



DEPARTMENT OF COMMERCE & INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690

ORDER

After full consideration and review of the report of the financial examination of Delta Dental of Missouri for the period ended December 31, 2018 together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Commerce and Insurance¹ pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, territory and plan of operation, reinsurance, accounts and records, financial statements, comments on financial statement items, analysis of changes to surplus and general comments and/or recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Delta Dental of Missouri as of December 31, 2018 be and is hereby ADOPTED as filed and for Delta Dental of Missouri to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 26th day of September, 2019.




Chlora Lindley-Myers, Director
Department of Commerce and Insurance

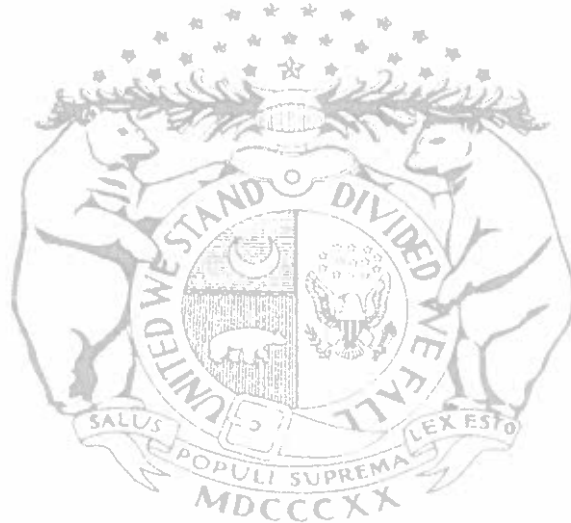
¹ Pursuant to Executive Order #19-02, effective August 28, 2019, the department name was changed from the Department of Insurance, Financial Institutions and Professional Registration to the Department of Commerce and Insurance.

REPORT OF
FINANCIAL EXAMINATION

Delta Dental of Missouri

As of:
DECEMBER 31, 2018

FILED
OCT 7 2019
DIRECTOR OF
MISSOURI DEPARTMENT OF
COMMERCE AND INSURANCE



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	1
Period Covered	1
Procedures.....	1
SUMMARY OF SIGNIFICANT FINDINGS	2
COMPANY HISTORY	2
General.....	2
Capital Stock.....	2
Dividends.....	3
Acquisitions, Mergers and Major Corporate Events	3
CORPORATE RECORDS	3
Corporate Documents	3
Meeting Minutes.....	3
MANAGEMENT AND CONTROL	4
Board of Directors	4
Officers	5
Committees.....	5
Holding Company, Subsidiaries, and Affiliates	6
Organization Chart.....	6
Affiliated Transactions	7
TERRITORY AND PLAN OF OPERATION.....	7
REINSURANCE	8
ACCOUNTS AND RECORDS.....	8
Independent Auditor	8
Independent Actuaries	8
FINANCIAL STATEMENTS	8
Assets	9
Liabilities, Surplus and Other Funds	9
Statement of Revenue and Expenses	10
Reconciliation of Capital and Surplus	11
ANALYSIS OF EXAMINATION CHANGES	12
COMMENTS ON FINANCIAL STATEMENTS	12
SUMMARY OF RECOMMENDATIONS.....	12
ACKNOWLEDGEMENT	13
VERIFICATION	13
SUPERVISION	14

July 10, 2019
St. Louis, MO

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope financial examination has been made of the records, affairs and financial condition of

Delta Dental of Missouri

hereinafter referred to as “DDMO” or as the “Company.” The Company's main office is located at 12399 Gravois Road, St. Louis, MO 63127, telephone number (314) 656-3000. Examination fieldwork began on March 4, 2019 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of DDMO. The last examination was completed as of December 31, 2014. This examination covers the period of January 1, 2015 through December 31, 2018. This examination also included material transactions or events occurring subsequent to December 31, 2018.

Procedures

This full-scope examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook (Handbook) of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration (Department or DIFP) or statutes of the state of Missouri prevailed. The Handbook requires that we plan and perform the 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. An examination also includes 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 includes 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 is documented separately following the Company's financial statements. The following key activities were identified: Claims and Reserving, Investments and Treasury, Premiums and Underwriting, and Related Parties.

This examination report includes significant findings of fact, as mentioned in Section 374.205 RSMo (Examination, director may conduct, when) 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 or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues or material changes to the balance sheet or income statement identified during the examination.

