

**REPORT ON EXAMINATION**

**OF**

**WELLCARE HEALTH INSURANCE OF NEW YORK, INC.**

**AS OF**

**DECEMBER 31, 2014**

**DATE OF REPORT**

**JANUARY 17, 2017**

**EXAMINER**

**BRUCE BOROFSKY, CFE**

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

January 17, 2017

Honorable Maria T. Vullo  
Superintendent of Financial Services  
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and acting in accordance with the instructions contained in Appointment Number 31495, dated June 21, 2016, attached hereto, I have made an examination into the condition and affairs of WellCare Health Insurance of New York, Inc., an accident and health insurer licensed pursuant to the provisions of Article 42 of the New York Insurance Law, as of December 31, 2014, and respectfully submit the following report thereon.

The examination was conducted at the main administrative office of WellCare Health Insurance of New York, Inc., located at 8735 Henderson Road, Tampa, Florida.

Wherever the designations the "Company" or "WHINY" appear herein, without qualification, they should be understood to indicate WellCare Health Insurance of New York, Inc.

Wherever the designation the "Department" appears herein, without qualification, it should be understood to indicate the New York State Department of Financial Services.

## 1. **SCOPE OF THE EXAMINATION**

The previous examination of WHINY was conducted as of December 31, 2009. This examination of the Company was a financial examination as defined in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook, 2015 Edition* (the “Handbook”) and covered the five-year period from January 1, 2010 through December 31, 2014. The examination was conducted observing the guidelines and procedures in the Handbook, and transactions occurring subsequent to December 31, 2014 were reviewed where deemed appropriate by the examiner.

The examination was conducted on a risk-focused basis in accordance with the provisions of the Handbook, which provides guidance for the establishment of an examination plan based on the examiner’s assessment of risk in the Company’s operations and utilizes that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the Company’s current financial condition, as well as to identify prospective risks that may threaten the future solvency of the Company.

The examiner identified key processes, assessed the risks within those processes and assessed the internal control systems and procedures used to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, an evaluation of the overall financial statement presentation, and determined management’s compliance with the Department’s statutes and guidelines, Statutory Accounting Principles, as adopted by the Department, and NAIC annual statement instructions.

Information concerning the Company's organizational structure, business approach and control environment were utilized to develop the examination approach. The examination evaluated the Company's risks and management activities in accordance with the NAIC's nine branded risk categories. These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit
- Market
- Liquidity
- Legal
- Reputational

The examination also evaluated the Company's critical risk categories in accordance with the NAIC's ten critical risk categories. These categories are as follows:

- Valuation/Impairment of Complex or Subjectively Valued Invested Assets
- Liquidity Considerations
- Appropriateness of Investment Portfolio and Strategy
- Appropriateness/Adequacy of Reinsurance Program
- Reinsurance Reporting and Collectability
- Underwriting and Pricing Strategy/Quality
- Reserve Data
- Reserve Adequacy
- Related Party/Holding Company Considerations
- Capital Management

The Company was audited annually, for the years 2010 through 2014 by the accounting firm Deloitte & Touché LLP ("D&T"). The Company received an unmodified opinion in each of those years. Certain audit workpapers of D&T were reviewed and relied upon in conjunction with this examination. The Company has an internal audit department which has been given the task

of assessing the Company's internal control structure. The examiners also reviewed the Company's Enterprise Risk Management program.

The examiner reviewed the corrective actions taken by the Company with respect to the recommendations concerning financial issues contained in the prior report on examination. The results of the examiner's review are contained in Item No. 5 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulations or rules, or which are deemed to require an explanation or description.

## **2. DESCRIPTION OF THE COMPANY**

The Company was incorporated as the Stonebridge Insurance Company, a property and casualty insurer, under the Laws of New York on April 6, 1993. On December 12, 1997, the Company was licensed to write property and casualty insurance, and on August 14, 2000, adopted the name Stone Harbor Insurance Company. During this time and until 2007, the Company did not conduct any business.

The Company was acquired by the WellCare Management Group, Inc. ("WMG"), pursuant to a stock purchase agreement, which was approved by the Department on August 6, 2006. WMG is a wholly-owned subsidiary of WellCare Health Plans, Inc., a publicly traded health benefits company. On November 29, 2006, the Company's name was changed from Stone Harbor Insurance Company to WellCare Health Insurance of New York, Inc. Simultaneously, the Company converted from a property and casualty insurer to an accident and health insurer, and

was authorized to write accident and health insurance under Section 1113(a)(3) of the New York Insurance Law.

A. Corporate Governance

Pursuant to the Company's Charter and By-Laws, management of the Company is to be vested in a Board of Directors consisting of not less than seven, nor more than eleven members. As of December 31, 2014, the Company's board of directors consisted of seven members, as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>
Andrew L. Asher Tampa, Florida	Chief Financial Officer and Treasurer, WellCare Health Insurance of New York, Inc.
Kenneth A. Burdick Tampa, Florida	President, WellCare Health Insurance of New York Inc.
John Burke Rockville Centre, New York	President, WellCare of New York, Inc.
Maurice S. Hebert Lutz, Florida	CAO and Assistant Treasurer, WellCare Health Insurance of New York, Inc.
Michael R. Polen Tampa, Florida	Senior Vice President of Operations, WellCare Health Plans, Inc.
David T. Reynolds Deerfield, Illinois	Director, WellCare of New York, Inc.
Blair W. Todt Odessa, Florida	Secretary and Senior Vice President, WellCare Health Insurance of New York, Inc.

Daniel Paquin resigned effective September 16, 2013  
Walt Copper resigned effective September 16, 2013  
Alec Cunningham resigned effective September 16, 2013  
Thomas Tran resigned effective November 14, 2014  
Lisa Iglesias resigned effective December 15, 2014

The By-Laws of the Company establish the requirement that there be one regular meeting of the Board each year. The minutes of all meetings of the board of directors held during the examination period were reviewed. All such meetings were well attended.

Section 312(b) of the New York Insurance Law states the following:

“A copy of the report on examination shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer's files confirming that such member has received and read such report.”

The Company's board members did not sign a statement confirming that each such member had received and read the prior report on examination (as of December 31, 2009).

It is recommended that the Company and its board of directors comply with the requirements of Section 312(b) of the New York Insurance Law.

The principal officers of the Company as of December 31, 2014 were as follows:

<u>Name</u>	<u>Title</u>
Kenneth A. Burdick	President
Blair W. Todt	Secretary and Senior Vice President
Andrew L. Asher	CFO and Treasurer
Maurice S. Hebert	Asst. Treasurer and Chief Accounting Officer

B. Territory and Plan of Operation

WHINY is an accident and health insurer licensed pursuant to the provisions of Article 42 of the New York Insurance Law. As of December 31, 2014, the Company was licensed to conduct business only in the state of New York.

The Company started offering Medicare private fee-for-service (“PFFS”) under a license granted by the Centers for Medicare and Medicaid Services (“CMS”), in January 2007 and stopped when its license expired on December 31, 2009. A PFFS plan is a Medicare Advantage organization which offers Medicare beneficiaries coverage through an indemnity insurer. Under

this plan, beneficiaries can see any provider who is eligible to receive payment from Medicare and agrees to accept payment from the PFFS plan. PFFS insurers do not underwrite beneficiaries for coverage. Rather, beneficiaries enroll in a PFFS plan as they enroll in any Medicare Advantage plan, rather than through original Medicare.

New York Insurance Law §7402 states in part:

“The superintendent may apply under this article for an order directing him to rehabilitate a domestic insurer which... (i) Has ceased to do the business of insurance for a period of one year as provided in subsection (b) of section one thousand two hundred three of this chapter.”

Effective January 1, 2010, the Company discontinued its sole line of business, and as of such date did not renew coverage for existing members and discontinued accepting new members. As a result, the Superintendent of Financial Services has the authority, under the above cited Law, to apply for an order directing her to rehabilitate the Company. The Company is in discussion with the Department with regard to its future operations.

