Inc., (DSM) is a Massachusetts 176E not-for-profit dental service corporation. DSM has more than 2 million members through approximately 4,600 organizations throughout Massachusetts. DSM offers three major products: Delta Dental Premier, Delta Dental PPO and Deltacare.

As of December 31, 2007, DSM's audited statutory financial statement reported assets of \$242.3 million, liabilities of \$88.4 million, and total capital and surplus of \$159.3 million. Operations for 2007 produced a net loss of \$(2.2 million) on net premium income of \$357.2 million.

**Doral Dental USA, LLC**

Founded in 1993, Doral Dental USA, LLC, is a large dental administrator, serving more than 9 million members. DDUSA contracts with managed care organizations and state government medical assistance programs to administer dental programs. DDUSA has operations in 18 states and the District of Columbia and serves as the sole administrator for Medicaid dental programs in the states of Massachusetts, Tennessee, and Virginia. DDUSA has over 9,100 dentists in 14,000 locations where members can receive services.

As of December 31, 2007, DDUSA's audited consolidated financial statement reported assets of \$138.7 million (including \$74.6 million in goodwill and intangible assets), liabilities of \$33.8 million, and total equity of \$104.8 million. Operations for 2007 produced a net income of \$15.0 million on total revenues of \$115.9 million.

## **V. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 2007, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company for the period under examination. There are no adjustments made as a result of the examination as is noted at the end of this section in the area captioned "Reconciliation of Net Worth per Examination."

**Doral Dental Plan of Wisconsin, Inc.**  
**Assets**  
**As of December 31, 2007**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Cash and short-term investments	\$1,931,655	\$0	\$1,931,655
Uncollected premiums and agents' balances in the course of collection	<u>38,316</u>	<u>0</u>	<u>38,316</u>
<b>Total Assets</b>	<b><u>\$1,969,971</u></b>	<b><u>\$0</u></b>	<b><u>\$1,969,971</u></b>

**Doral Dental Plan of Wisconsin, Inc.**  
**Liabilities and Net Worth**  
**As of December 31, 2007**

Claims unpaid		\$ 58,863
Amounts due to parent, subsidiary and affiliates		<u>1,411,139</u>
<b>Total liabilities</b>		<b>1,470,002</b>
Common capital stock	\$ 1,000	
Gross paid in and contributed capital	9,000	
Unassigned funds (surplus)	<u>489,969</u>	
<b>Total capital and surplus</b>		<b><u>499,969</u></b>
<b>Total Liabilities, Capital and Surplus</b>		<b><u>\$1,969,971</u></b>

**Doral Dental Plan of Wisconsin, Inc.  
Statement of Revenue and Expenses  
For the Year 2007**

Net premium income		\$524,252
Medical and hospital:		
Other professional services	\$280,100	
General administrative expenses	<u>134,942</u>	
Total underwriting deductions		<u>415,042</u>
Net underwriting gain or (loss)		109,210
Net investment income earned		<u>0</u>
Net income or (loss) before federal income taxes		109,210
Federal and foreign income taxes incurred		<u>39,477</u>
 Net Income (Loss)		 <u>\$ 69,733</u>

**Doral Dental Plan of Wisconsin  
Capital and Surplus Account  
As of December 31, 2007**

Capital and surplus prior reporting year	\$430,236
Net income or (loss)	<u>69,733</u>
 Capital and Surplus End of Reporting Year	 <u>\$499,969</u>

**Doral Dental Plan Wisconsin  
Statement of Cash Flows  
As of December 31, 2007**

**Cash from Operations**

Premiums and revenues collected net of reinsurance		\$ 464,814
Benefit- and loss-related payments	\$345,023	
Commissions, expenses paid and aggregate write-ins for deductions	26,593	
	<u>39,477</u>	
Federal and foreign income taxes paid		
Total deductions		<u>411,093</u>
Net cash from operations		53,721
Net cash from investments		0
Net cash from financing		<u>0</u>
Net change in cash, cash equivalents and short-term investments		53,721
Cash and short-term investments:		
Beginning of year		<u>1,877,934</u>
 End of Year		 <u>\$1,931,655</u>

## Growth of LSHO

The following schedules reflect the growth of the LSHO during the examination

period:

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Dental Expenses Incurred	Net Income
2007	\$1,969,971	\$1,470,002	\$499,969	\$524,252	\$280,100	\$ 69,733 <sup>1</sup>
2006	1,877,934	1,447,698	430,236	674,577	506,333	40,966
2005	849,363	462,175	387,188	921,074	167,770	372,586 <sup>1</sup>
2004	603,775	587,091	16,684	865,442	717,654	(4,058)
2003	276,309	153,988	122,321	818,343	646,491	1,657

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio
2007	13.3%	53.4 <sup>1</sup> %	25.7%
2006	6.1	75.1	17.9
2005	40.5	18.2 <sup>1</sup>	15.9
2004	0.5	107.0	17.0
2003	0.2	79.0	20.9

### Enrollment and Utilization

Year	Enrollment	Change In Enrollment
2007	1,484	-03.3%
2006	1,534 <sup>2</sup>	-39.7 <sup>2</sup>
2005	2,546	-03.1
2004	2,627	-10.3
2003	2,930	

### Per Member Per Month Information

	2007	2006	Percentage Change
Premium	<u>\$28.91</u>	<u>\$28.20</u>	2.52%
<b>Expenses:</b>			
Other professional services	15.45 <sup>1</sup>	21.20	-27.12
General administrative expenses	<u>7.44</u>	<u>5.06</u>	47.04
Total Underwriting Deductions	<u>\$22.89</u>	<u>\$26.26</u>	-12.83

<sup>1</sup> The company had released reserves in 2005 and 2007 affecting the medical expense and net income for those years. The reserves that were released were due to the build-up of the Provider Liability Pool.

<sup>2</sup> The company lost enrollment in 2006 primarily through the disenrollment of the members covered under the former agreement with Doral Dental USA, LLC.



**Summary of the Financial Data Section**

The above financial information reveals the decline in enrollment over the past five years. This has affected the company's revenues and growth. In spite of this decline the company has increased its capital and net income.

The affiliated liability of \$1.4 million is comprised of advances from the parent intended to capitalize the company in 2006, and the funds are being transferred back to the holding company in 2008.

The company is party to a tax sharing agreement with its upstream affiliates, having an effective date of January 1, 2007, for the determination of its federal and foreign income taxes incurred.

**Reconciliation of Net Worth per Examination**

There were no adjustments or reclassifications as a result of this examination.

## VI. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were 19 recommendations and 1 suggestion in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management & Control—It is recommended the company comply with its Articles & Bylaws regarding the number of directors.

Action—Compliance

2. Management & Control—It is again recommended that the company adhere to its articles of incorporation and hold an annual meeting in accordance with such articles and that the company keep a permanent record of such meeting pursuant to s. 180.1601 (1), Wis. Stat., or that the company take action without a meeting pursuant to s.180.0821, Wis. Stat.

Action—Noncompliance; see comments in the “Summary of Current Examination Results.”

3. Management & Control—It is again recommended that the company develop a procedure to have all board of directors and key officers annually complete a conflict of interest questionnaire pursuant to a directive of the Commissioner.

Action—Compliance

4. Management & Control—It is again recommended that the company furnish biographical data forms to the Commissioner of all officers and board members pursuant to s. Ins 6.52, Wis. Adm. Code.

Action—Compliance

5. Affiliated Companies—It is again recommended the company report to the Commissioner transactions with affiliates affecting service agreements and transactions within a holding company system between the company and an affiliate pursuant to s. 617.21, Wis. Stat., and s. Ins 40.04, Wis. Adm. Code.

Action—Noncompliance; see comments in the “Summary of Current Examination Results.”

6. Affiliated Companies—It is recommended the company adhere to the terms of the management agreement between Doral Dental Plan of Wisconsin, Inc., and Doral Dental USA, LLC, and seek repayment of any excess fees paid.

Action—Compliance

7. Affiliated Companies—It is recommended the company comply with ss. 617.22 and 617.225, Wis. Stat.

Action—Compliance

8. Affiliated Companies—It is recommended the company recover the aforementioned payments as required by s. 617.22, Wis. Stat.  
  
Action—Compliance
9. Affiliated Companies—It is recommended the company complete Schedule Y, Part 1, in accordance with NAIC Annual Statement Instructions - Health.  
  
Action—Compliance
10. Accounts & Records—It is recommended the company only record transactions for which there is supporting documentation.  
  
Action—Compliance
11. Capital & Surplus—It is recommended the company complete the Liabilities, Capital & Surplus page in accordance with the NAIC Annual Statement Instructions - Health.  
  
Action—Compliance
12. Capital & Surplus—It is recommended the company fill out the Liabilities, Capital and Surplus page of the annual statement pertaining to par value and gross paid in and contributed in accordance with the NAIC Annual Statement Instructions - Health.  
  
Action—Compliance
13. Cash & Short-Term Investments—It is recommended that the company fill out Schedule E, Part 1 of the annual statement to include the last modified rate of interest rather than listing interest as various in accordance with NAIC Annual Statement Instructions - Health.  
  
Action—Compliance
14. Cash & Short-Term Investments—It is recommended that the company comply with s. 610.23, Wis. Stat., concerning ownership of its investment accounts.  
  
Action—Compliance
15. Federal Income Taxes—It is recommended the company properly complete the Statement of Revenue and Expenses in accordance with the NAIC Annual Statement Instructions - Health.  
  
Action—Compliance
16. Federal Income Taxes—It suggested the company establish an account to record federal taxes payable.  
  
Action—Compliance
17. Financial Reporting—It is recommended the company disclose all loss contingencies in accordance with SSAP #5.  
  
Action—Compliance

18. Financial Reporting—It is recommended the company comply with s. Ins 50.05, Wis. Adm. Code, when filing its annual audited report.

Action—Compliance

19. Amounts Due From Affiliates—It is recommended the company comply with the provisions of SSAP #25 when reporting affiliated receivable balances.

Action—Compliance

20. Commissions—It is recommended the company comply with NAIC Annual Statement Instructions - Health when reporting commission expenses as part of the Underwriting and Investment Exhibit, Part 3.

Action—Compliance

## **Summary of Current Examination Results**

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

## **Management and Control**

The company's Amended and Restated By-Laws (ss. 2.01 and 4.09) require the board of directors to conduct an annual shareholders' meeting on the first Monday of March and require the secretary to record the minutes of the meeting. The examination disclosed that the shareholders' meetings did not take place. It is again recommended that the company adhere to its articles of incorporation and hold an annual meeting in accordance with such articles and that the company keep a permanent record of such meeting pursuant to s. 180.1601 (1), Wis. Stat., or that the company take action without a meeting pursuant to s. 180.0821, Wis. Stat.

## **Corporate Records**

The examination noted that seven company agents were paid commissions in 2007. However, three were not licensed or listed with the State of Wisconsin. Furthermore two commissioned agents were licensed, but were not listed with the state. It is recommended that all agents of the company be properly licensed and listed with the State of Wisconsin in accordance with s. 628.11, Wis. Stat., and s. Ins 6.57, Wis. Adm. Code.

## **Affiliated Companies**

The examination has reviewed the Unanimous Written Consent of the Board of Directors of Doral Dental Plan of Wisconsin, Inc., dated February 2, 2007. The board has consented to a \$200 million senior credit facility (credit facility) which has been granted to the borrowers identified as three affiliated companies, as follows: DentaQuest, Inc., DentaQuest Ventures, LLC, and Doral Dental USA, LLC. The consent describes the nature of the guarantee as a "Collateral Agreement" for the "benefit of the Lenders." In return for the credit facility, the affiliated companies and the company have pledged "a security interest in all of the assets of the borrowers and the company" to the lenders.

The consent refers to two agreements: a Credit Agreement and a Guarantee and Collateral Agreement both having effective dates of February 2, 2007. The examiners reviewed the Credit Agreement which provides a revolving credit facility to the benefit of DentaQuest, Inc., DentaQuest Ventures, LLC, and Doral Dental USA, LLC. Doral Dental Plan of Wisconsin, Inc., is not a party to this agreement. The Guarantee and Collateral Agreement, however, names DDPWI, along with the other subsidiaries of DDUSA, as signatories and grantors of a security interest in their respective assets as collateral to secure the credit facility from the lenders. Since DDPWI severally takes on the credit risk of DentaQuest, Inc., DentaQuest Ventures, LLC, and Doral Dental USA, LLC., without having any of the associated benefit of borrowing against the credit facility, the two agreements are not in the interest of DDPWI.

Furthermore the Guarantee and Collateral Agreement delivers to an administrative agent, for the ratable benefit of the lenders, a perfected security interest in all of the assets of Doral Dental Plan of Wisconsin, Inc. A perfected security interest in the assets of the insurer gives the lenders priority over all unperfected security interests.

The credit facility was partially disclosed by the company in the footnotes to the financial statements. The examiners note, however, that the company did not disclose the fact that a perfected security interest in all of the assets of the company had been pledged as part of a collateral agreement. The disclosure, therefore, did not include the “nature and amount of the guarantee” as required by Statement of Statutory Accounting Principle (SSAP) No. 5 (16). Furthermore, according to SSAP No. 5 (16), the pledging of assets to secure credit is a potential loss contingency. No disclosure was made of the agreement in the loss contingency footnote of the financial statements. It is recommended that the company fully disclose the pledging of company assets to secure credit for affiliated companies as a potential loss contingency in the annual statements in accordance with SSAP No. 5 (16) of the NAIC Accounting Practices and Procedures Manual.

Transactions with affiliates are subject to s. 617.21, Wis. Stat. This prohibits insurers from entering into transactions with affiliates unless all of the following apply:

- (a) The transaction at the time it is entered into is reasonable and fair to the interests of the insurer.

- (b) The books, accounts and records of each party to the transaction are kept in a manner that clearly and accurately discloses the nature and details of the transaction and in accordance with generally accepted accounting principles permits ascertainment of charges relating to the transaction.
- (c) The insurer's surplus following any dividends or distributions to shareholders or a person having control of the insurer is reasonable in relation to the insurer's outstanding liabilities and adequate to its financial needs.
- (d) The transaction complies with any other standard that the commissioner prescribes by rule.

The pledging of assets for the benefit of an affiliate does not meet the above requirements

because:

- The transaction was not properly disclosed in the financial statements; and
- The transaction was not submitted to the commissioner and not disapproved within at least 30 days prior to its effective date as required by s. Ins 40.04 (2), Wis. Adm. Code.

Pursuant to s. 617.21 (3m), Wis. Stat., transactions entered into by an insurer in violation of s. 617.21, Wis. Stat., are voidable. It is recommended that the company rescind the Guarantee and Collateral Agreement that was entered into contrary to s. 617.21 (3m), Wis. Stat., that pledges the company's assets for the benefit of an affiliate or, alternatively, agree to a stipulation and order requiring that, for such time as the company is obligated under that certain Guarantee and Collateral Agreement, the company will establish and maintain a statutory deposit of securities with the Wisconsin State Treasurer in an amount equal to the greater of \$250,000 or 150% of its liability for unpaid claims, which deposit shall at all times be available to secure the statutory obligations of company to maintain capital and surplus for the benefit of all policyholders.

The previous examination recommended that the company comply with ch. 617, Wis. Stat., and ch. Ins 40, Wis. Adm. Code, when entering into transactions with affiliates. The company did not submit the following agreements in advance to the Commissioner for non-disapprovals: The Guarantee and Collateral Agreement, effective February 2, 2007, the Management Administration Services Agreement, effective December 31, 2007, and the Tax-Sharing Agreement, effective January 1, 2007. It is again recommended the company report to the Commissioner transactions with affiliates within a holding company system between the company and an affiliate pursuant to s. Ins 40.04, Wis. Adm. Code, and s. 617.21 (1), Wis. Stat.

## Financial Statements

The examination noted that the company did not report the change in officers on the jurat page of the financial statements, as of year-end 2005, by denoting the change with the number sign (#). The examination also noted that the company's directors were reported on the jurat page of the financial statements, as of December 31, 2007, as Robert Hunter, Fay Donahue, William Bradford, Patricia Ma and Steven Pollock. By consent of the board of directors Gary Guengerich was elected a director on May 5, 2007. It is recommended that the company report all officers and directors on the financial statements and denote relevant changes in accordance with the NAIC Annual Statement Instructions - Health.

NAIC guidance instructs the company to report "all payments made during the year" and "actual payments only" on the Underwriting and Investment Exhibit, Part 2B. One of the purposes of this schedule is to disclose the development of the prior year claim liability by comparing the actual claim payments to the prior year unpaid claim liability. The company reported the prior year claim liability of \$123,786 in the column for claims payment made on claims incurred prior to January 1, 2007, instead of reporting actual paid claim data. This would suggest that the prior year reserve estimate was perfect which is highly unlikely. The company should have reported \$56,378 in that column based on paid claim data provided for the examination. It is recommended that the company report the actual claims paid during the year in columns 1 and 2 of the Underwriting and Investment Exhibit, Part 2B, in accordance with the NAIC Annual Statement Instruction - Health.

The company disclosed in the financial statements that the Provider Liability Pool is based on "a capitation pool consisting of a fixed percentage of gross premium revenue funded by the State of Wisconsin." This is inaccurate given the fact that the company has exclusively commercial accounts which are not funded by the State of Wisconsin. It is recommended that the footnotes in the financial statements are accurately disclosed in accordance with the NAIC Annual Statement Instructions - Health.



## Financial Requirements

The financial requirements for an LSHO under s. Ins 9.04, Wis. Adm. Code, are as follows:

	<b>Amount Required</b>
1. Minimum capital or permanent surplus	Not less than \$75,000
2. Security deposit	Each LSHO is required to maintain a deposit of securities with the State Treasurer or an acceptable letter of credit on file with the Commissioner's office. The amount of the deposit or letter of credit shall not be less than \$75,000. The letter of credit must be payable to the Commissioner whenever liquidation or rehabilitation proceedings are initiated against the company.
3. Compulsory surplus	Not less than the greater of: 3% of the premiums earned by the company in the previous 12 months or \$75,000  The Commissioner may accept the deposit or letter of credit under par. 2. to satisfy the compulsory surplus requirement if the company demonstrates to the satisfaction of the Commissioner that all risk for loss has been transferred to the providers.
4. Security surplus	The company should maintain a security surplus to provide an ample margin of safety and clearly assure a sound operation. The security surplus should not be less than 110% of compulsory surplus.

The company's calculation as of December 31, 2007, is as follows:

Assets	\$1,969,971	
Irrevocable letter of credit	<u>75,000</u>	
Amount available to satisfy surplus requirements		
Less:		
Liabilities	1,470,002	
Net amount available to satisfy surplus requirements		\$574,969
Net premium earned	524,252	
Compulsory factor	<u>3%</u>	
	<u>15,727</u>	
Compulsory surplus (\$75,000 minimum requirement)		<u>75,000</u>
Compulsory Excess/(Deficit)		<u>\$499,969</u>
Net amount available to satisfy surplus requirements		\$574,969
Compulsory surplus (greater of compulsory surplus or \$75,000)	75,000	
Security surplus factor	<u>140%</u>	
Security surplus		<u>105,000</u>
Security Excess/(Deficit)		<u>\$469,969</u>

## VII. CONCLUSION

The Doral Dental Plan of Wisconsin, Inc., is a for-profit network model limited service health organization (LSHO) insurer. The company was incorporated February 10, 1995, and commenced business on June 30, 1995.

The company reported assets of \$1,969,971, liabilities of \$1,470,002 and capital and surplus of \$499,969 at December 31, 2007. The examination made no adjustments to the reported capital and surplus.

The company's enrollment has declined over the past five years. This has affected the company's revenues and growth. In spite of this decline, the company has reported net income and has increased its capital and surplus in all but one year during the five-year period covered by the examination.

Of the 20 recommendations made in the previous examination the examination found that the company has complied with 18. Except as noted in the following paragraph, the company has made improvements in compliance in comparison to the previous examination.

However, the company consistently failed to report transactions with affiliates affecting service agreements and transactions in advance of their effective dates and obtain non-disapproval as required by statute. The reporting of affiliated transactions was a significant issue in the prior examination

The current examination made eight recommendations. The recommendations have again primarily focused on the affiliated transactions. The legality, prior approval, and disclosure of the various holding company agreements and transactions are again at issue in the current examination. A pattern of disregard on the part of the company management for the regulatory practices of the State of Wisconsin with respect to the company's affiliated transactions is apparent. The remaining six current recommendations regarded presentation of financial information in the annual statement, holding annual meetings and licensing of agents.

## VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 19 - Management and Control—It is again recommended that the company adhere to its articles of incorporation and hold an annual meeting in accordance with such articles and that the company keep a permanent record of such meeting pursuant to s. 180.1601 (1), Wis. Stat., or that the company take action without a meeting pursuant to s. 180.0821, Wis. Stat.
2. Page 19 - Corporate Records—It is recommended that all agents of the company be properly licensed and listed with the State of Wisconsin in accordance with s. 628.11, Wis. Stat., and s. Ins 6.57, Wis. Adm. Code.
3. Page 20 - Affiliated Companies—It is recommended that the company fully disclose the pledging of company assets to secure credit for affiliated companies as a potential loss contingency in the annual statements in accordance with SSAP No. 5 (16) of the NAIC Accounting Practices and Procedures Manual.
4. Page 21 - Affiliated Companies—It is recommended that the company rescind the Guarantee and Collateral Agreement that was entered into contrary to s. 617.21 (3m), Wis. Stat., that pledges the company's assets for the benefit of an affiliate or, alternatively, agree to a stipulation and order requiring that, for such time as the company is obligated under that certain Guarantee and Collateral Agreement, the company will establish and maintain a statutory deposit of securities with the Wisconsin State Treasurer in an amount equal to the greater of \$250,000 or 150% of its liability for unpaid claims, which deposit shall at all times be available to secure the statutory obligations of company to maintain capital and surplus for the benefit of all policyholders.
5. Page 21 - Affiliated Companies—It is again recommended the company report to the Commissioner transactions with affiliates within a holding company system between the company and an affiliate pursuant to s. Ins 40.04, Wis. Adm. Code, and s. 617.21 (1), Wis. Stat.
6. Page 22 - Financial Statements—It is recommended that the company report all officers and directors on the financial statements and denote relevant changes in accordance with the NAIC Annual Statement Instructions - Health.
7. Page 22 - Financial Statements—It is recommended that the company report the actual claims paid during the year in columns 1 and 2 of the Underwriting and Investment Exhibit, Part 2B, in accordance with the NAIC Annual Statement Instruction - Health.
8. Page 22 - Financial Statements—It is recommended that the footnotes in the financial statements are accurately disclosed in accordance with the NAIC Annual Statement Instructions - Health.

## IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Judith Michael	Financial Insurance Examiner
Randy Milquet	Insurance Financial Examiner - Advanced

Respectfully submitted,

Gene M. Renard  
Examiner-in-Charge