

REPORT OF EXAMINATION  
OF THE  
CYPRESS DENTAL INSURANCE COMPANY OF CALIFORNIA  
AS OF  
DECEMBER 31, 2022

A handwritten signature in blue ink, appearing to read "D. DeFina", is positioned above the filing date.

Filed on April 22, 2024

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Oakland, California  
April 18, 2024

Honorable Ricardo Lara  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CYPRESS DENTAL INSURANCE COMPANY OF CALIFORNIA

(hereinafter also referred to as the Company). The Company's home office is located at 7510 Shoreline Drive, Stockton, California 95219.

SCOPE OF EXAMINATION

We have performed our domestic single-state examination of the Company. This is the first financial examination of the Company since its inception and covers the period from June 1, 2019 through December 31, 2022.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, 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 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 an adjustment was identified during the course of the examination, the impact of such adjustment would be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company 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.), were not included within the examination report but separately communicated to other regulators and/or the Company.

### COMPANY HISTORY

The Company was incorporated on November 16, 2018 under the laws of California. The Company was licensed to transact insurance business on December 5, 2019 and commenced business on January 1, 2020.

#### Capitalization

The Company is authorized to issue 50,000 shares of common stock with a par value of \$100 per share. As of December 31, 2022, there were 10,000 shares issued and outstanding.

## MANAGEMENT AND CONTROL

The Company is wholly-owned by Charles E. Richesin, who is also the Chief Executive Officer, Chief Financial Officer, Secretary, Board Chairman of the Company, and ultimate controlling person of the Company. The following organizational chart depicts the relationship of the companies within the holding company system as of December 31, 2022.

Charles E. Richesin

**Cypress Dental Insurance Company of California** (California) <sup>(a)</sup>

Cypress Dental Administrators (California) <sup>(a)</sup>

RSG Financial Group, Inc. (California) <sup>(b)</sup>

(a) Charles E. Richesin owns 100% of Cypress Dental Insurance Company of California and Cypress Dental Administrators.

(b) Charles E. Richesin and Geoffrey L. Peterson each has 50% ownership of RSG Financial Group, Inc.

The three members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2022:

### Board of Directors

#### Name and Location

#### Principal Business Affiliation

William J. Decapua  
Bloomington, Indiana

Owner  
Actuarial Worksite Marketing Services

Charles E. Richesin  
Lodi, California

Chief Executive Officer, Chief Financial Officer, and Secretary  
Cypress Dental Insurance Company of California

Amy L. Yates  
Stockton, California

Chief Operating Officer  
Cypress Dental Insurance Company of California

## Principal Officers

<u>Name</u>	<u>Title</u>
Charles E. Richesin	Chief Executive Officer, Chief Financial Officer, and Secretary
Amy L. Yates	Chief Operating Officer

## Management Agreements

Administrative and Marketing Services Agreement: Effective October 22, 2018, the Company and Cypress Dental Administrators (CDA) entered into the Administrative and Marketing Services Agreement (Agreement). Under the terms of the Agreement, CDA will perform certain administrative and marketing services for the Company, which include all correspondence of a routine nature and other general clerical and administrative services, and compliance with any state laws requiring annual reports, statements, data calls, or certifications to be furnished to the state. CDA also will deliver policies, certificates, booklets, termination notices, or other written communications to the policyholders and/or individual insureds. Compensation for the aforementioned services was based on 10 percent of collected premiums (net of premium refunds) each month. This Agreement was approved by the California Department of Insurance (CDI) in conjunction with the issuance of the Certificate of Authority, effective December 5, 2019. Effective July 1, 2020, the Agreement was amended to revise the compensation from 10 percent to a total of 18 percent comprised of 5 percent allocated to claims adjustment expenses and 13 percent to general and administrative costs. The CDI issued a non-disapproval letter dated April 15, 2022 pursuant to California Insurance Code (CIC) Section 1215.5(b). The total fees paid by the Company under this Agreement in 2020, 2021, and 2022 were \$3,375,060, \$3,139,099, and \$2,712,307, respectively.

Investment Advisory Agreement: Effective November 5, 2018, the Company and RSG Financial Group, Inc. (RSG) entered into the Investment Advisory Agreement (Agreement). Under the terms of the Agreement, RSG will act as the investment advisor and manager to the Company. RSG will invest the Company's assets in accordance with the investment requirements of California Insurance Code and Regulations, and the

Company's Investment Guidelines. RSG will perform research and obtain and evaluate such information relating to the economics, industries, businesses, market, and new investment structures, techniques, and financial data as appropriate in its discharge of its duties under this Agreement; seek out and implement specific investment opportunities; regularly report to the Company with the implementation of the Investment Guidelines and any other activities in connection with management of the assets; determine the assets to be purchased or sold and place orders, and maintain all books and records with respect to the investment transactions required by federal or state law and preserve such records for the periods prescribed therefore by the California Insurance Code. The Company owns and has custody of its investment accounts and records. The Company pays RSG a yearly fee of 1.2 percent of the value of the Company's total assets under management. This Agreement was approved by the CDI in conjunction with the issuance of the Certificate of Authority, effective December 5, 2019. No fees were paid by the Company to RSG under this Agreement during the examination period because the Company's investment portfolio was comprised of only cash and cash equivalents and there were no investment transactions performed by RSG.

#### TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Company is only licensed to transact dental insurance business in California. The Company's home office is located in and its day-to-day operations are managed out of Stockton, California.

The Company writes employer-sponsored and voluntary Preferred Provider Organization (PPO) dental insurance plans in California on a direct basis without any assumed and ceded reinsurance transactions. Its affiliate, Cypress Dental Administrators (CDA), a Registered Administrator in California, provides administrative and marketing services to the Company's policyholders, brokers, and general agents. CDA has strategic partnerships with insurance brokers and general agencies, which promote and distribute the Company's products. SkyGen USA, LLC (SkyGen), a third-party administrator (TPA), handles premium billing, claims adjudication and payment, and customer service for the

Company.

Direct premiums written during 2022 totaled \$21.1 million which was solely comprised of dental insurance. All of the direct premiums were written in California.

## REINSURANCE

### Assumed

The Company did not assume any business during the examination period.

### Ceded

The Company did not cede any business during the examination period.

## ACCOUNTS AND RECORDS

### Audit Committee

California Code of Regulations (CCR), Title 10, Chapter 5, Subchapter 3, Article 3.3, Section 2309.14(a) requires that the Audit Committee shall be directly responsible for the appointment, compensation, and oversight of the work of any accountant for the purpose of preparing or issuing the audited financial report or related work. Each member of the Audit Committee shall be a member of the board of directors.

Based on a discussion with management and a review of the board meeting minutes, the Company does not have an Audit Committee and there were no formal documentation of the entire board of directors' oversight of the appointment, compensation, and work of the accountant as required in CCR Section 2309.14(a).

It is recommended that the Company formally document the entire board of directors' oversight of the appointment, compensation, and work of the accountant and comply with the requirements under CCR Section 2309.14(a).



## FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance for the period ending December 31, 2022. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2022

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

Reconciliation of Capital and Surplus from May 31, 2019 through  
December 31, 2022

Statement of Financial Condition  
as of December 31, 2022

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Cash, cash equivalents, and short-term investments	\$ 5,990,960	\$	\$ 5,990,960	
Uncollected premiums and agents' balances in the course of collection	154,076		154,076	
Net deferred tax asset	32,556		32,556	
Receivables from parent, subsidiaries and affiliates	215,346		215,346	
Aggregate write-ins for other than invested assets	<u>67,197</u>		<u>67,197</u>	
Total assets	<u>\$ 6,460,135</u>	<u>\$ 0</u>	<u>\$ 6,460,135</u>	
 <u>Liabilities, Capital and Surplus</u>				<u>Notes</u>
Claims unpaid			\$ 1,116,730	(1)
Unpaid claims adjustment expenses			53,178	(1)
Premiums received in advance			599,321	
Current federal and foreign income tax payable and interest thereon			<u>221,929</u>	
Total liabilities			1,991,158	
Common capital stock		\$ 1,000,000		
Gross paid-in and contributed surplus		1,500,000		
Unassigned funds (surplus)		<u>1,968,977</u>		
Total Capital and Surplus			<u>4,468,977</u>	
Total liabilities, capital and surplus			<u>\$ 6,460,135</u>	

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

Statement of Revenue and Expenses

Revenue

Member months	537,697	
Net premium income	\$ 21,082,835	
 Total revenues		 \$ 21,082,835

Expenses:

Hospital and medical expenses	\$ 12,774,362	
Claims adjustment expenses	1,280,793	
General administrative expenses	<u>5,159,080</u>	
Total underwriting deductions		<u>19,214,235</u>
Net underwriting gain		1,868,600
 Net investment income earned	 \$ 25,386	
Net investment gain		<u>25,386</u>
Net income after capital gains tax, and before all other federal and foreign income taxes		1,893,986
Federal and foreign income taxes incurred		<u>389,566</u>
Net income		<u>\$ 1,504,420</u>

Capital and Surplus Account

Capital and Surplus, December 31, 2021		\$ 2,924,348
Net income	\$ 1,504,420	
Change in net deferred income tax	32,556	
Change in nonadmitted assets	<u>7,653</u>	
Net change in capital and surplus		<u>1,544,629</u>
Capital and Surplus, December 31, 2022		<u>\$ 4,468,977</u>

Reconciliation of Capital and Surplus  
from May 31, 2019 through December 31, 2022

Capital and Surplus, May 31, 2019			\$ 2,502,164
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 1,934,256	\$	
Change in net unrealized capital gains	1		
Change in net deferred income tax	<u>32,556</u>		
Total gains and losses	\$ 1,966,813	\$ 0	
Net increase in capital and surplus			<u>1,966,813</u>
Capital and Surplus, December 31, 2022			<u>\$ 4,468,977</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Claims Unpaid and Unpaid Claims Adjustment Expenses

A Senior Life Actuary with the California Department of Insurance reviewed the Actuarial Memorandum as of December 31, 2022 prepared by the Company's independent actuary and concurred with the actuary's conclusion that the Company's reserves for claims and claims adjustment expenses as of December 31, 2022 were reasonable and have been accepted for purposes of this examination.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Account and Records – Audit Committee (Page 6): It is recommended that the Company formally document the entire board of directors' oversight of the appointment, compensation, and work of the accountant and comply with the requirements under California Code of Regulations Section 2309.14(a).

### Previous Report of Examination

None.

## ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

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Sam Chiu, CFE  
Examiner-In-Charge  
Senior Insurance Examiner  
Department of Insurance  
State of California

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Li Lim, CFE  
Senior Insurance Examiner, Supervisor  
Department of Insurance  
State of California