

REPORT ON EXAMINATION

OF THE

HALLMARK LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2018

DATE OF REPORT

January 26th, 2022

EXAMINERS:

JAN SANTIAGO, CFE

WAI WONG, CFE

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Department of Financial Services

KATHY HOCHUL
Governor

ADRIENNE A. HARRIS
Superintendent

January 26, 2022

Honorable Adrienne A. Harris
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 No. 32132, dated September 10, 2020, and attached hereto, an examination has been made into the financial condition and affairs of Hallmark Life Insurance Company, a licensed life and disability insurer domiciled in the State of Arizona, as of December 31, 2018, and respectfully submit the following report thereon.

The examination was conducted remotely, rather than at the Hallmark Life Insurance Company offices located at 7700 Forsyth Boulevard, Saint Louis, MO 63105.

Wherever the designation "HLIC" appears herein, without qualification, it should be understood to indicate Hallmark Life Insurance Company, a wholly-owned subsidiary of Centene Corporation.

Wherever the designations "Parent" or "Centene" appears herein, without qualification, it should be understood to indicate Centene Corporation, a publicly traded holding company.

Wherever the designations “Fidelis Care” or “NYSCHP” appears herein, without qualification, it should be understood to indicate New York State Catholic Health Plan, Inc., d/b/a Fidelis Care New York.

Wherever the designation “NYQHC” appears herein, without qualification, it should be understood to indicate New York Quality Healthcare Corporation, an affiliated company of HLIC.

Wherever the designation “CMC” appears herein, without qualification, it should be understood to indicate Centene Management Company, LLC, an affiliated company of HLIC.

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

This examination of HLIC covered the period January 1, 2018 through December 31, 2018. The examination of HLIC was a financial examination as defined in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook, 2019 Edition* (“the Handbook”). The examination was conducted observing the guidelines and procedures in the Handbook. Where deemed appropriate, by the examiners, transactions occurring subsequent to December 31, 2018 were also reviewed.

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 examiners’ assessment of risk in HLIC’s operations and utilizes that evaluation in formulating the nature and extent of the examination. The examiners planned and performed the examination to evaluate HLIC’s current financial condition, as well as to identify prospective risks that may threaten the future solvency of HLIC.

The examination 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 the NAIC annual statement instructions.

Information concerning HLIC’s organization structure, business approach and control environment were utilized to develop the examination approach. The examination evaluated

HLIC'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 HLIC'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

HLIC was audited by the accounting firm of KPMG, LLP ("KPMG") for the year 2018. HLIC received an unmodified opinion in that year. Certain audit work papers of KPMG were reviewed and relied upon in conjunction with this examination. A review was also conducted of the Parent's Internal Audit and Enterprise Risk Management programs, as they relate to HLIC.

The last examination of HLIC was performed as of December 31, 2017 by the State of Arizona. The examination was part of the Centene group coordinated examination that included

30 regulated insurance entities domiciled in 18 states. The Texas Department of Insurance assumed responsibility of the lead state for the examination. The State of Arizona did not have any financial statement adjustments, comments or recommendations as a result of such examination.

The NAIC has deemed Texas to be the lead State of the Centene Insurance Group. A financial examination of the group was done as of December 31, 2019. The State of New York was not a participating State in the examination. The Department did coordinate with the State of Texas on reviews of common areas to the extent deemed practicable and feasible. Any identified prospective risks from the group examination were incorporated into the Department's examination for consideration.

This report on the 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 for areas under scope.

2. DESCRIPTION OF THE PLAN

HLIC is domiciled in the State of Arizona and licensed as a life and disability insurer as of December 31, 2018. On April 20, 2018, HLIC became licensed in the State of New York to do business under accident and health insurance, as specified in paragraph(s) 3 of Section 1113(a) of the New York Insurance Law.

Centene is a diversified, multi-national healthcare enterprise that provides a portfolio of services to government sponsored and commercial healthcare programs, focusing on under-

insured and uninsured individuals. It provides member-focused services through locally based staff by assisting in accessing care, coordinating referrals to related health and social services and addressing member concerns and questions. Centene also provides educational and outreach programs to inform and assist members in accessing healthcare services. It believes its local approach, including member and provider services, enables them to provide accessible, quality, culturally-sensitive healthcare coverage to communities. Its health management, educational and other initiatives are designed to help members best utilize the healthcare system to ensure they receive appropriate, medically necessary services and effective management of routine, severe and chronic health problems, resulting in better health outcomes. Centene combines a decentralized local approach for care with a centralized infrastructure of support functions such as finance, information systems and claims processing.