COMPANY HISTORY

General

Delta Dental of Missouri was incorporated as a not-for-profit entity on November 10, 1958, as Missouri Dental Service, and was licensed as a health services corporation under the provisions of Chapter 354 RSMo (Health Service Corporations). The Company changed its name to Delta Dental Plan of Missouri on February 23, 1985.

On July 1, 1990, the DIFP issued a Certificate of Authority for the Company to operate as a prepaid dental plan pursuant to Sections 354.700 to 354.723 RSMo (Prepaid Dental Plans). In 2005, the Company changed its name to Delta Dental of Missouri.

Capital Stock

As a not-for-profit entity, DDMO has no common capital stock or paid-in surplus. The Company does maintain segregated surplus of \$200,000 in compliance with Section 354.707.1 RSMo (Capital, surplus, security required) and Section 354.710.1 RSMo (Reserve requirements).

Dividends

The Company has no shareholders; therefore, no dividends are paid.

Acquisitions, Mergers and Major Corporate Events

In 2017, DDMO, the ultimate controlling entity, restructured its subsidiary organizations to streamline services and achieve cost efficiencies. Advantica Administrative Services, Inc. (AAS) and Advantica Holding Company merged. AAS was the surviving entity and became the immediate parent of Advantica Insurance Company (AIC), Advantica Dental Benefits, Inc., Advantica EyeCare IPA of New York, Inc. and DeniServ, LLC. Advantica, Inc. and Advantica Reinsurance Company, Ltd. were merged into AIC. Advantica Administrative Services New York IPA, Inc. was merged into Advantica EyeCare IPA of New York, Inc.

During 2018, Advantica EyeCare IPA of New York, Inc. changed its name to Advantica IPA New York, Inc., while Advantica Dental Benefits, Inc. and DeniServ, LLC were merged into DDMO.

CORPORATE RECORDS

Corporate Documents

The Company's articles of incorporation and bylaws were reviewed. There were no revisions made to the articles of incorporation during the examination period. Revisions made to the DDMO bylaws during the period under examination were properly filed with the Department and the Missouri Secretary of State.

Meeting Minutes

The minutes of the annual membership, board of directors, and committee meetings were reviewed and appear to adequately support and approve the corporate transactions and events for the period under examination.

MANAGEMENT AND CONTROL**Board of Directors**

The management of the Company is vested in a board of 16 directors authorized by the Company's bylaws. The directors serving at December 31, 2018, were as follows:

<u>Name</u>	<u>Principal Occupation</u>	<u>Address</u>
Oladipupo Adefala	Senior Security Strategist Fortinet, Inc.	St. Charles, MO
William Bender	Wealth Advisor Buckingham, Strategic Wealth	Chesterfield, MO
Brian Berglund, Jr.	Attorney Bryan Cave LLP	Denver, CO
Rosemary Bishop	Transition Associate BWTP Transition Solutions	Clayton, MO
Richard Braun	Principal Braun Consulting	Naples, FL
Dr. Robert Butler	Dentist	St. Louis, MO
Johnny Custardo	Managing Director Cubro Group	Grimesland, NC
Dr. William Edwards	Dentist	Spartanburg, SC
E.B. Rob Goren	President & CEO Delta Dental of Missouri	High Ridge, MO
Dr. William Gray	Oral Surgeon	Clayton, MO
Dr. Mark Mancin	Dentist	Platte City, MO
Deborah Patterson	Retired	St. Louis, MO
Dr. James Rhea	Dentist	Warson Woods, MO
Dr. Timothy Taylor	Dentist	Trimble, MO
Gary Williams	Vice-President of Human Resources Mount Vernon Mills, Inc.	Taylors, SC
Dr. Mark Zust	Dentist	Chesterfield, MO

Officers

The officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2018 were:

<u>Name</u>	<u>Position</u>
Dr. Robert Butler	Chairman of the Board
E.B. Rob Goren	President & CEO
Rosemary Bishop	Secretary
William Bender	Treasurer
Barbara Bentrup	CFO, Corporate Counsel, Assistant Secretary & Assistant Treasurer
Ronald Inge	Chief Dental Officer & COO
Jonathan Jennings	Chief Actuary & VP of Underwriting and Project Management
Karl Mudra	Chief Information Officer
Edward Pattarozzi	Chief Sales & Marketing Officer
Dr. James Rhea	First Vice Chairman
Dr. Mark Zust	Second Vice Chairman

Committees

In accordance with the bylaws, the board has established various committees with responsibility for managing the Company's affairs between meetings of the board. Quarterly, the full board reviews and approves the actions of the committees.

