



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, 2016

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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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

November 13, 2017

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.

at its home office located at 465 Medford Street, Boston, Massachusetts 02129. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

This is the initial examination of DSM Massachusetts Insurance Company, Inc., (“Company” or “DSM Massachusetts”). The examination was conducted by the Division and covers the three-year period from January 1, 2014 through December 31, 2016, 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 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 2014 through 2016. A review and use of the Certified Public Accountants’ workpapers were made to the extent deemed appropriate and effective. Representatives from the firm of Risk and Regulatory Consulting, LLC were retained by the Division to evaluate the adequacy and effectiveness of the IT systems controls to determine the level of reliance to be placed on the information generated by the data processing systems.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There have not been any 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 Dental Service of Massachusetts, 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, 2016, 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 of Directors. 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, 2016, DSM Massachusetts's Board of Directors consisted of the following five members:

DSM Massachusetts Insurance Company, Inc.

<u>Name of Director</u>	<u>Business Affiliation</u>
Steven J. Pollock	President and Chief Executive Officer, DentaQuest, LLC
David Abelman	Executive Vice President and Chief Legal Officer, DentaQuest, LLC
Brett A. Bostrack	Senior Vice President, Client and Provider Engagement, DentaQuest, LLC
James E. Collins	Executive Vice President and Chief Financial Officer, DentaQuest, LLC
Robert E. Lynn	Executive Vice President, Chief Sales and Retention Officer, DentaQuest, LLC

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, 2016 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 of Directors 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 of Directors.

The Officers of the Company at December 31, 2016, were as follows:

<u>Name of Officer</u>	<u>Title</u>
Steven J. Pollock	President and Chief Executive Officer
David Abelman	Clerk
James E. Collins	Treasurer
Gregory P. Winn	Assistant Treasurer

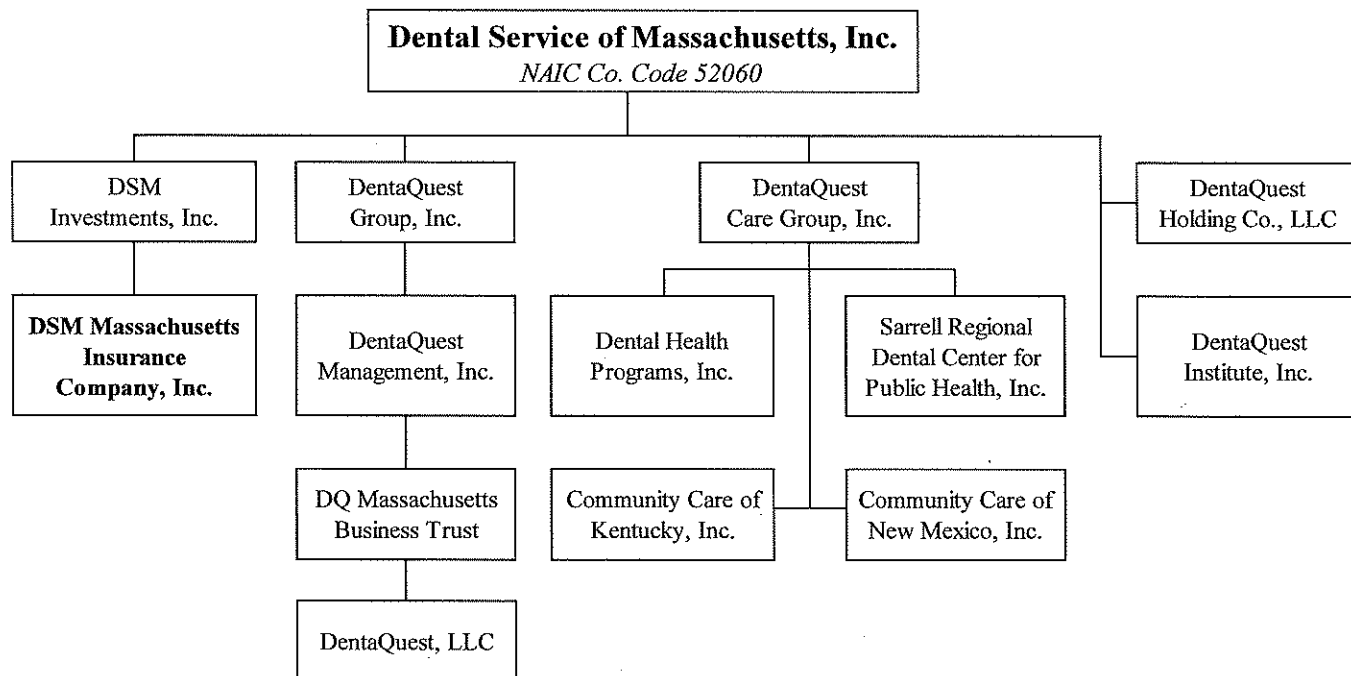
Affiliated Companies

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.

DSM Massachusetts Insurance Company, Inc.

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, 2016, the Company is a member of the following organizational structure:



Transactions and Agreements with Subsidiaries and Affiliates

Management and Services Agreement

DSM Massachusetts is party to a Service Agreement with its affiliate, DentaQuest, LLC ("DQ LLC") whereby DQ LLC provides services to market, sell, and administer all of the Company's dental benefits as well as substantially all business support services required by DSM Massachusetts. The Agreement specifies compensation to the servicing entity based on services provided to the Company either at cost or cost-plus. Services compensated at cost include general support services such as information technology, accounting, human resources, and credentialing of providers. Services compensated at the cost-plus method include services specific and exclusive to the operation of DSM Massachusetts and its insurance business, such as executive, sales and marketing, underwriting and enrollment of members, and claims processing. Fees for the year ended December 31, 2016 were \$1,187,000.

DSM Massachusetts Insurance Company, Inc.

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 Exclusive Provider Organization ("EPO") product.

The Company has no unusual claim related litigation with any policyholders and has not experienced significant complaints regarding its claims practices. Procedures performed in conjunction with the claims test work indicated that the Company investigates and settles claims on a timely and equitable basis.

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, claims, 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, 2016. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2016

Statement of Revenue and Expenses for the Year Ended December 31, 2016

Statement of Capital and Surplus for the Year Ended December 31, 2016

Reconciliation of Capital and Surplus for the Three-Year Period Ended December 31, 2016

DSM Massachusetts Insurance Company, Inc.
Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2016

Assets	<u>As Reported by the Company</u>
Cash, cash equivalents and short-term investments	<u>\$ 7,913,655</u>
Subtotals, cash and invested assets	7,913,655
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	1,110,059
Net deferred tax asset	467,978
Receivables from parent, subsidiaries, and affiliates	954,722
Total Assets	<u>\$ 10,446,415</u>

DSM Massachusetts Insurance Company, Inc.
Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2016

Liabilities	<u>As Reported by the Company</u>
Claims unpaid	\$ 367,063
Unpaid claims adjustment expenses	9,000
Premiums received in advance	1,580,826
General expenses due or accrued	85,687
Current federal income tax payable	249,815
Amounts due to parents, subsidiaries and affiliates	56,780
 Total Liabilities	 <u>2,349,171</u>
 Common capital stock	 1,000,000
Gross paid in and contributed capital	4,040,000
Unassigned funds (surplus)	<u>3,057,244</u>
Total capital and surplus	<u>8,097,244</u>
 Total Liabilities, Capital, and Surplus	 <u>\$ 10,446,415</u>

DSM Massachusetts Insurance Company, Inc.
Statement of Revenue and Expenses
As of December 31, 2016

	<u>As Reported by the Company</u>
Net premium income	\$ 11,870,545
Hospital/medical benefits	7,080,240
Claim adjustment expenses	304,640
General administrative expenses	<u>1,387,806</u>
Total underwriting deductions	<u>8,772,686</u>
Net underwriting gain	<u>3,097,859</u>
Net income or (loss) after capital gains tax and before all other federal and foreign income taxes	3,097,859
Federal and foreign income taxes incurred	<u>1,235,709</u>
Net Income (Loss)	<u><u>\$ 1,862,150</u></u>

DSM Massachusetts Insurance Company, Inc.
Statement of Capital and Surplus
For the Year Ended December 31, 2016

	<u>As Reported by the Company</u>
Capital and surplus, December 31, 2015	\$ 6,676,867
Net income (loss)	1,862,150
Change in net deferred income tax	395,505
Change in non-admitted assets	<u>(837,278)</u>
Net change in capital and surplus for the year	<u>1,420,377</u>
Capital and surplus, December 31, 2016	<u>\$ 8,097,244</u>

DSM Massachusetts Insurance Company, Inc.
Reconciliation of Capital and Surplus
For the Three Year Period Ended December 31, 2016

	2016	2015	2014
Capital and surplus as of December 31, prior year	\$ 6,676,867	\$ 5,040,000	\$ 0
Net income or (loss)	1,862,150	1,743,447	0
Change in net deferred income tax	395,505	72,473	0
Change in non-admitted assets	(837,278)	(179,053)	0
Capital Changes: Paid in			1,000,000
Surplus adjustments: Paid in			4,040,000
Net change capital and surplus for the year	<u>1,420,377</u>	<u>1,636,867</u>	<u>5,040,000</u>
Capital and surplus as of December 31, current year	<u>\$ 8,097,244</u>	<u>\$ 6,676,867</u>	<u>\$ 5,040,000</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., Consultants and Actuaries, 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, 2016.

Ernst & Young LLP performed an independent actuarial review of the Company's reserves and the table below summarizes their reserve range estimates as of December 31, 2016:

DSM – Claims Unpaid & Unpaid Claims Adjustment Expenses	E&Y - Low Range	E&Y - Mid Range	E&Y - High Range
\$376,063	\$364,136	\$391,063	\$418,350

As part of the examination, the Examiners reviewed the reports and the Statement of Actuarial Opinion issued by Milliman, Inc., and performed, as they deemed appropriate, their own test work and evaluation of the Company's reserve liabilities as of December 31, 2016, with payment developments through June 30, 2017. Based on such reviews and with reliance on the professional judgment of the appointed actuary in his Statement of Actuarial Opinion as to the appropriateness of DSM Massachusetts reserving methods and compliance with the requirements of Massachusetts statute, the Company's reserves were found to within the range of estimates.

SUBSEQUENT EVENTS

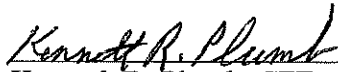
In July 2017, the Division approved the Company's new Total Choice PPO Plan and the Company has commenced writing the new product.

SUMMARY OF RECOMMENDATIONS

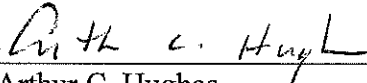
There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report. Recommendations of a lesser degree will be communicated to the Board of Directors in the Company's Management Letter.

SIGNATURE PAGE

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



Kenneth R. Plumb, CFE, CPA
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance



Arthur C. Hughes
Examiner-In-Charge
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