Government of the District of Columbia

Department of Insurance, Securities and Banking

Thomas E. Hampton
Commissioner

BEFORE THE INSURANCE COMMISSIONER OF THE DISTRICT OF COLUMBIA

Re: Report on Examination - **MedStar Liability Limited Insurance Company, Inc., A Risk Retention Group,** as of December 31, 2007

ORDER

An Examination of **MedStar Liability Limited Insurance Company, Inc., A Risk Retention Group,** as of December 31, 2007 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

It is hereby ordered on this 28th day of October, 2008, that the attached financial condition examination report be adopted and filed as an official record of this Department.

In addition, it is hereby ordered that the Company comply with the recommendations in the attached financial condition examination report.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.

Thomas E. Hampton
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

REPORT ON EXAMINATION

MEDSTAR LIABILITY LIMITED INSURANCE COMPANY, INC., A RISK RETENTION GROUP

AS OF

DECEMBER 31, 2007

NAIC NUMBER 10124

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Washington, D.C.
July 18, 2008

Honorable Thomas E. Hampton
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Sir:

In accordance with Section 31-3931.14 of the District of Columbia Official Code, we have examined the financial condition and activities of

MedStar Liability Limited Insurance Company, Inc., A Risk Retention Group

hereinafter referred to as the "Company" or "MedStar RRG."

SCOPE OF EXAMINATION

This full-scope examination, covering the period from October 31, 2003 through December 31, 2007, including any material transactions and/or events noted occurring subsequent to December 31, 2007, was conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

Our examination was conducted in accordance with examination procedures established by the Department and procedures recommended by the National Association of Insurance Commissioners ("NAIC") and, accordingly, included such tests of the accounting records and such other examination procedures as we considered necessary in the circumstances.

Our examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2005 through 2007. The Company's 2003 and 2004 financial statements were not audited due to its inactive status in those years. We placed substantial reliance on the audited financial statements for calendar years 2005 and 2006, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31,

2007. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2007. We placed reliance on the work of the auditor and directed our efforts, to the extent practical, to those areas not covered by the firm's workpapers.

STATUS OF PRIOR EXAMINATION FINDINGS

This is the first examination of the Company.

HISTORY

General:

MedStar RRG was incorporated as an association captive insurance company operating as a risk retention group under the captive insurance laws of the District of Columbia on October 31, 2003. The Company is a stock insurance company formed and capitalized by MedStar Health, Inc. ("MedStar Health"), a Maryland not-for-profit healthcare system. The Company remained inactive until initial capitalization on April 6, 2005.

MedStar RRG provides medical professional liability insurance on a claims-made basis to hospital medical staff who are affiliated with (but not employed by) one or more of the hospitals in the MedStar Health system. In order to be eligible for participation in MedStar RRG, physicians must practice a minimum of 75 percent of their time at MedStar Health facilities.

MedStar RRG provides medical professional liability insurance in the District of Columbia and the State of Maryland as of December 31, 2007. In 2008, the Company was approved to write business in Virginia. MedStar RRG had 54 and 44 policyholders in 2007 and 2006, respectively.

Membership:

MedStar RRG is wholly-owned by MedStar Limited Liability Company ("MedStar LLC"). MedStar LLC is owned by class A and class B members. MedStar Health is the sole class A member of MedStar LLC and class B members consist of physicians who have executed a Program Participation Agreement with and have been approved to be an insured of, MedStar RRG. MedStar LLC passes all contributions from class A and class B members onto MedStar RRG as capital contributions.

The Company's articles of incorporation authorized the issuance of 300,000 shares of common stock with par value $1 per share. As of December 31, 2007, the Company had 400,000 outstanding common stock shares with a par value of $1 per share, issued to its sole shareholder, MedStar LLC. During the examination, we discussed this condition with management, and management indicated that although the additional 100,000 shares had been approved by the board of directors, due to an oversight, the articles of incorporation had not been updated to reflect this increase. Management subsequently had the articles of incorporation revised to authorize the issuance of up to 1 million shares, and the Department approved this revision.

Dividends and Distributions:

The Company did not declare or pay any dividends or other distributions during the period under examination.