Committees established as of December 31, 2018 were:

Executive Committee

Dr. Robert Butler, Chairperson
William Bender
Brian Berglund, Jr.
Rosemary Bishop
E.B. Rob Goren
Dr. James Rhea
Dr. Timothy Taylor
Dr. Mark Zust

Compensation Committee

Brian Berglund, Jr., Chairperson
Oladipupo Adefala
Rosemary Bishop
Richard Braun
Dr. Mark Mancin
Dr. James Rhea
Dr. Timothy Taylor
Gary Williams
Dr. Mark Zust

Governance/Nominating Committee

Dr. James Rhea, Chairperson
William Bender
Brian Berglund, Jr.
Rosemary Bishop
Dr. William Edwards
Dr. William Gray
Dr. Mark Mancin
Deborah Patterson
Dr. Timothy Taylor
Gary Williams
Dr. Mark Zust

Finance and Audit Committee

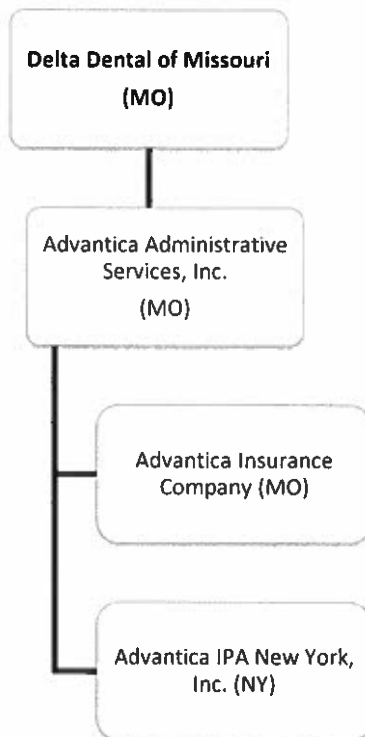
William Bender, Chairperson
Oladipupo Adefala
Brian Berglund, Jr.
Rosemary Bishop
Richard Braun
Johnny Custardo
Gary Williams

Holding Company, Subsidiaries, and Affiliates

The Company is the ultimate controlling entity of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions).

Organization Chart

The following organizational chart depicts the Company within the current holding company system. All subsidiaries shown are wholly owned.



Affiliated Transactions

The following affiliated agreements were in place as of December 31, 2018:

1. Type: Intercompany Service Agreement

Parties: DDMO and its direct and indirect subsidiaries

Effective: November 1, 2010

Terms: Parties agree to supply and receive requested management and support services. A list of services that may be requested is shown as Attachment A to the agreement. Direct expenses will be settled at cost, while indirect expenses will be settled based on the appropriate cost allocation methodology.

2. Type: Intercompany Tax Allocation Agreement

Parties: DDMO and its direct and indirect subsidiaries

Effective: December 1, 2010

Terms: Parties agree to file consolidated federal and state income tax returns. Each party's tax liability is determined as if parties filed on a separate basis. Balances are settled within 30 days following the end of the applicable quarter.

3. Type: Network Access and Administrative Services Agreement

Parties: DDMO and Advantica Administrative Services (AAS)

Effective: December 31, 2018

Terms: This agreement gives DDMO access to certain dental and other health care providers and vendors, along with providing third-party administrator services. The agreement also provides network access and utilization of AAS's contact information, policies, procedures, customer service, claims adjudication, complaint-grievance appeals processing and other administrative services. AAS also grants DDMO a non-exclusive, royalty-free license to use AAS's network and/or product names. All services are provided at cost.

TERRITORY AND PLAN OF OPERATION

The Company is licensed as a not-for-profit prepaid dental plan in Missouri under Chapter 354 RSMo (Health Service Corporations – Health Maintenance Organizations – Pre-paid Dental Plans). The Company is also licensed and writes business in the state of South Carolina.

DDMO is a member of the Delta Dental Plan Association (DDPA). The DDPA is a network of Delta Dental companies that operate in all 50 states, Guam, Puerto Rico and the Virgin Islands.

DDMO provides dental insurance benefits to over two million members. Employer groups pay a fee to DDMO and, in turn, DDMO then pays dental claims for their employees. National employer groups can access a nationwide provider panel and local procedure fees via the national association.

The Company also processes and pays claims for self-funded employers who reimburse DDMO for the claims processed on their behalf. These arrangements are referred to as ASC (Administrative Service Contracts). For this service, DDMO receives administrative fees on a per member, per month or a percentage of claims basis. The fees are billed and collected from each employer group monthly.

REINSURANCE

The Company does not assume or cede business.

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements for the period under examination were audited by BKD LLP. The workpapers and reports of the most recent independent audit were reviewed for this examination. These workpapers and reports were used in the course of this examination as deemed appropriate.

Independent Actuaries

Reserves and related actuarial items as of December 31, 2018, were reviewed and certified by F. Ray Martin, FSA, MAAA, of MarACon, LLC.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2018, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statements" section, which follow the financial statements.

There may have been additional differences found in the course of this examination that are not shown in the "Comments on Financial Statements." These differences were determined to be immaterial in relation to the financial statements and therefore were only communicated to the Company and noted in the workpapers for each key activity.

	<u>Assets</u>		
	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 58,592,869	\$ 0	\$ 58,592,869
Common stocks	33,576,115	(1,505,451)	32,070,664
Property occupied by the company	5,846,458	0	5,846,458
Cash, cash equivalents, and short-term investments	36,654,512	0	36,654,512
Investment income due and accrued	473,497	0	473,497
Uncollected premiums and agents' balances	3,045,432	(267)	3,045,165
Funds held by or deposited with reinsured companies	1,618,603	0	1,618,603
Amounts receivable relating to uninsured plans	12,310,819	0	12,310,819
Guaranty funds receivable or on deposit	231,884	0	231,884
Electronic data processing equipment and software	1,788,342	0	1,788,342
Furniture and equipment	2,274,401	(2,274,401)	0
Receivable from parent, subsidiaries and affiliates	767,162	0	767,162
Aggregate write-ins for other than invested assets	1,329,664	(1,054,142)	275,522
TOTAL ASSETS	\$ 158,509,758	\$ (4,834,261)	\$ 153,675,497

Liabilities, Surplus and Other Funds

General expenses due or accrued	13,121,350
Amounts withheld or retained for the account of others	1,279,562
Liability for amounts held under uninsured plans	2,348,213
TOTAL LIABILITIES	\$ 32,939,393
Required statutory surplus	\$ 200,000
Unassigned funds (surplus)	120,536,104
TOTAL CAPITAL AND SURPLUS	\$ 120,736,104
TOTAL LIABILITIES, CAPITAL AND SURPLUS	\$ 153,675,497

Statement of Revenue and Expenses

Net premium income	\$ 195,582,533
Aggregate write-ins for other health care related revenues	3,232
Total revenues	\$ 195,585,765
Hospital/Medical benefits	\$ 152,698,267
Claims adjustment expenses	17,475,089
General administrative expenses	22,739,068
Total underwriting deduction	\$ 192,912,424
Net underwriting gain or (loss)	\$ 2,673,341
Net investment income earned	3,704,495
Net realized capital gains (losses)	(239,769)
Net investment gains (losses)	\$ 3,464,726
Net income or (loss)	\$ 6,138,067

Reconciliation of Capital and Surplus

	2015	2016	2017	2018
Surplus: Prior year	\$ 82,338,440	\$ 91,024,010	\$ 105,596,245	\$ 119,782,052
Net income	7,079,945	9,707,392	7,470,908	6,138,067
Change in:				
Net unrealized gains/losses	467,834	2,823,077	4,557,169	(4,456,805)
Nonadmitted assets	1,137,791	2,041,766	2,157,730	1,322,790
Surplus adjustments:				
Transferred from capital				(2,050,000)
Change in surplus	<u>\$ 8,685,570</u>	<u>\$ 14,572,235</u>	<u>\$ 14,185,807</u>	<u>\$ 954,052</u>
Surplus: Current year	<u>\$ 91,024,010</u>	<u>\$ 105,596,245</u>	<u>\$ 119,782,052</u>	<u>\$ 120,736,104</u>

ANALYSIS OF EXAMINATION CHANGES

There are no changes in the financial statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENTS

There are no comments on the financial statements.

SUMMARY OF RECOMMENDATIONS

There are no recommendations as a result of this examination.

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Michael Shadowens, CFE
Assistant Chief Financial Examiner
Missouri Department of Insurance, Financial
Institutions and Professional Registration