

Report on Examination

of

**Employer Choice Insurance Company, Inc.
d/b/a Concert Health Plan**

Orlando, Florida

as of

December 31, 2012



**FLORIDA OFFICE OF
INSURANCE REGULATION**

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
Tallahassee, Florida

Dear Sir:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Employer Choice Insurance Company, Inc. d/b/a Concert Health Plan as of December 31, 2012. Our report on the examination follows.

Florida Office of Insurance Regulation
February 26, 2014

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SCOPE OF EXAMINATION

We have completed a limited-scope financial condition examination as of December 31, 2012 of Employer Choice Insurance Company, Inc. d/b/a Concert Health Plan (the "Company"), a single-state insurer domiciled in Florida. The examination covered the period of January 1, 2012 through December 31, 2012. It was conducted pursuant to Section 624.316(2)(f), Florida Statutes (F.S.), which requires the Office of Insurance Regulation (the "Office") to conduct an examination at least annually of a domestic insurer which has continuously held a certificate of authority for less than three years, and in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook*. The objectives of, significant procedures performed during, and findings and recommendations resulting from the examination are discussed beginning on page 2 of this report. The examination was conducted primarily in the Company's Orlando, Florida office.

This report is on a limited-scope examination. As such, it is not intended to communicate all matters of importance necessary for an understanding of the Company's financial condition. The purposes of limited-scope examinations are to review specific aspects of financial or operational processes, perform specific procedures with respect to those aspects, and report the examiners' findings thereon. By definition, limited-scope examinations are less comprehensive than full-scope examinations and generally focus on areas identified by the Office to be problem areas or potential problem areas.

BACKGROUND

The Company was incorporated in Florida on April 9, 2009 and licensed by the Office as an insurer on July 15, 2009. It was wholly owned by North American Health Services, Inc., a subsidiary of Adventist Health System Sunbelt Healthcare Corporation d/b/a Adventist Health System. The Company was authorized by the State of Florida to operate as a life and health insurer in accordance with Section 624.401, F.S. The Office performed limited-scope and full-scope financial condition examinations of the Company as of December 31, 2010 and December 31, 2011, respectively.

PROCEDURES, FINDINGS AND RECOMMENDATIONS

Cash, Cash Equivalents and Short-Term Investments

One of the examination objectives was to verify that, in its 2012 annual statement, the Company reported its cash in accordance with Statement of Statutory Accounting Principles (SSAP) No. 2, Section 625.012(1), F.S., and the NAIC annual statement instructions. Examination procedures included reviewing relevant financial and accounting records and documents; testing the accuracy of the Company's bank reconciliations; and obtaining independent confirmations of cash balances. No significant adverse findings resulted.

Liabilities

Examination objectives included determining the adequacy of the Company's liabilities as reported in its 2012 annual statement. Examination procedures included reviewing the Office actuary's report on the Company's claims unpaid, unpaid claims adjustment expenses, and aggregate health policy reserves. In addition, we reviewed transactions and events occurring subsequent to December 31, 2012 as recorded in the Company's accounting records and as evidenced in the

minutes of its board of directors meetings to determine the existence of any unrecorded liabilities at December 31, 2012. No significant adverse findings resulted.

Related Party Agreements

Examination objectives included determining the extent to which agreements and transactions between the Company and its affiliates were in compliance with applicable rules, statutes, and statutory accounting principles; transactions with affiliates were properly accounted for; and the parties abided by the terms of the agreements. Examination procedures included reviewing applicable agreements, financial and accounting records related to the agreements, and relevant portions of the Company's 2012 annual statement. We found that Florida Hospital Healthcare System, Inc., an affiliated Florida third party administrator, and multiple affiliated health care providers furnished business development and health care services to the Company pursuant to arrangements which were not in writing as required by SSAP No. 25. We also found that the Company failed to disclose its management services and tax allocation agreements with affiliates in its 2012 holding company registration statement as required by Rule 69O-143.046(2), Florida Administrative Code (F.A.C.). No other significant adverse findings resulted. **We recommend that the Company ensure that all of its transactions with related parties are pursuant to written agreements in accordance with SSAP No. 25, and that the Company report all agreements with affiliates in its holding company registration statement as required by Rule 69O-143.046(2), F.A.C.**

Internal Control Weaknesses and Deficiencies

On May 31, 2013, the Company's independent auditor communicated certain material weaknesses and deficiencies in the Company's internal controls and made specific recommendations to the Company related to those items. We reviewed relevant financial and accounting records and documents to assess the extent to which the Company remedied the reported weaknesses and

deficiencies and took appropriate action as a result of the auditor's recommendations. We found that the Company's management had not taken action to ensure that appropriate personnel were familiar with statutory accounting principles or developed detailed narratives of the Company's key processes as recommended by the auditor. No other significant adverse findings resulted. **We recommend that the Company take action to ensure that appropriate personnel are familiar with statutory accounting principles and develop detailed narratives of the Company's key processes.**

Compliance With Consent Order

We reviewed relevant records and documents in order to assess the extent of the Company's compliance with Consent Order 104067-09-CO issued by the Office on May 7, 2009. We found that the Company maintained with the Office an anti-fraud plan which complied with Section 626.9891, F.S., as required by paragraph 17 of the consent order. However, we noted that the Company had not provided anti-fraud education and training to its personnel as required by the plan. In addition, we found that the Company had violated paragraph 18 of the consent order by failing to maintain sufficient and adequate internal controls, as described by its external auditor on May 31, 2013. No other significant adverse findings resulted. **We recommend that the Company provide anti-fraud education and training to its personnel in accordance with its anti-fraud plan and maintain sufficient and adequate internal controls.**

Fidelity Bond Coverage

We reviewed the Company's fidelity bond coverage in order to determine whether it was at least at the level recommended by the NAIC. No significant adverse findings resulted.

Audit Committee

We reviewed relevant corporate records of the Company in order to determine whether all members of the Board's audit committee were also directors of the Company. We found that one audit committee member, the Company's chief financial officer, was not a director, in violation of the Company's bylaws and Rule 69O-137.002(14)(b), F.A.C. No other significant adverse findings resulted. **We recommend that the Company appoint only directors to its audit committee as required by its bylaws and Rule 69O-137.002(14)(b), F.A.C.**

Employer Choice Insurance Company, Inc.
d/b/a Concert Health Plan
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2012

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Cash, cash equivalents and short-term investments	\$4,133,958	\$ -	\$4,133,958
Health care and other amounts receivable	2,213	-	2,213
Total admitted assets	\$4,136,171	\$ -	\$4,136,171
Liabilities			
Claims unpaid	\$ 135,596	\$ -	\$ 135,596
Unpaid claims adjustment expenses	2,634	-	2,634
Aggregate health policy reserves	103,000	-	103,000
Premiums received in advance	6,626	-	6,626
General expenses due or accrued	121,066	-	121,066
Amounts due to parent, subsidiaries and affiliates	58,015	-	58,015
Total liabilities	\$ 426,937	\$ -	\$ 426,937
Capital and Surplus			
Common capital stock	\$ 100	\$ -	\$ 100
Gross paid in and contributed surplus	4,999,900	-	4,999,900
Unassigned funds (deficit)	(1,290,766)	-	(1,290,766)
Total capital and surplus	3,709,234	-	3,709,234
Total liabilities, capital and surplus	\$4,136,171	\$ -	\$4,136,171

Employer Choice Insurance Company, Inc.
d/b/a Concert Health Plan
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2012

Net premium income	\$1,722,219
Hospital and medical benefits	792,148
Outside referrals	91,162
Emergency room and out-of-area	106,884
Prescription drugs	328,637
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Total hospital and medical	1,318,831
General administrative expenses	1,029,656
Increase in reserves	103,000
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Total underwriting deductions	2,451,487
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Net underwriting gain (loss)	(729,268)
Net investment income earned	480
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Net income (loss)	<u>\$ (728,788)</u>

**Employer Choice Insurance Company, Inc.
d/b/a Concert Health Plan
Statement of Changes in Capital and Surplus
Year Ended December 31, 2012**

Capital and surplus - December 31, 2011	\$4,470,403
Net loss	(728,788)
Change in nonadmitted assets	(32,381)
	<hr/> 3,709,234
Examination adjustments	-
Capital and surplus - December 31, 2012	<hr/> <u>\$3,709,234</u>

**Employer Choice Insurance Company, Inc.
d/b/a Concert Health Plan
Comparative Analysis of Changes in Capital and Surplus
December 31, 2012**

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital and surplus, December 31, 2012 - per annual statement				\$3,709,234
	Per	Per	Increase	
	Company	Examination	(Decrease)	
			In Capital	
			& Surplus	
Total assets	\$4,136,171	\$4,136,171	\$	-
Total liabilities	\$ 426,937	\$ 426,937	\$	-
Net change in capital and surplus				-
Capital and surplus, December 31, 2012 - per examination				<u><u>\$3,709,234</u></u>

SUBSEQUENT EVENTS

In its 2013 annual statement, the Company reported a net loss of \$1,068,662 for the year.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been applied to the specific areas described in this report of limited-scope examination of Employer Choice Insurance Company, Inc. d/b/a Concert Health Plan consistent with the insurance laws of the State of Florida.

In addition to the undersigned, the following individuals participated in the examination: Kerry Krantz, Actuary; and Darlene L. Lenhart-Schaeffer, CFE, CISA, Financial Examiner/Analyst Supervisor.

Respectfully submitted,

Scott R. Slaughter, CPA
Financial Examiner/Analyst
Florida Office of Insurance Regulation