MANAGEMENT

The following persons were serving as the Company's directors as of December 31, 2007:

Name and State of Residence	Principal Occupation
Kenneth A. Samet Maryland	Chief Operating Officer MedStar Health, Inc.
Michael J. Curran Maryland	Chief Financial Officer MedStar Health, Inc.
Robert J. Ryan Maryland	General Counsel MedStar Health, Inc.
William L. Thomas, MD Maryland	Executive VP for Medical Affairs MedStar Health, Inc.

The following persons were serving as the Company's officers as of December 31, 2007:

Name	Title
William L. Thomas, MD	Chairman of the Board
Kenneth A. Samet	President
Larry L. Smith	Vice President
Michael J. Curran	Treasurer
Arthur D. Perschetz	Secretary
Robert J. Ryan	Assistant Secretary

Committees:

As of December 31, 2007, the Company's board of directors had not established any committees.

Conflicts of Interest:

Our review of the conflict of interest statements signed by the Company's directors and officers for the period under examination disclosed that there were no conflicts of interest reported that would adversely impact the Company. Furthermore, no additional conflicts of interest were identified during our examination.

Corporate Records:

We reviewed the minutes of the meetings of the board of directors and shareholder for the period under examination. Based on our review, it appears that the minutes documented the board's review and approval of the Company's significant transactions and events.

CAPTIVE MANAGER

Marsh Management Services Inc. ("Marsh") is the Company's captive manager and provides captive management services including accounting, regulatory services, and records retention to the Company. In addition to the captive management services, Marsh also provides underwriting services to the Company.

AFFILIATED PARTIES AND TRANSACTIONS

As indicated in the "Membership" section of this report, the Company is wholly-ownedby MedStar LLC. MedStar LLC's sole Class A member is MedStar Health, which provides claims and risk management services to the Company pursuant to a Claims and Risk Management Agreement. MedStar Health is authorized to handle all phases of the Company's claims for a set fee per claim depending on the resolution of the claim. However, MedStar Health has not charged the Company for any expenses related to these services in 2006 or 2007. See the "Comments and Recommendations" section of this Report, under the caption "Loss Expenses and Reserves" for further comments regarding this condition.

Greenspring Financial Insurance Limited, Inc. ("Greenspring"), the Company's reinsurer, is a wholly owned subsidiary of MedStar Health. The Company ceded $954,059 and $783,598 of premiums to Greenspring in 2007 and 2006, respectively.

FIDELITY BOND AND OTHER INSURANCE

MedStar Health maintains an employee crime coverage policy with a $5 million limit of liability for itself and its subsidiaries, which includes the Company. This provides adequate coverage based on NAIC guidelines.

PENSION AND INSURANCE PLANS

The Company has no employees and therefore has no employee pension or insurance plans.

STATUTORY DEPOSITS

As of December 31, 2007, the Company did not have any statutory deposits in the District of Columbia and was not required to maintain any such deposits. In addition, the Company was not required to maintain statutory deposits with any other jurisdictions.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2007, the Company was licensed in the District of Columbia and was registered as a risk retention group in the state of Maryland. During 2007, MedStar RRG wrote premiums totaling approximately $1,882,000, about 20 percent of which related to paid tail coverage. Approximately 92 percent ($1,726,000) of the premiums were written in the District of Columbia, and 8 percent ($156,000) were written in Maryland. In 2008, MedStar RRG was approved to write business in Virginia. Effective July 1, 2005, MedStar RRG provides physician professional liability coverage (i.e., medical malpractice insurance) to its members on a claims-made basis with limits of $1,000,000 per claim and up to $3,000,000 in the aggregate. All policies have a renewal date of January 1.

Coverage is provided to doctors who are affiliated with (but not employed by) one or more of the hospitals in the MedStar Health system, which includes Washington Hospital Center, Georgetown University Hospital, and National Rehabilitation Hospital in the District of Columbia; and Franklin Square Hospital, Good Samaritan Hospital, Union Memorial Hospital, and Harbor Hospital in Maryland. The Company exists for the express purpose of providing a stable, reasonably priced source of insurance for physicians affiliated with the MedStar Health system. MedStar Health's access to these physicians, many of whom are specialists in critical fields, is crucial to MedStar Health's ability to provide a broad array of medical services. As a result, the Company does not seek to earn a profit.

In order to be eligible to be insured by MedStar RRG, physicians must practice a minimum of 75 percent of their time at MedStar Health facilities. The Company offers the option to purchase tail coverage to physicians who leave the program. The Company also provides free tail coverage to insured physicians in the event of death or permanent disability, and in the event of an insured physician fully retiring after having been continuously insured for 5 or more years.

The Company has no employees and its daily business operations are managed by various affiliated and unaffiliated service providers based on the service agreements. During the examination period and as of the date of this report, the Company's captive manager, Marsh Management Services is managing the Company's accounting and regulatory filing in Burlington, Vermont, and conducting the underwriting in Detroit, Michigan. The claim management is handled by MedStar Health in Columbia, Maryland.

The Company's board of directors, which has general supervisory responsibility over the Company's finances and operations, is comprised of executive officers of MedStar Health, which is the sole Class A member of MedStar LLC, the Company's owner. MedStar LLC's business, operations and affairs are managed exclusively by an executive committee made up of four members from MedStar Health and three members selected to represent the interests of the Class B members (i.e., the physician insureds).

INSURANCE PRODUCTS AND RELATED PRACTICES

This examination was a financial examination, and generally did not include market conduct procedures. An examination of the market conduct affairs of the Company has never been conducted. A market conduct examination would include detailed reviews of the Company's sales and advertising, agent licensing, timeliness of claims processing, and complaint handling practices and procedures.

The scope of our examination did not include market conduct procedures, including, but not limited to, market conduct procedures in the following areas:

- Policy Forms
- Fair Underwriting Practices
- Advertising and Sales Materials
- Treatment of Policyholders:
    - Claims Processing (Timeliness)
    - Complaints

REINSURANCE

During the examination period, and as of December 31, 2007, the Company maintained excess of loss reinsurance coverage with Greenspring Financial Insurance Limited, Inc. ("Greenspring"), a wholly-owned insurance subsidiary of MedStar Health. Greenspring, a Cayman Islands company, only insures risks of its parent and its parent's affiliates in the MedStar Health system. Solely for purposes of MedStar RRG's ceded reinsurance, the Department recognizes Greenspring as an "accepted" reinsurer.

Under the treaty with Greenspring, MedStar RRG cedes losses in excess of $200,000 each medical incident. The treaty is divided into two layers with the first layer at $300,000 excess $200,000 each medical incident and the second layer at $500,000 excess $500,000 per claim with a $12,000,000 annual aggregate ($7,500,000 eighteen month aggregate prior to January 1, 2007). Loss adjustment expenses are excluded from the treaty and are fully retained by MedStar RRG.

Under terms of the treaty, the Company pays reinsurance premium totaling 50.7 percent of its direct premiums written. In 2007, the Company paid reinsurance premiums totaling $954,059, and as of December 31, 2007, the Company reported "Amounts recoverable from reinsurers" (i.e., reinsurance recoverable on paid losses) totaling $425,000, and "Other amounts receivable under reinsurance contracts" (i.e., estimated amounts recoverable from reinsurers on unpaid losses) totaling $832,429. If the reinsurer was not able to meet its obligations under the treaty, the Company would be liable for any defaulted amounts.

Our review of the Company's ceded reinsurance contract did not disclose any unusual provisions.

ACCOUNTS AND RECORDS

The primary locations of the Company's books and records are at the offices of its captive manager, Marsh, in Burlington, Vermont; and at the offices of MedStar Health, in Columbia, Maryland.

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers. Our examination did not disclose any significant issues with these records. However, during the examination, we noted that the Company was not following its procedures for establishing loss adjustment expense reserves. See the "Comments and Recommendations" section of this Report, under the caption "Loss Expenses and Reserves" for further comments regarding this condition.

FINANCIAL STATEMENTS

The following financial statements, prepared in accordance with accounting practices generally accepted in the United States ("GAAP"), reflect the financial condition of the Company as of December 31, 2007, as determined by this examination:

The accompanying Notes to Financial Statements are an integral part of these Financial Statements.

BALANCE SHEET

ASSETS

	December 31, 2007
Cash ($ 484,524), cash equivalents ($ 1,551,348) and short-term investments ($ 0)	$ 2,035,872
Subtotals, cash and invested assets	$ 2,035,872
Investment income due and accrued	6,765
Reinsurance:	
Amounts recoverable from reinsurers	425,000
Other amounts receivable under reinsurance contracts	832,429
Net deferred tax asset	15,144
Aggregate write-ins for other than invested assets:	
Premium receivable	6,836
Prepaid expenses	10,000
Totals	$ 3,332,046

LIABILITIES, SURPLUS AND OTHER FUNDS

		December 31, 2007
Losses (**NOTE 1)**	$	1,962,535
Loss adjustment expenses (**NOTE 1**)		106,482
Other expenses (excluding taxes, licenses and fees)		68,412
Current federal and foreign income taxes (including $0 on realized capital gains (losses))		22,971
Advance premiums		192,424
Ceded reinsurance premiums payable (net of ceding commission)		297,970
Total liabilities	$	2,650,794
Common capital stock		400,000
Gross paid in and contributed surplus		290,000
Unassigned funds (surplus)		(8,748)
Surplus as regards policyholders	$	681,252
Totals	$	3,332,046

STATEMENT OF INCOME

	2007	
UNDERWRITING INCOME		
Premiums earned	$	927,714
DEDUCTIONS		
Losses incurred	$	624,761
Loss expenses incurred		106,482
Other underwriting expenses incurred		206,168
Total underwriting deductions	$	937,411
Net underwriting (loss)	$	(9,697)
INVESTMENT INCOME		
Net investment income earned	$	87,559
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$	77,862
Federal and foreign income taxes incurred		9,046
Net income	$	68,816

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2003	$	0
Surplus as regards policyholders, December 31, 2004	$	0
Initial paid in capital	$	400,000
Net loss, 2005		(65,486)
Surplus adjustments: Paid in		90,000
Net change in surplus as regards policyholders, 2005		424,514
Surplus as regards policyholders, December 31, 2005	$	424,514
Net loss, 2006		(15,326)
Aggregate write-ins for gains and losses in surplus		3,248
Surplus adjustments: Paid in		140,000
Net change in surplus as regards policyholders, 2006		127,922
Surplus as regards policyholders, December 31, 2006	$	552,436
Net income, 2007		68,816
Surplus adjustments: Paid in		60,000
Net change in surplus as regards policyholders, 2007		128,816
Surplus as regards policyholders, December 31, 2007	$	681,252

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

There were no changes to the Company’s surplus as a result of our examination.

COMPARATIVE FINANCIAL POSITION OF THE COMPANY

The comparative financial position of the Company for the periods since inception is as follows:

	2007	2006	2005	2004	2003
Assets	$ 3,332,046	$ 2,168,540	$ 726,777	$ 0	$ 0
Liabilities	2,650,794	1,616,104	302,263	0	0
Capital and surplus	681,252	552,436	424,514	0	0
Gross written premium	1,881,773	1,550,351	202,487	0	0
Net earned premium	927,714	766,753	97,396	0	0
Net investment income	87,559	20,126	860	0	0
Net income	$ 68,816	$ (15,326)	$ (65,486)	$ 0	$ 0

Note:

Amounts in the preceding financial statements for the years ended December 31, 2006 and 2005 were taken from the Company's Annual Statements as filed with the Department. Amounts for the year ended December 31, 2007 are amounts per examination.

As indicated in the "History" section of this Report, the Company was issued a Certificate of Authority permitting it to transact business as a captive insurance company on October 31, 2003, but it remained inactive until initial capitalization on April 6, 2005. Therefore, there is no financial data for the years 2003 and 2004.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Loss and Loss Adjustment Expense Reserves:

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling $1,962,535 and $106,482, respectively. These reserves represent management's best estimate of the amounts necessary to pay all claims and related expenses that have been incurred but are still unpaid as of December 31, 2007. The Company has received approval from the Department to discount its reserves using a discount rate of 3 percent.

Reserve credits taken as of December 31, 2007 for cessions to the Company's reinsurer totaled $832,429, which was reported as "Other amounts receivable under reinsurance contracts" in the Company's assets. If the reinsurer is unable to meet its obligations under the reinsurance treaty, the Company would be liable for any defaulted amounts. The Company's discounted net loss reserves are $1,236,588.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2007, were reviewed as part of our examination. As part of our review, we relied on the Company's independent actuary, who concluded that the Company's reserves appeared to be sufficient. In addition, as part of our review of the Company's reserves, we engaged an independent actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary. The independent actuary utilized in our examination concluded that the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary appeared sufficient.

As indicated above, the independent actuary utilized in our examination concluded that the methodologies and assumptions utilized by the Company's independent actuary to compute these reserves, and the amount of the reserves as of December 31, 2007, were reasonable and adequate. However, during our examination, we noted two recommendations related to the Company's loss reserves. See the "Comments and Recommendations" section of this Report, under the caption "Loss Expenses and Reserves", for further comments regarding these recommendations.

COMMENTS AND RECOMMENDATIONS

Loss Expenses and Reserves:

During our examination, we noted the following regarding the Company's loss expenses and reserves:

1. Under terms of the Company's Claims and Risk Management Agreement with MedStar Health, MedStar Health is to handle all phases of the Company's claims for a set fee per claim. However, during the period under examination, the Company has not been charged by MedStar Health for claims handling expenses incurred by MedStar Health on behalf of the Company. This condition existed for claims involving only insureds of the Company, as well as for joint defense claims involving the Company's insureds together with MedStar Health physicians.

2. The Company has not consistently established loss adjustment expense reserves in accordance with it own "Claims Management Guidelines", which require the establishing of loss adjustment expenses reserves upon the assertion of claims and suits. This condition existed for claims involving only insureds of the Company, as well as for joint defense claims involving the Company's insureds together with MedStar Health physicians. In addition, the Company has not recorded "unallocated" loss adjustment expense reserves, which should still be recorded even though the Company's claims are processed by MedStar Health.

Due to immateriality of the above amounts as of December 31, 2007, no adjustments were made to the Company's financial statements for purposes of our examination. However, **we recommend that in future periods the Company record allocated and unallocated loss adjustment expenses and reserves, in accordance with its service agreements and guidelines, to adequately reflect the Company's claims and claims handling costs.**

CONCLUSION

Our examination disclosed that as of December 31, 2007 the Company had:

Admitted Assets	$	3,332,046
Liabilities and Reserves		2,650,794
Common Capital Stock		400,000
Gross Paid in and Contributed Surplus		290,000
Unassigned Funds (Surplus)		(8,748)
Total Surplus		681,252
Total Liabilities, Capital and Surplus	$	3,332,046

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2007, and the accompanying statement of income properly presents the results of operations for the period then ended.

Chapter 39 ("CAPTIVE INSURANCE COMPANIES") of Title 31 ("Insurance and Securities") of the D.C. Official Code specifies the level of capital and surplus required for the Company. We concluded that the Company's capital and surplus funds exceeded the minimum requirements during the period under examination.

SIGNATURES

In addition to the undersigned, the following examiners representing the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

Christina M. Bonney, Collins Consulting, Inc.
John G. Gantz, Collins Consulting, Inc.

The actuarial portion of this examination was completed by N. Terry Godbold, ACAS, MAAA, FCA, President & Senior Actuary, Godbold, Malpere & Co.

Respectfully submitted,

Pamela C. Woodroffe

Pamela C. Woodroffe
Examiner-In-Charge
Collins Consulting, Inc.

Under the Supervision of,

Xiangchun Li

Xiangchun (Jessie) Li, CFE
Supervising Examiner
District of Columbia Department of Insurance, Securities and Banking

Government of the District of Columbia
Department of Insurance, Securities and Banking

Thomas E. Hampton
Commissioner

October 3, 2008

Kenneth A. Samet
President
MedStar Liability Limited Insurance Company, Inc., A Risk Retention Group
C/o Marsh Management Services Inc.
100 Bank Street, Suite 610
Burlington, Vermont 05401

Dear Mr. Samet:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination ("Report") of the affairs and financial condition of **MedStar Liability Limited Insurance Company, Inc., A Risk Retention Group**, as of December 31, 2007.

Please submit, to my attention, a written response calling attention to any errors or omissions in the draft Report. In addition, the Company's response shall include responses to each of the recommendations included in the "Comments and Recommendations" section of this Report. These responses should indicate the Company's agreement or disagreement with each recommendation, as well as a summary of the corrective measures which will be taken by the Company for each recommendation. If the Company disagrees with any of these recommendations, the response shall indicate the reason(s) for the disagreement, as well as an explanation of alternative measures to be taken by the Company to address the condition which lead to the recommendation.

The response must be in writing and shall be furnished to this Department within **thirty (30) days from the date of this letter (November 3, 2008).** In addition to a hard-copy response, please also furnish the response electronically via e-mail to me, in a Microsoft "Word" format, to sean.o'donnell@dc.gov.

Sincerely,

P. Sean O'Donnell

P. Sean O'Donnell
Director of Financial Examination,
Risk Finance Bureau

Enclosure

MedStar Health

October 14, 2008

P. Sean O'Donnell
Director of Financial Examination,
Risk Finance Bureau
Government of the District of Columbia
Department of Insurance, Securities and Banking
810 First Street, NE, Suite 701
Washington, DC 20002

Re: DISB Report on Examination, MedStar Liability Limited Insurance Company, Inc., A Risk Retention Group, Response Letter

Dear: Mr. O'Donnell:

This is in response to the Report on Examination ("Report") of the affairs and financial condition of MedStar Liability Limited Insurance Company, Inc., a Risk Retention Group (the "MedStar RRG") for the period through December 31, 2007.

First, on behalf of the Board of the MedStar RRG I want to thank you and your team for the courtesy shown to us while going through this examination. We found the tone of the examination very professional and respectful. We also found this examination process to be a very constructive one whereby the MedStar RRG was able to benefit from the findings and recommendations that were brought to our attention and discussed during the process. The MedStar RRG strives to continuously improve as an organization, and we found many of the observations brought to our attention during the exam to be helpful in that regard.

We have reviewed the exam report and we are pleased to note that the exam resulted in no material findings, and only a few minor recommendations, each of which we have resolved or are in the process of resolving.

Response to Comments and Recommendations:

1. Claims Agreement – Completed. An invoice has been sent to the MedStar RRG for all claims service fees due as of September 30, 2008. Going forward, MedStar will generate an invoice at year end (December 31) each year for all claims services fees earned by MedStar during the preceding year.

5565 Sterrett Place - 5th Floor, Columbia, Maryland 21044
phone: 410 772 6500 • *fax:* 410 715 3754

2. Effective by November 1, 2008 the MedStar RRG will have completed the following:
   a. Retroactively allocated appropriate loss adjustment expenses for all claims that have been closed prior to October 31, 2008. This will include claims involving just MedStar RRG insureds as well as claims involving insureds of both the MedStar RRG and the MedStar captive insurance company.
   b. The MedStar RRG has established appropriate expense reserves for all MedStar RRG claims and suits that are currently open, and will establish such loss adjustment expenses when appropriate on all newly opened claims and suits in the future.

I trust that the above provides an acceptable response to the recommendations contained in the examination. Sean, thanks to you and your staff for the way you conducted this examination process. I, of course, am available at anytime if you have further questions.

Sincerely,

Larry L. Smith, Vice President
MedStar Liability Limited Insurance Company, Inc.

LLS:gms

Government of the District of Columbia
Department of Insurance, Securities and Banking

Thomas E. Hampton
Commissioner

October 28, 2008

Kenneth A. Samet
President
MedStar Liability Limited Insurance Company, Inc., A Risk Retention Group
C/o Marsh Management Services Inc.
100 Bank Street, Suite 610
Burlington, Vermont 05401

Dear Mr. Samet:

We are in receipt of a response dated October 14, 2008, from Larry L. Smith, Vice President of **MedStar Liability Limited Insurance Company, Inc., A Risk Retention Group** ("MedStar" or "Company"), which addresses the corrective actions taken or to be taken by MedStar to comply with the recommendations made in the Report on Examination as of December 31, 2007. The response adequately addresses the recommendations made in the Report.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available. The Department of Insurance, Securities and Banking will forward the adopted Report electronically to each Commissioner whose name is set forth on Page 1 of the Report, as well as to the National Association of Insurance Commissioners, and to each state in which the Company is registered.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention at the Department.

Please contact me at 202-535-1169 if you have any questions.

Sincerely,

P. Sean O'Donnell

P. Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures