

REPORT ON EXAMINATION

OF

INDEPENDENT HEALTH BENEFITS CORPORATION

AS OF

DECEMBER 31, 2015

DATE OF REPORT

FEBRUARY 13, 2018

EXAMINER

KENNETH I. MERRITT

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Marie T. Vullo
Superintendent

February 13, 2018

Honorable Marie 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 Letter 31401, dated December 10, 2015, attached hereto, I have made an examination into the financial condition of Independent Health Benefits Corporation, a not-for-profit health service corporation licensed pursuant to the provisions of Article 43 of the New York Insurance Law, as of December 31, 2015, and respectfully submit the following report thereon.

The examination was conducted at the home office of Independent Health Benefits Corporation located at 511 Farber Lakes Drive, Buffalo, New York.

Wherever the designations “IHBC” or the “Plan” appear herein, without qualification, they should be understood to indicate Independent Health Benefits Corporation.

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

The examiner also conducted a concurrent financial examination of Independent Health Association, Inc., (“IHA”) which is the parent of IHBC and a not-for-profit health maintenance

organization certified pursuant to the provisions of Article 44 of the New York State Public Health Law.

A separate financial report on examination of Independent Health Association, Inc. has been submitted thereon.

In addition, a separate market conduct examination into the manner in which, IHBC and IHA conduct their business practices and fulfill their contractual obligations to policyholders and claimants was conducted as of December 31, 2015.

Accordingly, a separate market conduct report on examination of Independent Health Benefits Corporation and Independent Health Association, Inc. will be submitted thereon.

1. **SCOPE OF THE EXAMINATION**

We have performed our single state examination of Independent Health Benefits Corporation. The previous examination covered the period of January 1, 2006 through December 31, 2010. This (combined financial and market conduct) examination of the Plan covered the period from January 1, 2011 through December 31, 2015. The financial component of the examination was conducted on a risk-focused basis in accordance with the provisions of the *National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook, 2016 Edition* (“the Handbook”), which provides guidance for the establishment of an examination plan based on the examiner’s assessment of risk in the Plan’s operations and utilizes that evaluation in formulating the nature and extent of the examination. The examination was conducted observing the guidelines and procedures in the Handbook. Where deemed appropriate by the examiner, transactions occurring subsequently to December 31, 2015 were also reviewed.

The examiner planned and performed the examination to evaluate the Plan’s current financial condition, as well as identify prospective risks that may threaten the future solvency of the Plan.

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 annual statement instructions.

Information concerning the Plan's organizational structure, business approach and control environment were utilized to develop the examination approach. The examination evaluated the Plan'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 Plan'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 Plan was audited annually for the years 2011 through 2015 by the accounting firm of Deloitte & Touche LLP ("D&T"). The Plan received an unmodified opinion in each of those years. Certain audit work papers of D&T were reviewed and relied upon in conjunction with this examination. The Plan through common management with its parent, Independent Health, Association, Inc., has an internal audit department which has been given the task of assessing the Plan's internal control structure. A review was also made of the Plan's Enterprise Risk Management Program / Own Risk Solvency Assessment.

As of November 19, 2015, the Plan filed an ORSA Summary Report with the Department as required pursuant to Section 82.3 of Insurance Regulation No. 203 (11 NYCRR 82).

During this examination, an information systems review was made of the Plan's computer systems and operations on a risk-focused basis, in accordance with the provisions of the Handbook.

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

2. DESCRIPTION OF THE PLAN

Independent Health Benefits Corporation is a not-for-profit health service corporation which was incorporated in New York State on October 26, 1994, under the name Integrated Benefits Corporation. ("IBC"). Subsequently, the Plan was granted a license by the New York State Insurance Department, now known as the New York State Department of Financial Services, effective June 20, 1995, and thereafter commenced writing business in New York State. Pursuant to the Department's May 2, 2000 approval of the Plan's amended Certificate of Incorporation, IBC changed its company name to Independent Health Benefits Corporation, effective May 10, 2001. The Plan is a taxable entity for federal income taxes purposes. IHBC is a 100% controlled affiliate of Independent Health Association, Inc.

As of December 31, 2015, the Plan reported total surplus in the amount of \$107,032,609, which is a 5.8% increase over the \$101,176,555 surplus amount that IHBC reported as of December 31, 2011. An underwriting gain in 2014 of \$13,212,046 was the primary reason for the increase in the Plan's total surplus reported during the examination period. The Plan's

unassigned surplus “deficit” in the amount of \$(75,799,761) as of December 31, 2015, increased during the period by 32% from the unassigned surplus deficit of \$(57,488,952) reported by the Plan as of December 31, 2011. The increase stemmed primarily from the Plan having to charge the unassigned surplus account for funding the federal “health insurance tax” assessments imposed under Section 9010 of the Affordable Care Act.

For the years 2014 and 2015, IHBC reported Section 9010 health insurance taxes in the amounts of \$13,940,091 and \$9,200,000, respectively.

A. Corporate Governance

(i). Management and Control

Pursuant to IHBC’s by-laws, management of the Plan is to be vested in a Board of Directors (“BOD”) of not less than thirteen (13) and no more than nineteen (19) members.

IHBC’s BOD was comprised of the following thirteen (13) members, as of December 31, 2015:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
<u>Subscriber Representatives</u>	
Mary Lowther Williamsville, New York	Benefits and Service Coordinator, Niagara Frontier Automobile Dealers Association
Betty Murphy Amherst, New York	Executive Vice President, Niagara Frontier Automobile Dealers Association
Nora Sullivan Williamsville, New York	Financial Advisor - Investment Banking, Sullivan Capital Partners, Inc.
Sidney Weiss Williamsville, New York	CPA, Arcara, Zucarelli, Lenda & Straka.
Roosevelt Marshall Wingate Buffalo, New York	President, DynaCom Industries, Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
<u>Provider Representative</u>	
James Coppola Williamsville, New York	Retired Pharmacist
<u>Public Representative</u>	
Stuart Angert Amherst, New York	Retired
Donna Kelsch Sanborn, NY	Retired, Program Administrator/Educator
Edward Stehlik Buffalo, New York	Physician, Northtown Medical Group
Moises Sudit Getzville, New York	Professor, State University of New York at Buffalo
<u>Public Representative</u>	
Duane Sundell Williamsville, New York	Retired
<u>Officer-Employee</u>	
Michael Cropp, M.D. Williamsville, New York	President & Chief Executive Officer, Independent Health Association, Inc.
John Mineo Esquire East Aurora, New York	General Counsel/Secretary, Independent Health Association, Inc.

The following individuals were the principal officers of the Plan as of December 31, 2015:

<u>Name</u>	<u>Title</u>
Michael Cropp, MD	President & Vice Chairman
Michael Faso	Director of Finance
John Mineo	Secretary
Nora Sullivan	Chairperson of the Board

The BOD held the following designated sub-committees as of December 31, 2015:

- I. Audit Committee
- II. Compensation Committee
- III. Finance Committee
- IV. Governance Committee
- V. Risk and Compliance Committee

A review of the minutes of the Plan's BOD meetings held during the period under examination indicated that such meetings were generally well attended, with all directors attending at least one-half of the meetings for which they were eligible to attend.

Section 4301(k)(1) of the New York Insurance Law states the following:

“... The board of directors of such corporations may also include persons who are employees of such corporations and who also serve as officers of such corporations. ...Not more than one-eighth of the directors of any such corporation shall be persons who are employees of such corporation and who also serve as officers of such corporation. Any person who is an officer of such corporation but not an employee of such corporation shall be considered under one of the other classifications of directors set forth in this section, as appropriate...”

During the years 2011 through 2014 of the examination period, it was noted that the total number of IHBC's Board of Directors that were IHBC company employees-officers exceeded the statutory allowable maximum of one-eighth of the total number of Directors, which is a violation of Section 4301(k)(1) of the New York Insurance Law.

It is recommended that IHBC comply with Section 4301(k)(1) of the New York Insurance Law and ensure that the total number of the Plan's directors comprising IHBC's “employees-officers” does not exceed the statutory maximum of one eighth of the Plan's total BOD membership.

A similar recommendation was made in the prior report on examination.

Section 3.01(a) of IHBC's bylaws state in part the following:

“Except for the initial Board of Directors appointed by the Incorporators of the Corporation, the Corporation shall have not less than thirteen and no more than nineteen members of the Board of Directors, the exact number to be determined by the Member of the Corporation.”

As of IHBC's December 31, 2014 annual statement filing and its 2015 first and second quarter statement filings, the Plan reported between 10 and 11 directors on the filed statements.

It is recommended that IHBC comply with its Board of Directors' bylaws and maintain a minimum of thirteen elected Board members at all time.

Section 3.01(a) of IHBC's bylaws state the following

“The Officers of the Corporation shall be a Chairperson, Vice-Chairperson, President, Secretary, Director of Finance, and such other Officers as the Board of Directors may from time to time elect or appoint. Any number of offices, except those of Chairperson and Secretary, may be held by the same person.”

The examiner noted that the above mentioned corporate officers of the Chairperson, Vice-Chairperson, President and Secretary served simultaneously as elected members of IHBC's Board of Directors during the examination period. In disclosing these dual corporate officers-directors on the jurat page of the financial statement filings, IHBC only reported such individuals under the “Officers” section of the jurat page, while excluding their names from the “Directors or Trustees” section on the jurat page.

By not reporting these officer-directors as directors on the jurat page, the total number of directors listed in the financial statement filings does not reconcile with the minimum number of required directors stipulated in the Plan's by-laws.

It is recommended that IHBC, relative to its corporate officers-directors that include the Chairperson, Vice Chairperson, President and Secretary, report such directors additionally under the "Directors or Trustees" section of the jurat page of the Plan's financial statement filings with the Department.

A similar recommendation was made in the prior report on examination.

(ii). Internal Audit Department ("IAD") and Audit Committee Activities

As of December 31, 2015, IHBC had an effective Internal Audit function, including established Model Audit Rule ("MAR") practices as required pursuant to Insurance Regulation No. 118 (11 NYCRR Part 89). The Plan's internal audit function includes oversight from the Audit Committee and has a sufficiently documented repository of internal control policies and procedures which are maintained by the Plan's IAD. The Audit Committee consists of five members, of which three were non IHBC employee directors.

In selecting an examination approach to review key functional activities and accounts of the Plan that were identified by the examiner, the examiner chose a control reliance approach. This was based upon the assessment of the overall completeness and effectiveness of the Plan's documented managerial control policies and procedures that were implemented during the examination period.

The following best practice of the Institute of Internal Auditors (“IIA”) and policy requirement per the Independent Health Companies’ Internal Audit Charter, apply to a quality assurance assessment review:

a. The Quality Assurance and Improvement Program

The Institute of Internal Auditors (“IIA”) Standard 1312-External Assessments states:

“External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.”

The Plan’s Internal Audit Charter, under the section titled “Responsibility”, delegates to the Chief Audit Executive (“CAE”) and the IAD the following:

“4. Establish a quality assurance program by which the CAE assures the operation of internal audit activities.”

There was no quality assurance assessment performed on IHBC’s Internal Audit function by an external reviewer during the five-year period covered by this examination.

It is recommended that IHBC comply with the IIA’s Standard 1312–External Assessments and ensure that a quality assurance assessment by an external reviewer is performed on the Plan’s IAD at least once every five years.

It is recommended that the Plan’s existing Internal Audit Charter be revised to require that the IAD’s quality assurance program, undergo an external review and assessment by a third-party reviewer at least once every five years.

b. Internal Audit Department's management/Audit Committee's Follow-up Reviews

The Internal Audit Charter provides the following requirement, under the captioned section titled "Reporting Accountabilities":

"The manager of the activity or department receiving the internal audit report will respond to the Internal Audit within 10 business days, unless otherwise mutually agreed upon. This response will indicate what actions have been agreed with Internal Audit and are planned with regard to specific findings and recommendations in the internal audit report. Management will be held responsible for insuring that corrective action is taken and planned within a reasonable time period after a deficiency is reported. Internal Auditors will periodically review progress and provide executive management and the Audit Committee with status reports."

IHBC's IAD failed to comply with its Internal Audit Charter when it did not (i) perform periodic follow-up reviews to ensure management's remediation of identified internal audit findings and recommendations and (ii) provide executive management and the Audit Committee with status report.

It is recommended that the Plan's IAD comply with the Internal Audit Charter and (i) perform periodic follow-up reviews with management to ensure that the IAD's findings and recommendations are properly addressed by management and (ii) provide the Plan's executive management and Audit Committee with periodic audit status update reports.

c. Change in Audit Committee Membership

Section 89.12(e) of Insurance Regulation No. 118 (11 NYCRR 89) states the following:

"The company shall submit written notification to the superintendent of the selection of its audit committee within 30 days of the effective date of this Part and within 30 days of any change in membership of the audit committee. The notice shall include a description of the reason for the change."

During the years 2015 and 2016, IHBC's Board of Directors implemented changes to the membership of the Audit Committee, but failed to notify the Department of Financial Services within 30 days following the date of changes, as required by Section 89.12(e) of Insurance Regulation No. 118.

It is recommended that IHBC comply with Section 89.12(e) of Insurance Regulation No. 118 and provide written notification to the Department of Financial Services relative to any membership change of the Plan's Audit Committee within thirty days of the date of change, including a statement detailing the reason for the change.

B. Territory and Plan of Operation

The Plan is licensed to write business only in New York State. During the examination period, its health insurance business operated in the eight western New York State counties of Allegany, Cattaraugus, Chautauqua, Erie, Genesee, Niagara, Orleans and Wyoming.

During the examination period, IHBC provided comprehensive/major medical (hospital and medical), prescription drug, vision and dental benefits, under various health plans offered by IHBC, including provider service organization (PSO), preferred provider organizations (PPO), point of service (POS), traditional indemnity and individual direct payment plans. IHBC also marketed a Medicare Advantage Product Other Than Part D to qualifying members, pursuant to Title XVIII of the Social Security Act.

The summary below reflects IHBC's total net annual premium income and member enrollment between December 31, 2011 and December 31, 2015:

<u>Year</u>	<u>Net Premium Income</u>	<u>Enrollment</u>
2011	\$469,324,057	111,768
2012	\$508,175,142	114,672
2013	\$486,341,074	108,206
2014	\$505,538,669	104,127
2015	\$589,058,964	108,358

As noted above, the Plan's annual net premium writings increased 25.5% between the years 2011 and 2015, compared to the 3.1% decrease in member enrollment during the corresponding period. Increases of 39% and 5%, respectively, in the large group (PSO) products and direct payments/group conversions were offset by a decrease of 13% in Medicare Advantage writings. These two products were mostly responsible for the annual premium growth between the years 2011 and 2015.

IHBC's total 2015 annual enrollment of 108,358 members comprised of 66% experience rated large group, 29% small group and 5% direct payments. Of the total 31,247 enrolled small group members, 924 enrollees were "on-exchange" New York State of Health business and of the 5,246 individual direct payment members, 3,700 were enrolled on the exchange.

C. Reinsurance

As of December 31, 2015, the Plan no longer ceded business to its Bermuda captive affiliate, Mason Insurance Company. The contract was terminated as of December 31, 2014.

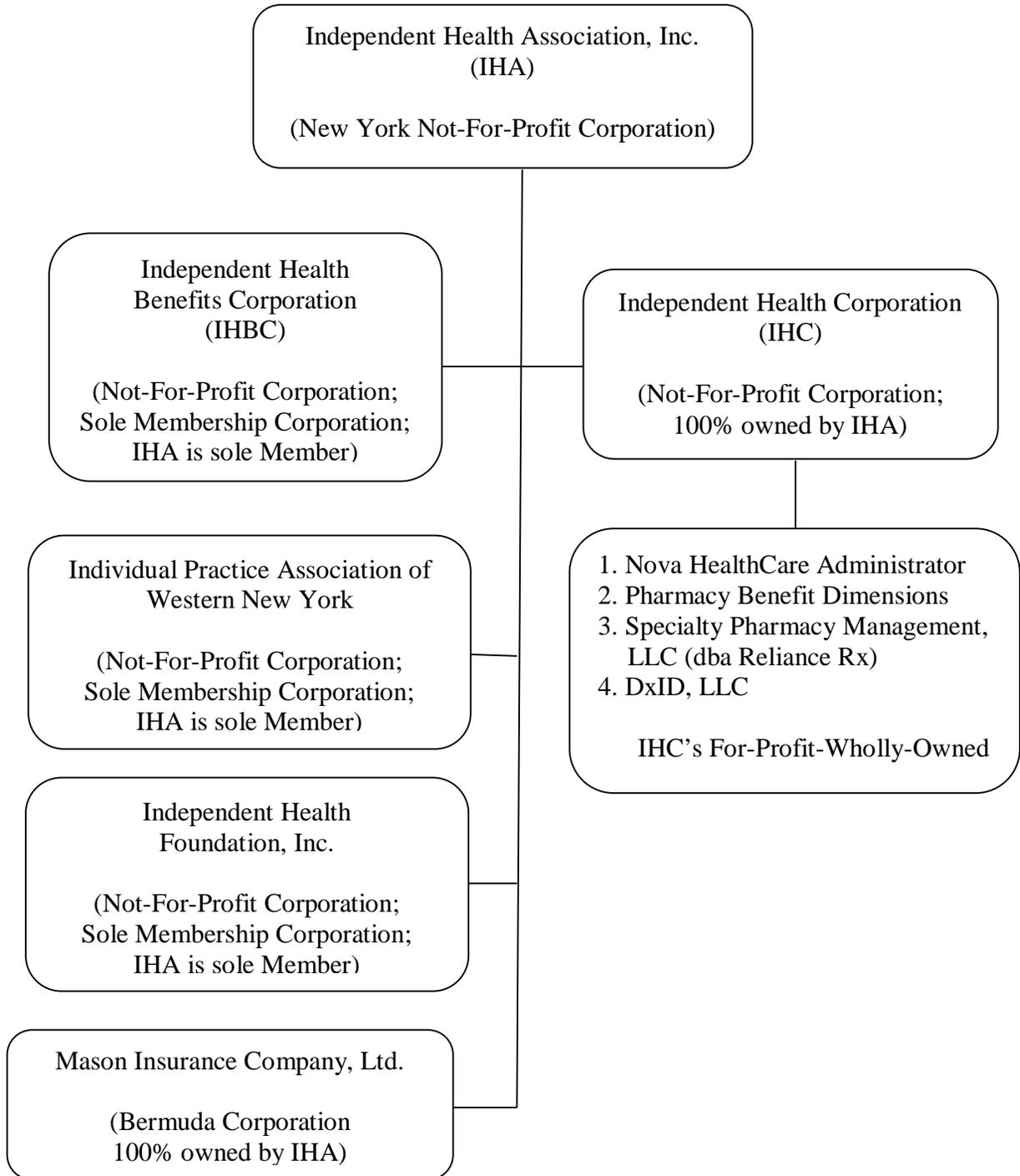
Simultaneous with the implementation of the federal Affordable Care Act ("ACA") and IHBC's participation in the "New York State of Health" Insurance Exchange ("NYSOH")

effective January 1, 2014, the Plan derived reinsurance coverage under the ACA and New York State statutory pool programs as of December 31, 2015.

As of December 31, 2014 and 2015, IHBC reported in its annual statement filings an estimated reinsurance recoverable from CMS of \$1,963,388 and \$1,999,999, respectively. CMS determined the recoverable amount due to IHBC for 2014 was \$2,866,729 and the 2015 amount due to IHBC was \$2,253,463.

D. Holding Company System

Below is a chart of the members within IHA’s holding company system as of December 31, 2015:



Note: The four entities listed underneath IHC are wholly owned by IHC.

Below is a description of the organizational structure and operating activities for select members within the holding company system:

(i). Independent Health Association, Inc. (“IHA”)

IHA is certified pursuant to Article 44 of the New York State Public Health Law. IHA, a not-for-profit HMO, is the ultimate parent within the holding company system. In addition to its delivery of healthcare services to the members within its authorized geographic operating area, IHA also provides various management and administrative services to its holding company members, including IHBC.

(ii). Independent Health Foundation (the “Foundation”)

The Foundation is a not-for-profit charitable foundation in which IHA is the sole member. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, since it is operating as a Section 509(a)(3) Type 1 Supporting Organization. The Foundation is a community resource dedicated to improving the health and well-being of Western New York residents through health awareness, prevention, wellness, education and other programs focused on community priorities.

(iii). Independent Health Corporation (“IHC”)

IHC is a New York for-profit company and a wholly-owned subsidiary of IHA, which, together with its other directly owned subsidiaries, provides the following third party and affiliated administrative services: (i) self-funded administration service (ii) self-funded insurance funds (SFS), (iii) pharmacy benefit management service, (iv) flexible spending accounts, (v) contract printing services to IHA’s affiliates, (vi) specialty pharmaceutical products, and (vii) consulting services for Medicare Advantage and Program All-Inclusive Care for the Elderly (“PACE”) plans. IHC also owns and maintains a provider network of participating hospitals, physicians and ancillary providers (IHC Network).

(iv). Nova Healthcare Administrators, Inc. (“Nova”)

Nova is a direct and wholly-owned subsidiary of IHC. The entity administers health services that are covered under the self-funded benefit plans sponsored by employer groups, unions and insurers and their associated members and/or plan participants.

(v). Independent Health's Pharmacy Benefit Dimensions, LLC ("PBD")

PBD is a direct and wholly-owned subsidiary of IHC which provides pharmacy benefits management services to employers and other entities, including health service companies, health insurers and health maintenance organizations.

(vi). Specialty Pharmacy Management, LLC ("dba Reliance Rx")

Special RX is a direct and wholly-owned subsidiary of IHC which provides high cost specialty drugs to members of IHA, IHBC and IHC's/Nova's self-insured groups.

(vii). DxID LLP ("DxID")

DxID, a direct and wholly-owned subsidiary of IHC, is a single member disregarded limited liability company, which is organized under Section 204 of the New York State Limited Liability Company Law. The Company primarily provides consulting services for Medicare reimbursement related to Medicare Advantage and PACE plans throughout the United States.

(viii). Mason Insurance Company, Ltd. of Bermuda ("Mason")

Mason, a Bermuda based captive insurance company, is a wholly-owned subsidiary of IHA and a non-authorized New York reinsurer. It provided reinsurance under contracts with IHBC during the examination period. At the end of 2013, IHBC ceased reinsuring business with Mason, which is currently a shell company.

IHBC held the following inter-company agreements as of December 31, 2015:

(i). Administrative Services Agreement with IHA originally effective January 1, 2013 and subsequently amended to be effective November 17, 2015

The original agreement was approved by the Department effective March 19, 2013 and an amended agreement was approved on November 17, 2015. The agreement calls for IHA to provide IHBC with the following consultative and administrative services, including IHBC's Medical Prescription Plan and Employer Group Waiver Plan: (a) financial, (b) legal, (c) internal operations, (d) management information services, (e) marketing consultation, (f) development, revision and refinement of: health care services, products, systems, policies, procedures and software support, to

enhance the business of IHBC and (g) such other services as IHBC may from time-to-time request.

(ii). IHC Administrative Services Agreement effective January 1, 2013

The captioned was approved by the Department effective March 19, 2013. It calls for IHC to provide IHBC and/or the Plan's membership with consultative and administrative services in connection with the administration and issuance of debit cards to IHBC membership, access to IHC's provider networks, and such other services as needed by IHBC and its membership from time-to-time.

(iii). Nova Administrative Services Agreement, Inc. effective January 1, 2014

The captioned agreement was for a 12-month term that commenced January 1, 2014 to December 31, 2014 and thereafter renews automatically until December 31, 2018. The agreement calls for Nova to provide IHBC with (a) access to Nova's provider network for IHBC's participants receiving health benefits through IHBC plans maintained and offered by IHBC, (b) debit card administration, and co-pay reimbursement claims processing and (c) other services as required by IHBC.

(iv). Independent Health's Pharmacy Benefit Dimensions, LLC ("PBD") Administrative Services Agreement effective December 30, 2013 and as last amended effective January 1, 2015

The initial agreement was approved by the Department effective June 12, 2014 and an amended agreement was approved effective November 17, 2015. The agreement calls for PBD to provide IHBC with the following pharmacy benefits management services (a) members' eligibility and enrollment files processing, (b) claim payments, (c) EOBs issuance, (d) administration and processing of rebate contracts, (e) Quality Assurance and auditing services of IHBC's claim payments functions and (f) other administrative functions and services.

(v). DxID, LLC ("DxID") Administrative Service Agreement effective January 1, 2014

The captioned agreement, which was approved by the Department on March 19, 2014, was effective from January 1, 2014 to December 31, 2014. The agreement renews automatically until December 31, 2018 and provides IHBC with the following

functions: (a) consulting services relative to Medicare reimbursement on IHBC's Medicare Advantage plans and (b) such other services as required by IHBC.

Section 1505(d)(3) of the New York Insurance Law states in part the following:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period:...

(3) rendering of services on a regular or systematic basis;...”

Based on the IHBC intercompany administrative services agreements listed below, it was noted that the Plan submitted such agreements with the Department subsequent to their effective dates:

<u>IHBC's Affiliated Agreement with:</u>	<u>Agreement's Effective Date</u>	<u>Agreement's Submission Date</u>	<u>DFS's Approval Date</u>
Independent Health Association	01/01/2013	02/27/2013	03/19/2013
Independent Health Corporation	01/01/2013	02/27/2013	03/19/2013
Independent Health Association, Inc.	01/01/2014	10/14/2014	12/30/2014
Nova Healthcare Administrators, Inc.	01/01/2014	10/14/2014	12/30/2014

It is recommended that IHBC comply with Section 1505(d)(3) of the New York Insurance Law and submit all intercompany agreements at least thirty days prior to the date in which such agreements take effect.

E. Significant Operating Ratios

During the period under examination, the Plan reported the following significant operating ratios on the basis of earned premiums to incurred claims, claims adjustment expenses and general administrative expenses reported for the five-year period of 2011 through 2015:

<u>Account</u>	<u>Amount</u>	<u>Ratio</u>
Claims incurred	\$2,182,592,608	85.5%
Claims adjustment expenses incurred	79,972,456	3.1%
General expenses incurred	283,989,186	11.2%
Increase for reserve for A & H contracts	390,000	0%
Net underwriting gain	<u>5,649,258</u>	<u>.2%</u>
Premiums earned	<u>\$2,552,593,508</u>	<u>100.00</u>

The above net underwriting gain resulted mainly from the Plan's large group experience rated business with a 587.5% underwriting gain ratio during the examination period, which was offset, in part, by a (445.5%) underwriting loss ratio in IHBC's small group business over the five-year examination period of 2011 through 2015.

As of December 31, 2015, the Plan reported total adjusted capital and authorized control level risk-based capital in the amounts of \$107,032,609 and \$20,479,360, respectively, which resulted in a Risk Based Capital ratio of 523%. Such RBC ratio is in excess of any action levels.

F. Accounts and Records

The 2016 Health Annual Instructions, page 2, paragraph 2 under the "Actuarial Opinion" heading, details the following requirements:

"If an actuary who was the appointed actuary is replaced, the insurer shall within five business days notify the insurance department of the state of domicile of this event. The insurer shall also furnish the domiciliary commissioner with a separate letter within 10 business days of the notification stating whether in the 24 months preceding such event there were any disagreements with the former appointed actuary

regarding the content of the opinion on matters of the risk of material adverse deviation, required disclosures, scopes, procedure, or data quality. The disagreements required to be reported in response to this paragraph include both those resolved to the former actuary's satisfaction and those not resolved to the former actuary's satisfaction. The insurer shall also in writing request such former actuary to furnish a letter addressed to the insurer stating whether the actuary agrees with the statements contained in the insurer's letter and, if not, stating the reasons he does not agree; and the insurer shall furnish such responsive letter from the former actuary to the domiciliary commissioner together with its own."

IHBC replaced its actuary in February 2015 with a newly appointed actuary without providing the Department with the requisite notification and other pertinent written communications, as required relative to the replacing of the Plan's actuary.

It is recommended that IHBC comply with the NAIC Health Annual Statement Instructions when replacing IHBC actuaries, by providing the Department with (i) notification of the Plan's replacement of its actuaries and (ii) attestations from the former actuaries regarding any disagreements within the preceding twenty-four months, with the Plan's management, on actuarial related matters.

G. Medical Loss Ratio ("MLR") Review

The captioned comprised a review of the Plan's MLR Report filing as of December 31, 2015. The ACA requires insurers to spend a minimum percentage of premium dollars on medical services and to submit an annual MLR report with this information. The Department reviewed the components of the MLR Report filings by utilizing the MLR Procedures Spreadsheet provided by the Center for Consumer Information and Insurance Oversight to review and test, as deemed appropriate, the following items in accordance with 45 CFR Part 158:

- Validity of the data regarding expenses and premiums that the issuer reported to the Secretary of Health and Human Services, including the appropriateness of the allocations of expenses used in such reporting;
- Whether the activities associated with the issuer's reported expenditures for quality improvement activities met the definition of such activities;
- The accuracy of rebate calculations, and the timeliness and accuracy of rebate payments, as applicable.

The Department's review did not reveal any exceptions or findings that requires additional disclosure.

3. FINANCIAL STATEMENTS

The following statements show the assets, liabilities and surplus as of December 31, 2015, as reported in the Plan's 2015 filed annual statement, a condensed summary of operations and a reconciliation of the surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Plan's financial condition as presented in the December 31, 2015 filed annual statement.

Independent Accountants:

The firm D&T was retained by the Plan to audit IHBC's combined statutory basis statements of financial condition as of December 31 for each of the years in the examination period, and the related 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 Plan 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 Sheet

The following shows the assets, liabilities and surplus as determined by this examination as of December 31, 2015. This statement is the same as the balance sheet reported by the Plan in its filed annual statement as of December 31, 2015:

<u>Assets</u>	<u>Amount</u>
Bonds	\$65,392,088
Cash, cash equivalents & short-term investments	18,172,403
Investment income due and accrued	696,944
Uncollected premiums and agents' balances in the course of collection	12,930,880
Accrued retrospective premiums	10,796,363
Amounts recoverable from reinsurers	1,999,999
Amounts receivable related to uninsured plans	990,422
Net deferred tax asset	2,387,369
Receivables from parents, subsidiaries and affiliates	156,771,030
Healthcare and other amounts receivable	<u>44,352</u>
Total assets	<u>\$270,181,850</u>
 <u>Liabilities</u>	
Claims unpaid	\$ 36,304,937
Unpaid claims adjustment expenses	1,650,000
Aggregate health policy reserves	902,573
Premiums received in advance	5,774,238
General expenses due and accrued	12,215,153
Ceded reinsurance premiums payable	124,937
Amounts due to parent, subsidiary and affiliates	<u>106,177,403</u>
Total liabilities	\$163,149,241
 <u>Capital and Surplus</u>	
Aggregate write-ins for special surplus funds	\$9,200,000
Gross paid-in & contributed surplus	100,000,000
Aggregate write-ins for other than special surplus funds	73,632,370
Unassigned funds (surplus)	<u>(75,799,761)</u>
Total capital and surplus	\$107,032,609
 Total liabilities, capital and surplus	<u>\$270,181,850</u>

Note

The Internal Revenue Service has not audited the Plan. The examiner is unaware of any potential exposure of the Plan to any tax assessment and no liability has been established herein relative to any such contingency.

B. Statement of Revenue and Expenses and Capital and Surplus

Surplus increased \$7,359,453 during the five-year examination period, January 1, 2011 through December 31, 2015 detailed as follows:

<u>Net premium income</u>		\$2,552,593,508
<u>Expenses:</u>		
Hospital/ medical benefits	\$1,584,225,618	
Other professional services	29,823,960	
Prescription drugs	386,599,457	
Aggregate write-ins for other hospital and medical	87,244,168	
Emergency room and out-of-area	72,465,957	
Incentive pool, withhold adjustments and bonus amounts	<u>37,085,331</u>	
Subtotal	\$2,197,444,491	
Less: Net reinsurance recoveries	<u>14,851,883</u>	
Total hospital and medical	\$2,182,592,608	
Claims adjustment expenses, including \$60,244,398 cost containment expenses	79,972,456	
General administrative expenses	283,989,186	
Increase in reserves for life and accident contracts	<u>390,000</u>	
Total underwriting deductions		<u>2,546,944,250</u>
Net underwriting gain		\$ 5,649,258
Net investment income earned	7,834,233	
Net realized capital losses	<u>3,962</u>	
Net investment gains		\$7,838,195
Net losses from agents or premium balances		(255,048)
Aggregate write-ins for other expenses		<u>(195,202)</u>
Net income, after capital gains tax and before all other federal income taxes		13,037,203
Less: Federal income taxes incurred		<u>8,923,583</u>
Net income		<u>\$ 4,113,620</u>

Changes in Capital and Surplus

Surplus, per report on examination, as of December 31, 2010			\$ 99,673,156
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$4,113,620		
Change in non-admitted assets	2,583,465		
Change in deferred income tax	<u>662,368</u>		
Net change in capital and surplus			<u>7,359,453</u>
Capital and surplus, per report on examination, as of December 31, 2015			<u>\$ 107,032,609</u>

4. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination as of December 31, 2010, contained eleven (11) comments and recommendations pertaining to the financial portion of the examination (page number refers to the prior report on examination):

<u>ITEM NO.</u>	<u>PAGE NO.</u>
<p><u>Corporate Governance</u></p> <p><u>Board of Directors</u></p>	
1. It is recommended that IHBC comply with Section 4301(k) of the New York Insurance Law by appointing individuals other than the employee-officers of the IHA Companies to represent the Plan's "subscriber" on its Board.	8
<p><i>The Plan has complied with this recommendation.</i></p>	
2. It is also recommended that IHBC comply with Section 4301(k) of the New York Insurance Law by ensuring that the Plan's Board of Directors does not include more than one-eighth that are employee-officers of the IHA Companies.	8
<p><i>The Plan did not comply with this recommendation.</i></p>	
3. It is recommended that IHBC's Board of Directors fully comply with Section 1411(a) of the New York Insurance Law and ensure that all of IHBC's investment transactions are approved by either the Plan's Board of Directors or a Board designated Committee in a timely manner.	9
<p><i>The Plan has complied with this recommendation.</i></p>	
4. It is recommended that IHBC revise its custodial agreement with HSBC Bank to include the safeguards and protective clauses that are outlined in Section 1 – General Examination Guidance, Part III.F, of the NAIC Financial Condition Examiners Handbook.	9
<p><i>The Plan has complied with this recommendation.</i></p>	

ITEM NO.**PAGE NO.**Enterprise Risk Management

5. It is recommended that IHBC establish a viable succession plan relative to IHBC's senior management. 11

The Plan has complied with this recommendation.

Internal Audit and Audit Committee Activities

6. It is recommended that IHBC, in its reliance on the Internal Audit function of IHA, ensure that IHA comply with the IIA's guidance on the standard of independence of the internal audit function, by ensuring that the Internal Audit Department is aligned under the direct supervision of the Audit Committee, with limited and informal reporting to the IHA Companies' management. 13

The Plan has complied with this recommendation.

Internal Audit and Audit Committee Activities

7. It is recommended that IHBC, in its reliance on IHA's internal audit function, ensure that IHA complies with IIA's guidance regarding the standard that the Audit Committee be directly involved relative to the hiring, job evaluations and determination of the job compensation and annual salary adjustments of the Director of Internal Audit and/or Chief Audit Executive. 13

The Plan has complied with this recommendation.

8. It is further recommended that IHBC ensure that IHA's Audit Committee is the sole decision-maker, relative to the termination of employment of the Director of Internal Audit or Chief Audit Executive. 14

The Plan has complied with this recommendation.

Reinsurance Agreement

9. It is recommended that IHBC amend its existing reinsurance agreement with Mason to require Mason to settle all outstanding reinsurance 18

ITEM NO.**PAGE NO.**

balances payable to the Plan at least quarterly during the calendar year (No more than 90 days).

The Plan has complied with this recommendation.

Holding Company System

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| 10. | It is recommended that IHBC comply with the requirement of Section 1505(d)(3) of the New York Insurance Law by obtaining the Department's prior approval or non-objection when implementing amendments to its inter-company agreements with affiliates. | 21 |
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The Plan has not complied with this recommendation.

Allocation of Expenses

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| 11. | It is recommended that IHBC, relative to the allocation of its indirect personnel expenses, comply with Paragraph 6 of SSAP 70 and implement a methodology that yields optimal results and appropriately includes pertinent factors or ratios. | 23 |
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The Plan has complied with this recommendation.

5. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management and Controls</u>	
i. It is recommended that IHBC comply with Section 4301(k)(1) of the New York Insurance Law and ensure that the total number of the Plan’s directors comprising IHBC’s “employees-officers” does not exceed the statutory maximum of one eighth of the Plan’s BOD membership.	8
ii. It is recommended that IHBC comply with its Board of Directors’ bylaws and maintain a minimum of thirteen elected Board members at all time.	9
iii. It is recommended that IHBC, relative to its corporate officers-directors that include the Chairperson, Vice Chairperson, President and Secretary, report such directors additionally under the “Directors or Trustees” section of the Plan’s financial statement filings with the Department.	10
B. <u>Internal Audit and Audit Committee Activities</u>	
i. It is recommended that IHBC comply with the IIA’s Standard 1312–External Assessments and ensure that a quality assurance assessment by an external reviewer is performed on the Plan’s IAD at least once every five years.	11
ii. It is recommended that the Plan’s existing Internal Audit Charter be revised to require that the IAD’s quality assurance program, undergo an external review and assessment by a third-party reviewer at least once every five years.	11
iii. It is recommended that the Plan’s IAD comply with the Internal Audit Charter and (i) perform periodic follow-up reviews with management to ensure that the IAD’s findings and recommendations are properly addressed by management and (ii) provide the Plan’s executive management and Audit Committee with periodic audit status update reports.	12

ITEM**PAGE NO.**Internal Audit and Audit Committee Activities
Cont'd

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|----------------------------------|--|----|
| iv. | It is recommended that IHBC comply with Section 89.12(e) of Insurance Regulation No. 118 and provide written notification to the Department of Financial Services relative to any membership change of the Plan's Audit Committee within thirty days of the date of change, including a statement detailing the reason for the change. | 13 |
| C. <u>Holding Company System</u> | | |
| | It is recommended that IHBC comply with Section 1505(d)(3) of the New York Insurance Law and submit all intercompany agreements at least thirty days prior to the date in which such agreements take effect. | 20 |
| D. <u>Accounts and Records</u> | | |
| | It is recommended that IHBC comply with the NAIC Health Annual Statement Instructions when replacing IHBC actuaries, by providing the Department with (i) notification of the Plan's replacement of its actuaries and (ii) attestations from the former actuaries regarding any disagreements within the preceding twenty-four months, with the Plan's management, on actuarial related matters. | 22 |

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, SHIRIN EMAMI, Acting 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:

Kenneth Merritt

as a proper person to examine the affairs of

Independent Health Benefits Corporation

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

Plan

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 10th day of December, 2015

SHIRIN EMAMI

Acting Superintendent of Financial
Services

By:



Lisette Johnson
Bureau Chief
Health Bureau