Centene's initial health plan commenced operations in Wisconsin in 1984. Centene was organized in Wisconsin in 1993 as a holding company for its initial health plan and reincorporated in Delaware in 2001. Its stock is publicly traded on the New York Stock Exchange.

For the year ended December 31, 2018, total revenues and net earnings attributable to Centene were \$60.1 billion and \$900 million, respectively; and total cash flow from operations was \$1.2 billion.

Centene provides a full spectrum of managed healthcare products and services, primarily through Medicaid, commercial and Medicare products and currently has operations domestically and internationally.

On July 1, 2018, Centene acquired substantially all of the assets of Fidelis Care for approximately \$3.6 billion of cash consideration, which includes a working capital adjustment.

The cash consideration was funded through approximately \$2.8 billion of new equity, and approximately \$1.8 billion of new long-term debt. Both offerings were completed in May 2018. The Fidelis Care acquisition expanded Centene's health plan footprint to New York State. As part of the regulatory approval process in connection with the Fidelis Care acquisition, Centene entered into certain agreements with the New York State Department of Health. These agreements contain various commitments by Centene effective upon completion of the Fidelis Care acquisition. One of the agreements includes a \$340 million contribution by Centene to the State of New York to be paid over a five-year period for initiatives consistent with its mission of providing high quality healthcare to vulnerable populations within New York State. The present value of the \$340 million contribution to the State of New York, approximately \$328 million, was expensed during 2018.

HLIC was used by its Parent as an intermediary to facilitate the acquisition. As a condition of the approval of the acquisition by the Department, HLIC consented to an examination by the Department as of December 31, 2018. Arizona was not a participant in the examination.

HLIC does not write direct business and only assumes business from NYSCHP in the State of New York.

HLIC's assumption of large blocks of health insurance business from NYSCHP are intended to facilitate the acquisition by its Parent. The assumed business will be on HLIC's books until such time the business is transferred to and directly written by NYQHC. As such, Hallmark only assumes business from NYSCHP until such businesses are migrated to NYQHC

On July 1, 2018, HLIC entered into an assumption reinsurance agreement with NYSCHP in connection with Centene entering into an asset purchase agreement with NYSCHP. As of July 1, 2018, and for the remainder of the year, NYSCHP continued as the underwriter of commercial/

exchange and Medicare business and HLIC assumes such businesses. As of July 1, 2018, NYQHC commenced underwriting the Fidelis Care legacy Medicaid business. As of January 1, 2019, the commercial business was migrated to NYQHC; and as of January 1, 2021, the Medicare business was migrated to NYQHC. In 2019 and 2018, HLIC paid \$20,468,668 and received \$276,091,800 in cash equal to the net of estimated ceded policy liabilities and estimated premiums and other receivables.

A. Management and Controls

1. Corporate Governance

HLIC is under a centralized business structure and operates the main core of business under a management service agreement with CMC to provide administrative services including, but not limited to, program planning and development, management information systems, financial systems and services.

Centene has developed corporate governance operating guidelines for the Board of Directors (“Board”) including, but not limited to, Board qualifications, independence, and responsibilities. In addition, there is a conflict-of-interest policy and directors, officers, and employees are required to complete a Conflict-of-Interest Disclosure annually.

Centene relies on its Ethics and Compliance program to guide employees when conducting the business affairs of the organization. Centene’s mission and values, along with its stance on compliance and ethics is documented as the Business Ethics and Code of Conduct policy. All employees, as a condition of their employment, are asked to complete and sign a questionnaire acknowledging receipt and understanding of this Code of Conduct. Employees are required to

review and be tested on the Code of Conduct policy on an annual basis. The Code of Conduct is available on Centene’s website for all stakeholders for ease of access and reference.

Further, the employees have access to Centene’s Ethics and Compliance Department, either in person, via a website or Centene’s ethics hotline (which is managed by an independent third-party), where reporting can be made anonymously.

Centene is a large, publicly traded company; and thus, subject to Sarbanes-Oxley (“SOX”). Centene’s insurance holding company is subject to ORSA and certain Centene subsidiaries are subject to the Model Audit Rule (“MAR”) requirements. HLIC was not required to comply with MAR until 2020, and its first filing was due in 2021.

