

THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF
DSM MASSACHUSETTS INSURANCE COMPANY, INC.

Boston, Massachusetts

As of December 31, 2022

NAIC GROUP CODE 4512

NAIC COMPANY CODE 15497

EMPLOYER ID NUMBER 46-5661073

DSM MASSACHUSETTS INSURANCE COMPANY, INC.

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COMMONWEALTH OF MASSACHUSETTS
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DIVISION OF INSURANCE

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MAURA T. HEALEY
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January 9, 2024

Honorable Gary D. Anderson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Law, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

DSM Massachusetts Insurance Company, Inc.

The Company's home office is located at 465 Medford Street, Boston, Massachusetts 02129. The examination was conducted remotely. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

DSM Massachusetts Insurance Company, Inc., (“Company” or “DSM Massachusetts”) was last examined as of December 31, 2019 by the Massachusetts Division of Insurance (“Division”). The current examination was also conducted by the Division and covers the three-year period from January 1, 2020 through December 31, 2022, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

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. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 175, Section 4, 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.

The Company is audited annually by Ernst & Young LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2020 through 2022. A review and use of the Certified Public Accountants’ workpapers were made to the extent deemed appropriate and effective.

Representatives from the firm of Examination Resources, LLC (“Examination Resources”) were retained by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division’s examination staff. The assistance included a review of accounting records, information systems, investment and actuarially determined loss and loss adjustment expense reserves.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings during the previous examination and there are no significant findings noted during the current examination of the Company.

COMPANY HISTORY

General

The Company is a stock company and was incorporated on May 16, 2014 in the Commonwealth of Massachusetts. DSM Investments, Inc. is the immediate parent of the Company, whose ultimate parent is CareQuest Institute for Oral Health, Inc.

The Company was created to engage in dental insurance and dental benefits administration services by writing a Massachusetts Exclusive Provider Organization (“EPO”) product which commenced on January 1, 2015.

Capital Stock

As of December 31, 2022, the authorized and outstanding capital stock of the Company consisted of 700,000 shares of common stock with a par value of \$1.43 per shares, all of which is owned by DSM Investments, Inc.

MANAGEMENT AND CONTROL

Annual Meeting of Stockholders

The annual meeting of the shareholders for the election of the Directors shall be held before May 1st of each year or any other date as designated by the Board of Directors (“Board”) or by the Chairman of the Board.

Board of Directors

The bylaws provide that the business and affairs of the Company shall be managed by the Board. The Board shall consist of one or more individuals with the number fixed by the shareholders at the annual meeting or by the Board, unless otherwise provided in the Articles of Organization. The terms of all Directors shall expire at the next annual shareholders’ meeting following their election.

At December 31, 2022, DSM Massachusetts’s Board of Directors consisted of the following five members:

<u>Name of Director</u>	<u>Business Affiliation</u>
Dennis Leonard	President and CEO, Dental Service of Massachusetts, Inc.
Myechia Minter-Jordan	President and CEO, CareQuest Institute for Oral Health, Inc.
Gregory Winn	Vice President, CareQuest Institute for Oral Health, Inc.
Patricia Ma	Chief Legal Officer, CareQuest Institute for Oral Health, Inc.
Denise Marks	Chief Financial Officer, CareQuest Institute for Oral Health, Inc.

DSM Massachusetts Insurance Company, Inc.

Committees of the Board of Directors

The Board may create one or more committees and appoint members of the Board to serve on them. As of December 31, 2022 the Company did not have any Board committees.

Officers

According to the Company's bylaws, the officers of the Company shall consist of a president, a treasurer, a secretary and in addition, at the discretion of the Board, an executive vice president, one or more vice presidents, and other officers and assistants.

Officers are elected by the Board at their annual meeting. All of the officers shall hold their respective offices for one year and thereafter until their successors are elected and qualified, unless a different term shall be designated by the Directors, subject to removal at any time by vote of a majority of the Board.

The Officers of the Company at December 31, 2022, were as follows:

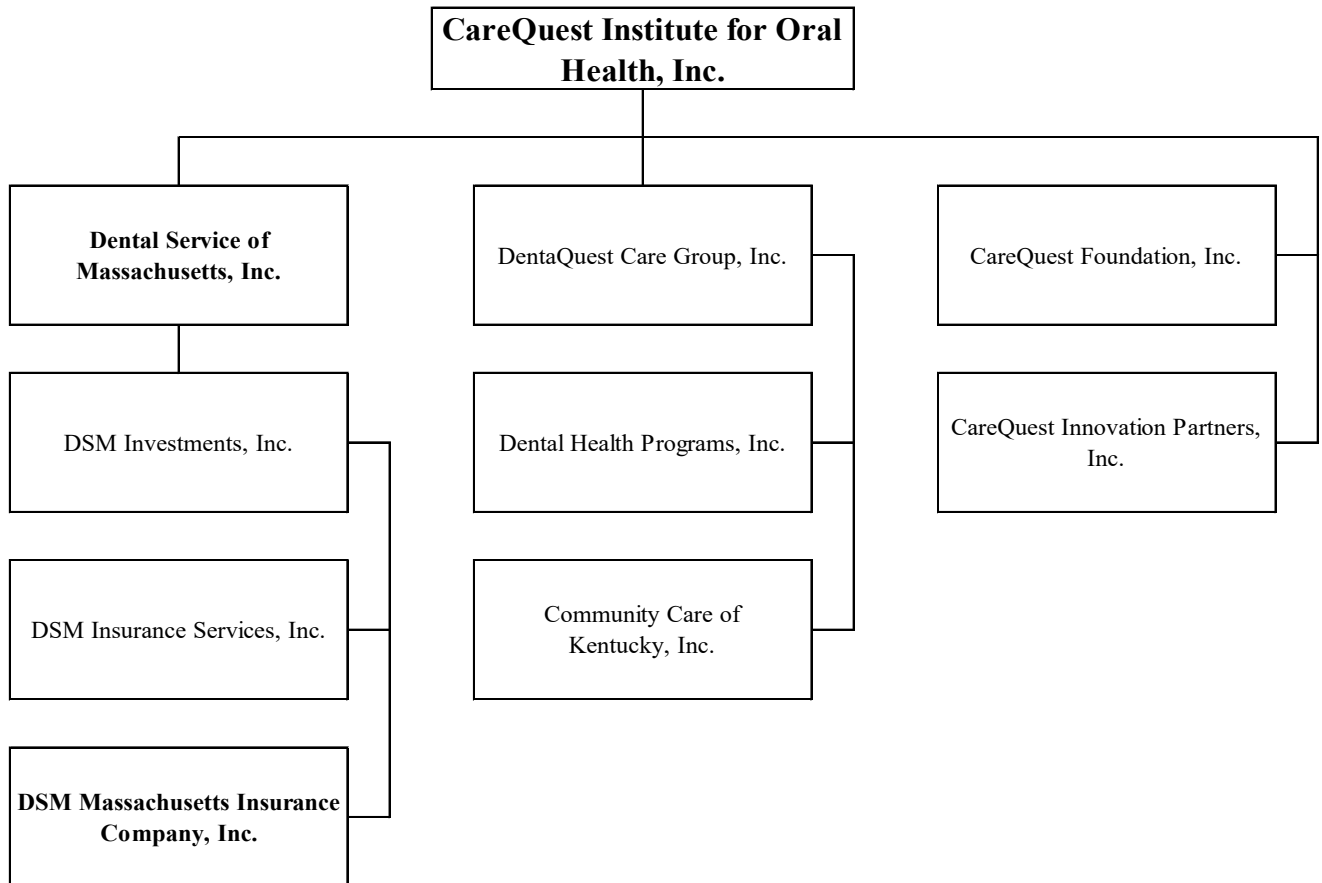
<u>Name of Officer</u>	<u>Title</u>
Myechia Minter-Jordan	President
Denise Marks	Treasurer
Patricia Ma	Clerk
Gregory Winn	Assistant Treasurer

Affiliated Companies

As stated in the Insurance Holding Company System Form B, as filed with the Massachusetts Division of Insurance, the Company is a member of a holding company system and is subject to the registration requirements of Massachusetts General Law, Chapter 175, Section 206C and 211 CMR 7.00. Dental Service of Massachusetts, Inc. is the ultimate controlling person indicated within the Form B filing.

Organization Chart

The Company's immediate insurance affiliates are shown on the organization chart below. The Company's numerous other affiliates are not shown. At December 31, 2022, the Company is a member of the following organizational structure:



Transactions and Agreements with Subsidiaries and Affiliates

Management and Services Agreement

The Company receives certain services from DentaQuest, LLC, a former affiliate. The Company is party to a Management Service Agreement ("DQ MSA") with DentaQuest LLC, whereby DentaQuest LLC provides certain services to administer the Company's dental benefits, as well as substantial business support services required by the Company to conduct its business. Services performed by DentaQuest LLC primarily involve insurance policy administration activities such as enrollment, eligibility, claims processes, and customer servicing. The terms of the DQ MSA provide that compensation is based on the services provided by DentaQuest LLC to the Company using either a cost based or cost-plus methodology. On June 1, 2022, the Company's parent,

DSM Massachusetts Insurance Company, Inc.

CareQuest, sold its ownership interest in DentaQuest (“Sale Transaction”), of which DentaQuest LLC is a wholly owned subsidiary, to Sun Life.

Tax Sharing Agreement

The Company is party to a Tax Sharing Agreement with DSM Investments, DSM Insurance Services and DentaQuest Oral Health Center collectively referred to as DSM Investments Affiliated Group (“Affiliated Group”). DSM Investments will file consolidated federal and state income tax returns on behalf of the Affiliated Group. The members of the Affiliated Group will share their tax liabilities based on a ratio of each member’s allocated share of taxable income compared to the total taxable income of the Affiliated Group.

TERRITORY AND PLAN OF OPERATION

The Company’s Certificate of Authority in Massachusetts was current and in force. The Company provides dental insurance and dental benefits administration services only in Massachusetts with an EPO product.

Treatment of Policyholders

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to members and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination.

REINSURANCE

The Company did not participate in any reinsurance programs in the period under examination. DSM Massachusetts retains the underwriting risk of its policies and is solely responsible to policyholders and claimants for incurred losses, claim adjustment expenses, and underwriting expenses.

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2022. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2022

Statement of Revenue and Expenses for the Year Ended December 31, 2022

Reconciliation of Capital and Surplus for the Three-Year Period Ended December 31, 2022

DSM Massachusetts Insurance Company, Inc.
Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2022

Assets	<u>As Reported by the Company</u>
Cash, cash equivalents and short-term investments	<u>\$ 13,787,193</u>
Subtotals, cash and invested assets	13,787,193
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	84,314
Amounts receivable relating to uninsured plans	258,628
Net deferred tax asset	93,477
Electronic data processing equipment and software	1,535,074
Total Assets	<u><u>\$ 15,758,686</u></u>
 Liabilities	
Claims unpaid	\$ 1,018,419
Unpaid claims adjustment expenses	25,000
Premiums received in advance	1,069,011
General expenses due or accrued	276,174
Current federal income tax payable	259,219
Total Liabilities	<u>2,647,823</u>
Common capital stock	1,000,000
Gross paid in and contributed capital	4,040,000
Unassigned funds (surplus)	<u>8,070,863</u>
Total capital and surplus	<u>13,110,863</u>
Total Liabilities, Capital, and Surplus	<u><u>\$ 15,758,686</u></u>

DSM Massachusetts Insurance Company, Inc.
Statement of Revenue and Expenses
As of December 31, 2022

	<u>As Reported by the Company</u>
Net premium income	\$ 23,738,828
Hospital and medical: other professional services	19,069,429
Claim adjustment expenses	467,731
General administrative expenses	<u>2,130,774</u>
Total underwriting deductions	<u>21,667,934</u>
Net underwriting gain	<u>2,070,894</u>
Net investment income earned	<u>3,612</u>
Net investment gains (losses)	<u>3,612</u>
Net income or (loss) after capital gains tax and before all other federal and foreign income taxes	<u>2,074,506</u>
Federal and foreign income taxes incurred	<u>437,677</u>
Net Income (Loss)	<u><u>\$ 1,636,829</u></u>

Dental Service of Massachusetts, Inc.
Reconciliation of Capital and Surplus
For the Three Year Period Ended December 31, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Capital and surplus as of December 31, prior year	\$ 9,157,697	\$ 9,178,992	\$ 9,461,294
Net income or (loss)	1,636,829	1,083,962	4,265,466
Change in net deferred income tax	(613,165)	325,415	381,228
Change in non-admitted assets	2,929,503	(1,430,672)	(428,996)
Dividends to stockholder			<u>(4,500,000)</u>
Net change capital and surplus for the year	<u>3,953,167</u>	<u>(21,295)</u>	<u>(282,302)</u>
Capital and surplus as of December 31, current year	<u>\$ 13,110,864</u>	<u>\$ 9,157,697</u>	<u>\$ 9,178,992</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There have been no changes made to the financial statements as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

As a result of the examination, no significant issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

The Company retained the services of Milliman, Inc., to develop the Company's year-end reserves and to provide the Actuarial Opinion on the reasonableness of the reserves carried by the Company as of December 31, 2022.

As part of their audit, the Group's external auditors, Ernst & Young LLP (EY), performed an independent analysis of the Group's reserves. EY's estimates were for combined IBNR, margin and unpaid claims adjustment expenses (UCAE). We display booked reserves relative to EY's range in the table below. The Company's booked reserves were immaterially above EY's high estimate and not considered an examination concern.

DSM – Claims Unpaid & Unpaid Claims Adjustment Expenses	E&Y Low Estimate	E&Y High Estimate
793,000	699,706	791,915

As part of the examination, the examining actuaries reviewed the actuarial memorandum, the Statement of Actuarial Opinion issued by Milliman, Inc., audit workpapers and other supporting documentation and performed, as they deemed appropriate, their own test work and evaluation of DSM's reserve liabilities as of December 31, 2022, with consideration of runoff through September 30, 2023. Based on such reviews, the Company's reserves were found to be reasonably conservative in hindsight, as 2023 runoff has been more favorable than expected. The examining actuary found the booked reserves to be reasonable based on the information available at year-end.

SUBSEQUENT EVENTS

Effective January 1, 2023, Erik Montlack was appointed as President and replaced Dennis Leonard, who subsequently retired on March 31, 2023.

SUMMARY OF RECOMMENDATIONS

There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report.

SIGNATURE PAGE

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by Examination Resources who participated in the examination is hereby acknowledged.

Kenneth R. Plumb
Kenneth R. Plumb, CFE
Supervising Examiner
Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance