



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

### ORDER ADOPTING REPORT OF EXAMINATION

I, Andrew N. Mais, Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of ConnectiCare Insurance Company, Inc. (the Company) as of December 31, 2018, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions.

#### **TO WIT:**

1. I, Andrew N. Mais, Insurance Commissioner of the State of Connecticut, and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes ("C.G.S").
2. The Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On December 2, 2019, the verified Report of the Company was filed with the Connecticut Insurance Department (the "Department").
4. In accordance with C.G.S. §38a-14(e)(3), the Company was afforded a period of thirty (30) days within which to submit to the Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On January 6, 2020, the Company filed a written submission indicating that they were in agreement with all of the recommendations contained in the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

**NOW, THEREFORE,** it is ordered as follows:

1. That the Report of the Company hereby is adopted as filed with the Department.
2. That the Company shall comply with the recommendations set forth in the Report, and that failure by the Company to so comply shall result in sanctions or administrative action as provided by Title 38a of the C.G.S.
3. Section 38a-14(e)(4)(A) of the CGS requires that:

"The secretary of the Board of Directors or similar governing body of the entity shall provide a copy of the report or summary to each director and shall certify to the Commissioner, in writing, that a copy of the report or summary has been provided to each director. "

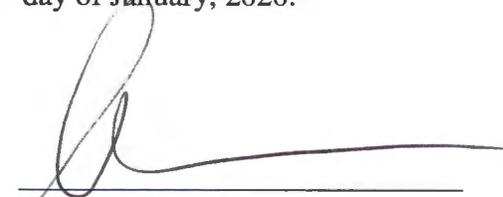
Please address the certification to the Commissioner, but send said certification to the care/attention of Mark Murphy, Supervising Examiner, of the Financial Regulation Division.

4. Section 38a-14(e)(4)(B) of the CGS requires that:

"Not later than one hundred twenty days after receiving the report or summary the chief executive officer or the chief financial officer of the entity examined shall present the report of summary to the entity's Board of Directors or similar governing body at a regular or special meeting. "

This will be verified by the Insurance Department either through analysis or examination follow-up.

Dated at Hartford, Connecticut, this 9<sup>th</sup> day of January, 2020.



Andrew N. Mais  
Insurance Commissioner

EXHIBIT A

**EXAMINATION REPORT**

**OF**

**CONNECTICARE INSURANCE COMPANY, INC.  
(NAIC # 11209)**

**AS OF**

**DECEMBER 31, 2018**

**BY THE CONNECTICUT INSURANCE DEPARTMENT**



## TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	1
History	2
Organizational Chart	4
Management and Control	4
Related Party Transactions	6
Territory and Plan of Operation	6
Reinsurance	6
Information Technology Controls	7
Medical Loss Ratio	8
Accounts and Records	8
Financial Statements	
Assets	9
Liabilities, Capital and Surplus	10
Statement of Revenue and Expenses	11
Claims Unpaid	12
Accrued Medical Incentive Pool and Bonus	12
Unpaid Claims Adjustment Expenses	12
Capital and Surplus	12
Common Capital Stock	12
Gross Paid-in and Contributed Surplus	12
Dividends to Stockholders	12
Subsequent Event	13
Conclusion	13
Signature	14

November 18, 2019

The Honorable Andrew N. Mais  
Insurance Commissioner  
State of Connecticut Insurance Department  
153 Market Street, 6<sup>th</sup> Floor  
Hartford, Connecticut 06103

Dear Commissioner:

In compliance with your instructions and pursuant to the requirements of Section 38a-14 of the Connecticut General Statutes (CGS), the undersigned has conducted a financial examination of the conditions and affairs of:

**CONNECTICARE INSURANCE COMPANY, INC.**

(hereinafter referred to as the Company or CICI), a corporation with capital stock, incorporated under the laws of the State of Connecticut and having its statutory home office and its main administrative office located at 175 Scott Swamp Road, Farmington, Connecticut. The report of such examination is submitted herewith.

**SCOPE OF EXAMINATION**

The previous examination of the Company was conducted by the Financial Regulation Division of the Connecticut Insurance Department (Department) as of December 31, 2014. The current examination covers the period from January 1, 2015 through December 31, 2018.

Concurrent examinations were conducted on ConnectiCare, Inc. (CCI) and ConnectiCare Benefits, Inc. (CBI), affiliated Connecticut domestic insurance companies, which are members of EmblemHealth Inc. (EmblemHealth), a not-for-profit, New York domiciled company. The State of Massachusetts' Division of Insurance also concurrently conducted a financial examination of ConnectiCare of Massachusetts, Inc. (CCM).

As part of the examination planning procedures, the Department reviewed the following materials submitted by the Company from 2015 through 2018:

- statutory audit reports completed by the Company's independent certified public accountant, Deloitte & Touche, LLP (D&T) ;
- Board of Director (Board) and other committee minutes (through the latest 2019 minutes);
- Management's Discussion and Analysis;
- Statements of Actuarial Opinion;

## CONNECTICARE INSURANCE COMPANY, INC.

- reports of the Company's Internal Audit Department;
- documentation supporting Management's Report of Internal Controls Over Financial Reporting under the Model Audit Rule (MAR); and
- annual statements filed with the Department.

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department and reports from the National Association of Insurance Commissioners (NAIC) database, all of which indicated no material concerns with respect to financial condition or regulatory compliance.

Work papers prepared by D&T were reviewed and relied upon to the extent deemed appropriate.

Risk & Regulatory Consulting, LLC (RRC) was engaged by the Department to assist in the review of the Company's pricing/underwriting risks for the examination.

RRC was engaged by the Department to assist in the review of the Company's Information Technology (IT) General Controls (ITGCs) for the examination.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the NAIC Financial Condition Examiners Handbook (the Handbook). 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 inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management compliance with the NAIC Accounting Practices & Procedures Manual and the NAIC Health Annual Statement Instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Comments in this report are generally limited to exceptions noted or to items considered to be of a material nature.

Failure of items in this report to add to totals or for totals to agree with captioned amounts is due to rounding.

### HISTORY

The Company was incorporated in Connecticut on April 30, 2001, and was licensed to conduct accident and health business in Connecticut on December 18, 2001. On June 19, 2001, an application seeking approval of acquisition of control of ConnectiCare Holding from the Connecticut Health Foundation by Carlyle Partners Holding, LLC (Carlyle) and Liberty Partners Holding, LLC (Liberty) was approved by the Department. The closing was

## CONNECTICARE INSURANCE COMPANY, INC.

consummated on June 22, 2001. The ultimate owners of ConnectiCare Holding, following the close in June were Carlyle (60%) and Liberty (40%). There were subsequent investments for a minority share by new equity investors and senior management investors.

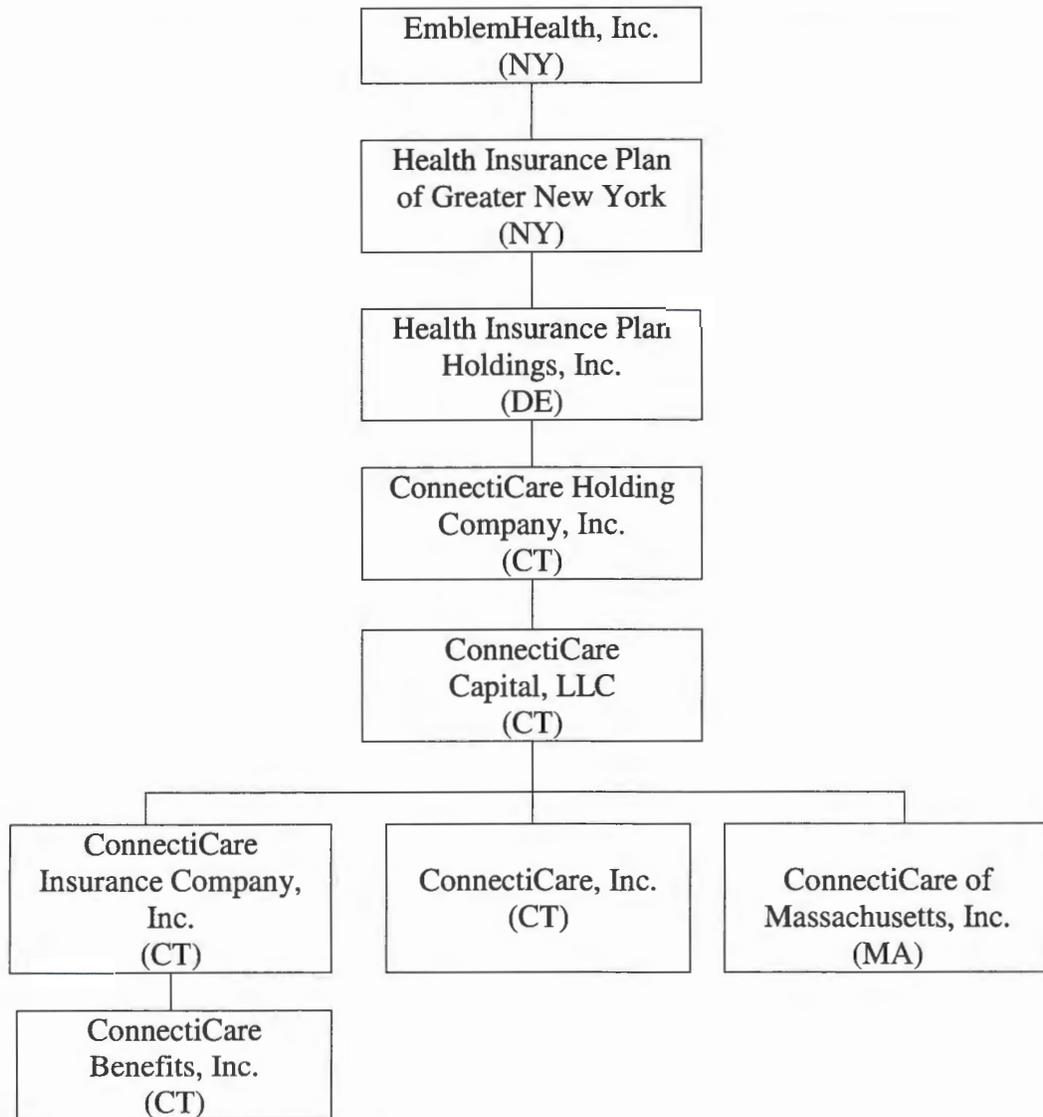
As part of this restructuring, 100% ownership of the Company was transferred from ConnectiCare Holding to ConnectiCare Capital, LLC (ConnectiCare Capital). ConnectiCare Capital was formed primarily to secure debt financing required by the restructuring transaction. A credit facility of \$70 million was put in place with ConnectiCare Capital consisting of a \$55 million term loan and a \$15 million revolving line of credit, of which \$2.2 million was drawn at closing.

On January 19, 2005, the Department approved the acquisition of ConnectiCare Holding by Health Insurance Plan of Greater New York (HIP). On March 10, 2005, ConnectiCare Holding and its subsidiaries were acquired by Health Insurance Plan Holdings, Inc. (HIP Holding), a Delaware domiciled holding company, wholly-owned by HIP, a not-for-profit company domiciled in the State of New York. On November 15, 2006, the board of directors of Group Health Incorporated (GHI), a New York not-for-profit health insurer, changed the bylaws of GHI, making HIP Foundation, Inc. the sole corporate member of GHI. As a result of this change, GHI and HIP came under common control and operated as affiliated companies. The name HIP Foundation, Inc. was changed to EmblemHealth, Inc., the Company's ultimate parent.

CONNECTICARE INSURANCE COMPANY, INC.

ORGANIZATIONAL CHART

The following is the Company's abbreviated organizational chart as of December 31, 2018:



MANAGEMENT AND CONTROL

The bylaws of the Company require all meetings of the shareholders to be held at any location as the directors may determine. The annual meeting of the shareholders shall be held in the fourth quarter each year and at such time and date as the Board shall determine by resolution and set forth in the notice of the meeting. The business conducted at the annual meeting shall include the election of directors and any other business that may be brought before the meeting. Any annual meeting of the shareholders is not required to be held in any year in which Directors have been elected by written consent in lieu of the annual meeting.

Special meetings of the shareholders may be called by the president or by the Board, and shall

CONNECTICARE INSURANCE COMPANY, INC.

be called by the secretary of the corporation upon receipt of one or more written demands for a special meeting by the holders of the requisite percentage of votes. The presence at any meeting of the majority of votes entitled to be cast on a matter shall constitute a quorum for action on that matter.

The bylaws provide that all corporate powers shall be exercised by or under the authority of, and the business affairs of the Corporation shall be managed under the direction of, the Board, subject to any limitations set forth in the Certificate of Authority. The number of directors shall consist of a minimum of one and a maximum of seven members, as determined by resolution of the Shareholders or the Board.

The Board shall meet each year immediately following the annual meeting of shareholders, or as soon thereafter as appropriate, for the purpose of organization, election of officers, and consideration of such other business as the Board considers relevant to the management of the Corporation. Regular meetings of the Board shall be held as determined by the Board. Special meetings shall be held at the call of the president or by at least two Directors. A majority of the members of the Board shall constitute a quorum for the transaction of business.

At December 31, 2018, directors of the Company were as follows:

<u>Name</u>	<u>Title and Principal Business Affiliation</u>
Karen Marie Ignagni	President and Chief Executive Officer EmblemHealth, Inc.
Eric Bart Galvin	President ConnectiCare

Officers

Pursuant to the bylaws, the elected officers shall consist of a president, vice presidents, a secretary and a treasurer. All shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board. At December 31, 2018, the officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Eric Bart Galvin	President
Mark Otis Porter	Vice President and Chief Financial Officer
Jeffrey D. Chansler Esq.	Assistant Secretary
Cheryl Hutchinson	Senior Vice President
Frank Anthony Scalise	Vice President and Treasurer
Robert Anthony Kosior	Senior Vice President and Chief Operating Officer
Roberta Doris Wachtelhausen	Senior Vice President

## CONNECTICARE INSURANCE COMPANY, INC.

### RELATED PARTY TRANSACTIONS

#### Tax Sharing Agreement

The Company is a party to a Tax Sharing Agreement with HIP Holding, whereby HIP Holding files a consolidated federal income tax return for all affiliated companies. The consolidated tax liability is allocated among affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate tax return liabilities of all affiliates that are members of the consolidated group.

#### Shared Services Agreement

The Company is party to an amended and restated shared services agreement with and among the ConnectiCare affiliated companies, effective as of January 26, 2015. The agreement provides the ConnectiCare affiliated companies the exchange of services and use of certain personnel, facilities, equipment, personal property, licenses and contracts owned, leased or maintained by each other. Charges are allocated to the various companies based on their pro-rata share of costs incurred on its behalf.

#### Administrative Services Agreement

The Company is a party to an amended and restated administrative services agreement with EmblemHealth affiliated companies, including EmblemHealth Services Company LLC (EHS), effective as of October 15, 2015. The agreement provides the EmblemHealth affiliated companies the exchange of services and use of certain personnel, facilities, equipment, personal property, licenses and contracts owned, leased or maintained by each other. Charges are allocated to the various companies based on their pro-rata share of costs incurred on its behalf.

### TERRITORY AND PLAN OF OPERATION

The Company, a for-profit insurer licensed to write business only in the State of Connecticut, offers health insurance and administrative services only products. The Company offers a preferred provider organization fully-insured product, a fully-insured individual health and fully-insured dental-only products, and a managed indemnity point of service contract.

### REINSURANCE

During the examination period, the Company's ceded reinsurance arrangement, effective January 1, 2018, primarily consisted of a coinsurance agreement with RGA Reinsurance Company (RGA). The reinsurance coverage provided claim loss recovery of 40% of claims in excess of the Company's \$1,500,000 retention up to \$4,000,000 for 2018 for individual and small group business. The reinsurance coverage provided claim loss recovery of 100% of claims in excess of the Company's \$1,500,000 retention up to \$4,000,000 for 2018 for large group business. This agreement, under the same retention and coinsurance percentages, was renewed on January 1, 2019.

Additionally, for business subject to the Affordable Care Act regulations, the Company was eligible for reimbursement under the Federal High Cost Risk Pool, whereby the reinsurance

## CONNECTICARE INSURANCE COMPANY, INC.

coverage provided claim loss recovery of 60% of claims in excess of the Company's \$1,000,000 retention during 2018.

The Company was mandated to participate in the Connecticut Small Employer Health Reinsurance Pool, which was established for groups with covered lives less than 50 and is administered by Pool Administrators, Inc. The reinsurance coverage provides claim loss recovery of 50% of claims in excess of the Company's \$350,000 retention up to \$1,000,000 during 2018.

In 2015 and 2016, the Company participated in The Patient Protection and Affordable Care Act Transitional Reinsurance Program. This program ended as of December 31, 2016.

### INFORMATION TECHNOLOGY CONTROLS

RRC performed a risk-based assessment and review of the Company's ITGCs in accordance with NAIC requirements as outlined in the Handbook. The guidance and direction used to perform the review of the Company's ITGCs was derived from Exhibit C Part 1 – Information Technology Planning Questionnaire (ITPQ) and Exhibit C Part 2 – Information Technology Work Program (collectively, Exhibit C). The Company's responses to the ITPQ were evaluated, and certain controls within the IT control environment were tested to assess whether the selected controls were designed effectively and were functioning properly.

RRC's objectives were to obtain reasonable assurance about whether:

- the Company had a process in place to effectively identify, mitigate and manage its IT risks;
- the Company's control structure policies and procedures were suitably designed to achieve the control objectives specified in Exhibit C; and
- the Company's policies and procedures were in place during the examination period.

The objectives above were achieved through a combination of reviewing the Company's policies and procedures, testing in key areas related to Exhibit C, interviewing the Company's IT senior management and reviewing IT risk assessment processes.

In accordance with the Handbook, specific areas of review included:

- IT governance and organization structure;
- strategic planning, systems architecture and project oversight;
- IT risk management;
- vendor management;
- development and maintenance of policies;
- physical and logical security;
- business continuity and disaster recovery planning;
- end user or business developed applications; and
- cybersecurity and incident response.

Based upon the risk-based assessment and review, the Company's ITGCs were determined to be effective.

## CONNECTICARE INSURANCE COMPANY, INC.

### MEDICAL LOSS RATIO (MLR)

As of December 31, 2018, the Company reported \$0 for its statutory MLR rebate within the "aggregate health policy reserves" liability.

The Department performed a review of the Company's MLR processes and controls designed to mitigate specific risks associated with the accuracy, payment and reporting of rebates. There were no material issues identified as a result of this review.

### ACCOUNTS AND RECORDS

The Company utilized the PeopleSoft system for its general ledger and accounts payable reporting. The PeopleSoft accounting system produced a monthly trial balance based upon generally accepted accounting principles, which was then adjusted quarterly for statutory accounting and reporting requirements. During the fourth quarter of 2018, PeopleSoft was replaced by Oracle ERP financial management system. The Company utilized Booke Seminars, "The Complete Package" for preparation of the Annual Statement.

CONNECTICARE INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS

The following statements represent the Company's financial position, as filed by the Company as of December 31, 2018. No adjustments were made to surplus as a result of the examination.

ASSETS

	Assets	Non Admitted Assets	Net Admitted Assets
Bonds	\$104,712,551		\$104,712,551
Common stocks	46,699,829		46,699,829
Cash	5,074,739		5,074,739
Cash equivalents	10,463,099		10,463,099
Investment income due and accrued	541,255		541,255
Uncollected premiums and agents' balances in the course of collection	5,967,268	\$619,915	5,347,353
Accrued retrospective premiums	7,223,280		7,223,280
Amounts recoverable from reinsurers	1,310,453		1,310,453
Amounts receivable relating to uninsured plans	3,204,609		3,204,609
Net deferred tax asset	1,230,182		1,230,182
Guaranty funds receivable or on deposit	5,227,541		5,227,541
Receivables from parent, subsidiaries and affiliates	43,289,700		43,289,700
Health care (\$7,712,177) and other amounts receivable	9,006,275	1,294,098	7,712,177
Aggregate write-ins for other than invested assets	3,720,266	634,991	3,085,275
Totals	<u>\$247,671,047</u>	<u>\$2,549,004</u>	<u>\$245,122,043</u>

CONNECTICARE INSURANCE COMPANY, INC.

LIABILITIES, CAPITAL AND SURPLUS

	Covered	Uncovered	Total
Claims unpaid	\$49,588,354	\$1,358,003	\$50,946,357
Accrued medical incentive pool and bonus	5,048,688		5,048,688
Unpaid claims adjustment expenses	776,337		776,337
Premiums received in advance	10,017,038		10,017,038
General expenses due or accrued	13,406,116		13,406,116
Current federal and foreign income tax payable and interest thereon (including \$(23,652) on realized capital gains (losses))	2,388,229		2,388,229
Ceded reinsurance premiums payable	122,482		122,482
Amounts due to parent, subsidiaries and affiliates	52,887,426		52,887,426
Liability for amounts held under uninsured plans	1,079,994		1,079,994
<b>Total liabilities</b>	<u>\$135,350,664</u>	<u>\$1,358,003</u>	<u>\$136,708,667</u>
<b>CAPITAL AND SURPLUS</b>	<b>Covered</b>	<b>Uncovered</b>	<b>Total</b>
Common capital stock	XXX		\$500,000
Gross paid in and contributed surplus	XXX		105,953,368
Unassigned funds (surplus)	XXX		1,960,008
<b>Total capital and surplus</b>	<b>XXX</b>		<b>108,413,376</b>
<b>Total liabilities, capital and surplus</b>	<b>XXX</b>		<u><b>\$245,122,043</b></u>

CONNECTICARE INSURANCE COMPANY, INC.

STATEMENT OF REVENUE AND EXPENSES

STATEMENT OF REVENUE AND EXPENSES	Uncovered	Total
Member months	XXX	1,016,649
Net premium income	XXX	\$591,212,189
Total revenues	XXX	591,212,189
<b>Hospital and Medical:</b>		
Hospital/medical benefits	\$10,423,850	391,057,355
Other professional services		1,289,377
Prescription drugs		76,999,951
Incentive pool, withhold adjustments and bonus amounts		4,107,040
Subtotal	10,423,850	473,453,723
<b>Less:</b>		
Net reinsurance recoveries		3,000,007
Total hospital and medical	10,423,850	470,453,716
Claims adjustment expenses, including \$8,684,188 cost containment expenses		14,186,746
General administrative expenses		98,440,213
Total underwriting deductions	10,423,850	583,080,675
Net underwriting gain or (loss)	XXX	8,131,514
Net investment income earned		51,864,409
Net realized capital gains or (losses) less capital gains tax of \$(23,652)		(88,975)
Net investment gains (losses)		51,775,434
Aggregate write-ins for other income or expenses		78,743
Net income or (loss); after capital gains tax and before all other federal income taxes		59,985,691
Federal and foreign income taxes incurred		5,220,478
Net income (loss)	XXX	<u>\$54,765,213</u>
<b>CAPITAL AND SURPLUS ACCOUNT</b>		
Capital and surplus, December 31, prior year		\$96,389,944
Net income		54,765,213
Change in net unrealized gains (losses) less capital gains tax of \$0		7,311,023
Change in net deferred income tax		395,642
Change in nonadmitted assets		(448,446)
Surplus adjustments: Paid in		(33,046,632)
Dividends to stockholders		(16,953,368)
Net change in capital and surplus for the year		12,023,432
Capital and surplus; December 31, current year		<u>\$108,413,376</u>

CONNECTICARE INSURANCE COMPANY, INC.

<u>CLAIMS UNPAID</u>	<u>\$50,946,357</u>
<u>ACCRUED MEDICAL INCENTIVE POOL AND BONUS</u>	<u>\$5,048,688</u>
<u>UNPAID CLAIMS ADJUSTMENT EXPENSES</u>	<u>\$776,337</u>

The Department's actuaries performed a review of reserving risk and RRC performed a review of pricing/underwriting risk. No material issues were noted during the review of reserving and pricing/underwriting risks.

<u>CAPITAL AND SURPLUS</u>	<u>\$108,413,376</u>
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The following is a reconciliation of capital and surplus for the period under examination:

Beginning of the Examination Period, January 1, 2015	\$68,448,043
Net income	(14,956,403)
Change in net unrealized capital gain/(loss)	(8,871,321)
Change in net deferred income tax	(789,414)
Change in non-admitted assets	57,246
Surplus adjustments: paid in	77,953,368
Dividends to stockholders	(16,953,368)
Aggregate write-ins for gain or loss in surplus	3,525,225
Net Change in Capital and Surplus for the Examination Period	39,965,333
Capital and Surplus, December 31, 2018	<u>\$108,413,376</u>

<u>COMMON CAPITAL STOCK</u>	<u>\$500,000</u>
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The Company has 20,000 shares authorized, with 100 shares issued and outstanding with a \$5,000 par value. There was no change to this account during the examination period.

<u>GROSS PAID-IN AND CONTRIBUTED SURPLUS</u>	<u>\$105,953,368</u>
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The following changes were noted during the examination:

Year	2015	2016	2017	2018
Capital Contribution	\$0	\$99,000,000	\$12,000,000	\$0
Return of Capital	\$0	\$0	\$0	\$(33,046,632)

All capital contributions were received by the Company from ConnectiCare Capital. Return of capital was made by the Company to ConnectiCare Capital.

<u>DIVIDENDS TO STOCKHOLDERS</u>	<u>\$16,953,368</u>
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Year	2015	2016	2017	2018
Amount	\$0	\$0	\$0	\$16,953,368

## CONNECTICARE INSURANCE COMPANY, INC.

All dividends were paid by the Company to ConnectiCare Capital.

### SUBSEQUENT EVENT

Effective June 19, 2019, Bruce Jarvie was named the Chief Financial Officer and Treasurer of the Company, replacing Mark Porter and Frank Scalise.

### CONCLUSION

The results of this examination disclosed that as of December 31, 2018, the Company had admitted assets of \$245,122,043, liabilities of \$136,708,667, and capital and surplus of \$108,413,376. During the period under examination, admitted assets increased \$86,734,512, liabilities increased \$46,769,179, and surplus as regards policyholders increased \$39,965,333.

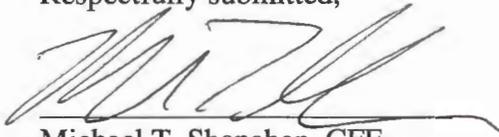
CONNECTICARE INSURANCE COMPANY, INC.

SIGNATURE

In addition to the undersigned, the following members of the Department participated in the examination: Mark Murphy, CFE; Michael Daniels, CFE; Cecilia Arnold, CFE; Joseph Marcantonio, AFE, AES, CISA; Ken Roulier, AFE, AES, CISA; Wanchin Chou, FCAS, MAAA; Andrew Greenhalgh, FSA, MAAA, PhD; and the professional services firm of RRC.

I, Michael T. Shanahan, CFE, solemnly swear that the foregoing report on examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2018, to the best of my information, knowledge and belief.

Respectfully submitted,



Michael T. Shanahan, CFE  
Examiner-In-Charge  
State of Connecticut  
Insurance Department

State of Connecticut

ss. Hartford

County of Hartford

Subscribed and sworn to before me, Nancy M. Mercier  
Notary Public on this 2<sup>nd</sup> day of December, 2019.

Nancy M. Mercier  
Notary Public

My Commission Expires 6/30/2020