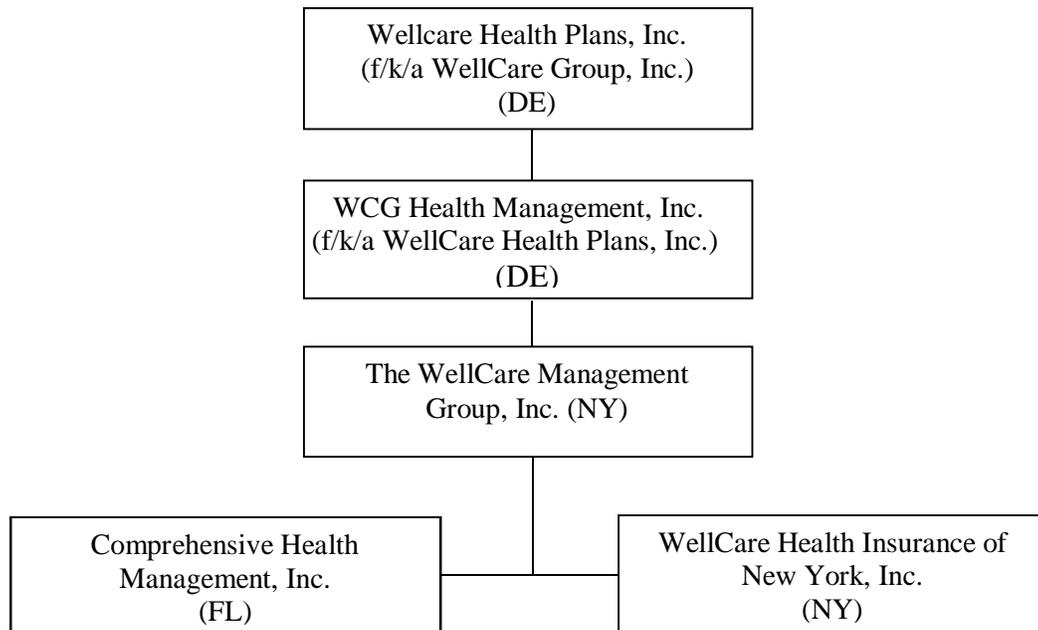
Based upon the line of business for which the Company is licensed to write, the Company is required to maintain a minimum capital in the amount of \$300,000, pursuant to Section 4204(b)(2) of the New York Insurance Law.

The Company's authorized control level Risk-Based Capital (“RBC”) was \$19,930 as of December 31, 2014. Its total adjusted capital was \$12,062,383, yielding an RBC ratio of 60,523.7% for 2014.

C. Holding Company System

WellCare Health Insurance of New York, Inc. is a wholly-owned subsidiary of the WellCare Management Group, Inc. (“WMG”), which, in turn, is a direct wholly-owned subsidiary of WCG Health Management, Inc. (“WCGHM”). WCGHM is a direct, wholly-owned subsidiary of WellCare Health Plans, Inc., a publicly traded Delaware corporation listed on the New York Stock Exchange.

The structure of the Company’s holding company system, as of December 31, 2014, was as follows:



As a subsidiary of The WellCare Management Group, Inc., the Company is required to file registration statements pursuant to the requirements of Article 15 of the New York Insurance Law and Insurance Regulation No. 52 (11 NYCRR 80). All pertinent filings made during the examination period regarding the aforementioned statute and regulation were reviewed. No problem areas were encountered.

The following is a description of the inter-company agreements in effect as of the examination date:

Comprehensive Health Management, Inc.

WHINY has an affiliated management agreement with Comprehensive Health Management, Inc. (“CHMI”) to provide certain management, administrative services and claims processing services. CHMI is responsible for all of the administrative employees’ payroll and business expenses. Additionally, CHMI is responsible for maintaining data processing equipment and software. The management agreement provides for estimated monthly cost based on 10.25% of gross premium revenue received depending on the Company’s membership, adjusted quarterly to reflect actual cost. There were no amounts due to or from CHMI at December 31, 2014.

Tax Allocation Agreement

The Company was added to an existing Intercompany Tax Allocation Agreement between its ultimate Parent, WellCare Health Plans, Inc., its intermediate Parent, WCG Health Management, Inc., and other members in its holding company system on August 21, 2006, via a second amendment to the agreement. This agreement with amendments was approved by the Department on July 26, 2006.

D. Investments

Section 1409 of the New York Insurance Law states the following, in part:

“...no domestic insurer shall have more than ten percent of its admitted assets as shown by its last statement on file with the superintendent invested in, or loaned upon, the securities (including for this purpose certificates of deposit, partnership interests and other equity interests) of any one institution.”

As of the examination date, WHINY held a bond issued by Bank of America Corporation (CUSIP ID 06051G-EG-0) in the amount of \$2,062,860 (Book/Adjusted Carrying Value), which exceeded the investment limitation by \$952,149.

It is recommended that the Company comply with Section 1409 of the New York Insurance Law by investing no more than ten percent of its admitted assets in any one institution. It is noted that the Company complied with this recommendation as of June 30, 2015.

E. Reinsurance

The Company did not assume or cede any reinsurance during the examination period.

### 3. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2014 as contained in the Company's 2014 filed annual statement, a condensed summary of operations and a reconciliation of the surplus account for each of the years under review.

Deloitte & Touché LLP ("D&T") was retained by the Company to audit the Company's combined statutory basis statements of financial position as of December 31<sup>st</sup> of each year in the examination period, and the related statutory-basis statements of operations, surplus, and cash flows for the year then ended. D&T concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

A. Balance SheetAssets

Bonds	\$ 2,598,491
Cash, cash equivalents, and short-term investments	9,434,061
Investment income due and accrued	28,822
Current federal and foreign income tax recoverable and interest thereon	0
Net deferred tax asset	1,120
State tax recoverable	<u>195</u>
Total assets	<u>\$12,062,689</u>

Liabilities

Claims unpaid	\$ 0
Unpaid claims adjustment expenses	0
General expenses due or accrued	0
Current federal & foreign income tax payable and interest thereon	73
Amounts due to parent, subsidiaries and affiliates	4
Unclaimed property payable	<u>229</u>
Total liabilities	<u>\$ 306</u>

Capital and Surplus

Common capital stock	\$ 700,000
Gross paid in and contributed surplus	4,954,683
Unassigned funds (surplus)	<u>6,407,700</u>
Total capital and surplus	<u>\$ 12,062,383</u>
Total liabilities, capital and surplus	<u>\$ 12,062,689</u>

Note: The Internal Revenue Service has not conducted any audits of the federal income tax returns filed on behalf of the Company through tax year 2014. The examiner is unaware of any potential exposure of the Company to any tax assessments, and no liability has been established herein relative to such contingency.

B. Statement of Revenue and Expenses and Capital and Surplus

Capital and surplus increased \$1,751,680 during the five-year examination period, January 1, 2010 through December 31, 2014, detailed as follows:

Revenue

Net premium income \$ (83,519)

Total revenue \$ (83,519)

Expenses

Hospital/medical benefits \$(1,371,122)

Emergency room and out-of-area (128,093)

Prescription drugs 2,707

Claims adjustment expenses (193,393)

General administrative expenses (816,463)

Total expenses \$(2,506,364)

Net underwriting gain \$ 2,422,845

Net investment income earned \$ 226,711

Net income before federal income taxes \$ 2,649,556

Federal income taxes incurred \$ 834,327

Net income \$ 1,815,229

Changes in Surplus

Capital and surplus, per report on examination, as of December 31, 2009			\$10,310,703
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,815,229		
Change in net deferred income tax		\$ (124,682)	
Change in non-admitted assets	77,657		
Aggregate write-ins for gains or (losses) in surplus		(16,524)	
Net change in surplus			\$ <u>1,751,680</u>
Capital and surplus, per report on examination, as of December 31, 2014			\$ <u>12,062,383</u>

#### **4. SUBSEQUENT EVENTS**

The Company has no active insurance business. WMG attempted to sell the Company with the assistance of a consulting broker during 2014 and 2015. The Company is in discussion with the Department with regard to its future operations.

## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination, as of December 31, 2009, contained the following comments and recommendations (page number refers to the prior report on examination):

<u>ITEM NO.</u>		<u>PAGE NO.</u>
	<u>Management and Controls</u>	
1.	It is recommended that the Company maintain stability within its Board constitution in order to ensure a knowledgeable and effective Board of Directors. It is further recommended that the Company maintain the proper number of directors in accordance with its By-Laws.  <i>The Company has complied with this recommendation.</i>	7
2.	It is recommended that the Board meet each year by the date established within its By-Laws.  <i>The Company has complied with this recommendation.</i>	8
3.	It is recommended that the Board of Directors hold Board meetings on at least a quarterly basis during each calendar year.  <i>The Company has not complied with this recommendation.</i>	8
4.	It is recommended that the Company's Board of Directors approve or authorize the Company's investment activity in compliance with the requirements of Section 1411(a) of the New York Insurance Law.  <i>The Company has complied with this recommendation.</i>	9

Territory and Plan of Operation

5. Effective January 1, 2010, the Company discontinued its sole line of business, and as of such date did not renew coverage for existing members and discontinued accepting new members. As a result, the Superintendent of Insurance has the authority, under the above cited Law, to apply for an order directing him to rehabilitate the Company. The Company is in discussion with the Department with regard to its future operations. 10

*The Company is in discussion with the Department with regard to its future operations.*

Holding Company System

6. It is recommended that the Company comply with Part 106.7 of Department Regulation No. 30 and Section 1.5 of its Management Services Agreement and reconcile its allocated expenses on a quarterly basis to reflect the actual costs of operation and abide by the Health Annual Statement Instructions regarding such item. 13

*The Company has complied with this recommendation.*

7. It is recommended that the Company file its appointment of agents with the Department in compliance with the requirements of Section 2112(b) of the New York Insurance Law. 20

*This recommendation is not applicable, given that the Company had no active business during the examination period.*

Record Retention

8. It is recommended that WHINY comply with the requirements of Part 243.2(b)(8) of Department Regulation No. 152 by maintaining copies of the agents' and brokers' licenses and appointment forms with its records. 20

*This recommendation is not applicable, given that the Company had no business during the examination period.*

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Corporate Governance</u></p> <p>It is recommended that the Company and its board of directors comply with the requirements of Section 312(b) of the New York Insurance Law.</p>	<p>6</p>
<p>B. <u>Territory and Plan of Operation</u></p> <p>Effective January 1, 2010, the Company discontinued its sole line of business, and as of such date did not renew coverage for existing members and discontinued accepting new members. As a result, the Superintendent of Financial Services has the authority, under the above cited Law, to apply for an order directing her to rehabilitate the Company. The Company is in discussion with the Department with regard to its future operations.</p>	<p>7</p>
<p>C. <u>Investment</u></p> <p>i. It is recommended that the Company comply with Section 1409 of the NYIL and invest no more than ten percent of its admitted assets in any one institution.</p> <p>It is noted that the Company complied with this recommendation as of June 30, 2015.</p>	<p>10</p>



**NEW YORK STATE**  
**DEPARTMENT OF FINANCIAL SERVICES**

I, MARIA T. VULLO, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

**Bruce Borofsky**

as a proper person to examine the affairs of

**WellCare Health Insurance of New York Inc.**

and to make a report to me in writing of the condition of said

**Company**

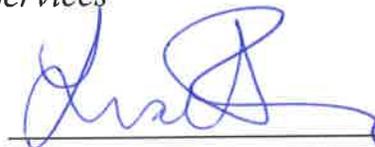
with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed my name  
and affixed the official Seal of the Department  
at the City of New York

this 21st day of June, 2016

MARIA T. VULLO  
Superintendent of Financial  
Services

By:



Lisette Johnson  
Bureau Chief  
Health Bureau

