

Report on Examination
of
Florida Dental Benefits, Inc.
Miami Beach, Florida
as of
December 31, 2016



**FLORIDA OFFICE OF
INSURANCE REGULATION**



OFFICE OF INSURANCE REGULATION

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David Altmaier, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida

Dear Sir:

In accordance with Section 636.039, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Florida Dental Benefits Inc. as of December 31, 2016. Our report on the examination follows.

Florida Office of Insurance Regulation
February 9, 2018

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2016 of Florida Dental Benefits, Inc. (the "Company"), a Florida prepaid limited health service organization (PLHSO).

The examination covered the period of January 1, 2014 through December 31, 2016 and took place primarily in Tallahassee, Florida, and the Company's Miami Beach, Florida office. This was the first financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office").

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. Our examination also included 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 included 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.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statute (F.S.) 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 were separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

The examination noted that commissions which were incurred in fiscal year 2016 were not properly reflected as a liability in the Company's financial statements. Recommendations relating to this examination finding are summarized beginning on page 10.

Examiners found that the Company's contracts with various third parties did not contain a provision that the contract can be cancelled upon issuance of an order by the Office pursuant to Section 636.036(3), F.S.

COMPANY HISTORY

The Company was incorporated in Florida on June 8, 2009 and licensed by the Office as a PLHSO on February 4, 2010. It was authorized by the State of Florida to operate as a PLHSO in accordance with Part I of Chapter 636, (F.S.). The Company began serving members on July 1, 2010 with dental benefits for municipalities, employer groups, Health Maintenance Organizations, associations, and government plans.

CORPORATE RECORDS

The Company by-laws contain a provision allowing written consent in lieu of a meeting for the Board of Directors. There were no meetings called of the board of directors during the examination period.

Dividends and Capital Contributions

The Company did not distribute dividends during the period examined. However, the following capital contributions were made during the examination period:

<u>Year</u>	<u>Capital Contributions</u>
2014	\$397,191
2015	\$402,815
2016	\$306,657

MANAGEMENT AND CONTROL

The Company is owned by individual stockholders. As of December 31, 2016 its senior officers and directors were:

Senior Officers

<u>Name</u>	<u>Title</u>
Leila Chang	President
Allison Weiss Brady	Vice President
Dennis Brady	Secretary, Treasurer

Board of Directors

<u>Name</u>	<u>Location</u>
Allison W. Brady	Gladwyne, Pennsylvania
Dennis Brady	Gladwyne, Pennsylvania
Leila Chang	Miami, Florida
Tiffany Heckler	Miami Beach, Florida

INSURANCE

The Company maintained general and professional liability insurance at acceptable levels. The policies provided for written notification to be sent to the Office of any reduction, cancellation, non-renewal or termination of required coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offered various benefits to eligible employees. Benefits included health insurance, dental insurance, and paid time off.

TERRITORY AND PLAN OF OPERATION

The Company currently uses policy forms and rates approved under the product name, Basic Option Dental Plan, Basic Option Dental Plan with Specialty Care, High Option Dental Plan, High Option Dental Plan with Specialty Care and Senior Smile Plan. These policies are PLHSO products approved under Part I, Chapter 636, Florida Statutes and are sold directly to groups as well as individuals throughout the state of Florida. Employers or individuals who purchase these policies are provided services directly by dental providers contracted and participating in the Company's network and individuals or subscribers under these contracts are considered and accounted for as members of the Company for purposes of reporting enrollment. As of December 31, 2016, the Company had 4,053 members.

The Company also contracts with other third-party payors such as insurance companies, health maintenance organizations, prepaid limited health service organizations, discount medical plan organizations and self-funded employer groups. Under these scenarios, the Company is acting as a provider to these payors and contracts with the payor as such. Under this operating scenario,

the Company provides dental services directly to members/subscribers/policyholders of the third-party payors and does not report these subscribers in their membership and enrollment data.

COMPANY GROWTH

The Company reported the following for years 2014 through 2016:

(In millions)	<u>2014</u>	<u>2015</u>	<u>2016</u>
Net premiums	\$ 3.5	\$ 4.1	\$ 4.5
Total revenues	\$ 4.9	\$ 5.6	\$ 4.5
Net income	\$ (0.6)	\$ (0.4)	\$ (0.2)
Total capital and surplus	\$ 0.2	\$ 0.2	\$ 0.3

REINSURANCE

The Company did not assume or cede any reinsurance during the period of this examination.

ACCOUNTS AND RECORDS

The Company did not hold meetings of the board of directors during the examination period.

Examiners found that the Company's contracts with unaffiliated entities for administrative, management, and certain provider services did not contain provisions that they would be canceled upon issuance of an order by the Office pursuant to Section 636.036(3), F.S.

STATUTORY DEPOSITS

The Company maintained with the Office an insolvency protection deposit of \$50,000 in accordance with Section 636.046, F.S., and an additional deposit of \$20,000, which was required by a Consent Order issued by the Office.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment was identified, the impact of such adjustment would be documented separately following the Company's financial statements.

Financial Statements, as reported and filed by the Company with the Office, are reflected in the following pages:

Florida Dental Benefits, Inc.
Assets, Liabilities, Capital and Surplus
December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Assets			
Cash	\$ 366,203	\$ -	\$ 366,203
Aggregate write-ins for other than invested assets	270,000	-	270,000
Subtotals, cash and invested assets	\$ 636,203	\$ -	636,203
Uncollected premiums and agents' balances	3,272	-	3,272
Total assets	\$ 639,475	\$ -	639,475
Liabilities			
Claims unpaid	\$ 255,291	\$ -	\$ 255,291
Unpaid claims adjustment expenses	2,000	-	2,000
Aggregate health policy reserves	105,293	-	105,293
Premiums received in advance	205	-	205
General expenses due or accrued	23,655	44,000	67,655
Total liabilities	386,444	44,000	430,444
Capital and Surplus			
Common capital stock	163	-	163
Gross paid in and contributed surplus	3,080,000	-	3,080,000
Unassigned funds (surplus)	(2,542,364)	(44,000)	(2,586,364)
Less treasury stock, at cost: 6,077 share common (value included in common capital stock \$284,768	284,768	-	284,768
Total capital and surplus	253,031	(44,000)	209,031
Total liabilities, capital and surplus	\$ 639,475	\$ -	\$ 639,475

Florida Dental Benefits, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
For The Year Ended December 31, 2016

Member months	53,502
Net premium income (including \$0 non-health premium income)	\$ 4,464,974
Risk revenue	11,771
Aggregate write-ins for other non-health revenues	3,221
Total revenues	<u>\$ 4,479,966</u>
Less:	
Hospital /medical benefits	2,960,423
Claims adjustment expenses, including \$0 cost containment expenses	2,000
General administrative expenses	1,665,827
Increase in reserves for life and accident and health contracts	74,034
Total underwriting deductions	<u>4,702,284</u>
Net underwriting gain or (loss)	(222,318)
Net investment income earned	1,187
Net income	<u><u>\$ (221,131)</u></u>

Capital and Surplus Account

Capital and surplus prior reporting year	\$ 158,973
Net loss	\$ (221,131)
Change in nonadmitted assets	8,532
Paid in capital	306,657
Net change in capital and surplus	<u>\$ 94,058</u>
Capital and surplus end of reporting year	<u><u>\$ 253,031</u></u>

Florida Dental Benefits, Inc.
Statement of Changes in Capital and Surplus
For The Three Years Ended December 31, 2016

Capital and surplus - December 31, 2013	\$ 376,009
Net income	(559,660)
Change in nonadmitted assets	(30,955)
Paid in capital	<u>397,191</u>
Capital and surplus - December 31, 2014	182,585
Net income	(426,101)
Change in nonadmitted assets	(326)
Paid in capital	<u>402,815</u>
Capital and surplus - December 31, 2015	158,973
Net income	(221,131)
Change in nonadmitted assets	8,532
Paid in capital	<u>306,657</u>
	253,031
Examination adjustments	<u>(44,000)</u>
Capital and surplus - December 31, 2016	<u><u>\$ 209,031</u></u>

Florida Dental Benefits, Inc.
Comparative Analysis of Changes in Capital & Surplus
December 31, 2016

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital & surplus, December 31, 2016 - per annual statement				\$ 253,031
	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Total assets	\$ 639,475	\$ 639,475	\$ -	
Total liabilities	\$ 386,444	\$ 430,444	\$ (44,000)	<u>(44,000)</u>
Capital & surplus, December 31, 2016 - per examination				<u>\$ 209,031</u>

COMMENTS ON FINANCIAL STATEMENTS

General expenses due or accrued

The \$23,655 reported by the Company in its 2016 annual statement as 'general expenses due and accrued' has been increased by \$44,000 to \$67,655. The amount reported by the Company did not include all commission expenses incurred in 2016.

SUMMARY OF RECOMMENDATIONS

Accounting and Reporting Errors

As reported on page 7, the Company understated the amounts of certain of its liabilities in its 2016 annual statement. We recommend that, in future statements filed with the Office, the Company accurately report its assets and liabilities in accordance with Part I of Chapter 636, F.S., and the NAIC Annual Statement Instructions.

Contracts with third parties

As reported on page 5, the Company is party to contracts with certain third parties which do not contain provisions that they would be canceled upon issuance of an order by the Office. We recommend that contracts for administrative services, management services, and provider services be in compliance with Section 636.036(3), F.S.

SUBSEQUENT EVENTS

As a PLHSO operating under its Certificate of Authority in the State of Florida, the Company is required under Section 636.045, F.S. to maintain a minimum net worth of the greater of \$150,000 or 10% of total liabilities. On March 31, 2017 the Company was granted approval from the Office to accrue an Affiliate Receivable as an admitted asset in the amount of \$200,000 on its balance sheet at December 31, 2016. This is permitted under Statement of Statutory Accounting Principles 72 and 9 as a Type I subsequent event. The approval brought the Company into compliance with the requirements for 2016.

From January 1, 2017 through September 30, 2017 capital contributions of \$135,035 were paid into Company surplus.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Florida Dental Benefits, Inc. consistent with the insurance laws of the State of Florida.

At December 31, 2016, the Company's capital and surplus was \$209,031 and the Company was in compliance with the minimum capital and surplus requirement of Section 636.045, F.S.

The following individuals participated in the examination: Scott Eady, CFE, of Risk & Regulatory Consulting, LLC and from the Florida Office of Insurance Regulation: Luke Stavenau, AFE, Financial Examiner/Analyst Supervisor; Jorge Guzman-Perez, Financial Specialist; and Lisa Parker, ASA, MAAA, Actuary.

Respectfully submitted,



Carolyn M. Morgan, APIR

Director, Life & Health Financial Oversight
Florida Office of Insurance Regulation