As part of SOX, the external auditors report on the effectiveness of the internal controls and procedures for financial reporting and attest to and report on the assessment made by management. Internal Audit performs the SOX testing to assist management on the assessment.

Pursuant to the charter and by--laws, management of HLIC is vested in a Board of Directors (the “Board”) consisting of not less than five (5) nor more than fifteen (15) directors, who need not be shareholders of the corporation or residents of the State of Arizona.

As of December 31, 2018, HLIC’s Board of Directors were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jesse N. Hunter Ladue, MO	EVP and Chief Strategy Officer, Centene Corporation
Darren C. Meyer St. Louis, MO	VP, Finance & Accounting, Centene Corporation
Michael F. Neidorff St. Louis, MO	Chairman of the Board and CEO, Centene Corporation

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jeffrey Schwaneke St. Louis, MO	EVP, Chief Financial Officer and Treasurer, Centene Corporation
Keith H. Williamson St. Louis, MO	EVP, General Counsel and Secretary, Centene Corporation

As of December 31, 2018, the principal officers of HLIC were as follows:

<u>Name</u>	<u>Title</u>
Michael Frederick Neidorff	President
Jeffrey Alan Schwaneke	Treasurer
Keith Harvey Williamson	Secretary
Kathy Cobbs Bradley-Wells	Assistant Secretary

2. Enterprise Risk Management

Centene’s Enterprise Risk Management (“ERM”) Program includes an ERM team of professionals (“ERM function”). The Board of Directors, and its committees, oversee execution of HLIC’s ERM management framework. This oversight is enabled by quarterly risk reporting from executive management. These reports are designed to provide visibility into the identification, assessment, monitoring and management of critical risks, including strategic, operational, financial, compensation, regulatory, compliance, investment, information security and other risks. In addition, the Board and its committees are informed of emerging risks and opportunities which could impact HLIC’s risk profile. This information is combined with other data to evaluate HLIC’s performance in relation to tolerance levels established in Centene’s risk appetite framework on a quarterly basis. Management is responsible for executing day-to-day risk activities and ensuring that ERM is integrated with our strategic decision-making and financial budgeting processes. To that end, a formal Management Oversight Committee has been created to oversee the ERM process and communicate appropriately to the Board of Directors.

3. Internal Audit Function

The Audit Committee operates under a written charter adopted by the Centene Board of Directors. The charter outlines the Audit Committee's duties and responsibilities. The Audit Committee reviews the charter annually and works with the Board of Directors to amend the charter, as necessary, based on the Audit Committee's evolving responsibilities.

The Audit Committee of the Board of Directors, which is comprised of individuals with significant experience in the insurance industry and in the areas of finance or law, consists of four non-employee directors who are independent under the rules of the New York Stock Exchange ("NYSE"), the rules of the Security and Exchange Commission and HLIC's Standards for Director Independence. The Board determined that three of the Audit Committee members, John R. Roberts, Jessica L. Blume and Frederick H. Eppinger, are "audit committee financial experts" as defined in Item 407(d)(5) of Regulation S-K and that each member of the Audit Committee is "financially literate" under the applicable NYSE rules.

The Audit Committee usually meets on a quarterly basis. The Audit Committee meets with the external auditors and the Senior Vice President of Internal Audit, Compliance and Risk Management to determine and approve scope of audit activities and discuss audit results.

Effective in 2010, HLIC's Board of Directors designated the Audit Committee of Centene as the Audit Committee of HLIC. The Audit Committee meets on separate Executive sessions with KPMG, Internal Audit and/or Management.

Centene uses a multi-layered approach to ensure compliance with various regulations. The first line of accountability is operational oversight by the management team. The second line of

accountability is Centene's Compliance, Quality, Finance, Security Risk Management, and Enterprise Risk Management programs. Centene's Internal Audit process is the third line of accountability, providing assurance based on the highest level of independence and objectivity within the organization.

Internal Audit performs a variety of audits including regulatory and contractual compliance, operational, financial and information systems processes, and strategic and emerging risks. The Internal Audit Department is led by the Senior Vice President of Internal Audit, Compliance and Risk Management or Chief Audit Executive ("CAE"). The CAE reports directly to Centene's Audit Committee with administrative dotted line reporting to the Chief Executive Officer.

HLIC used Internal Audit to perform the testing of SOX controls in 2018 and 2019. Internal Audit assisted in the control readiness work to incorporate Fidelis Care business into Centene's ERM framework.

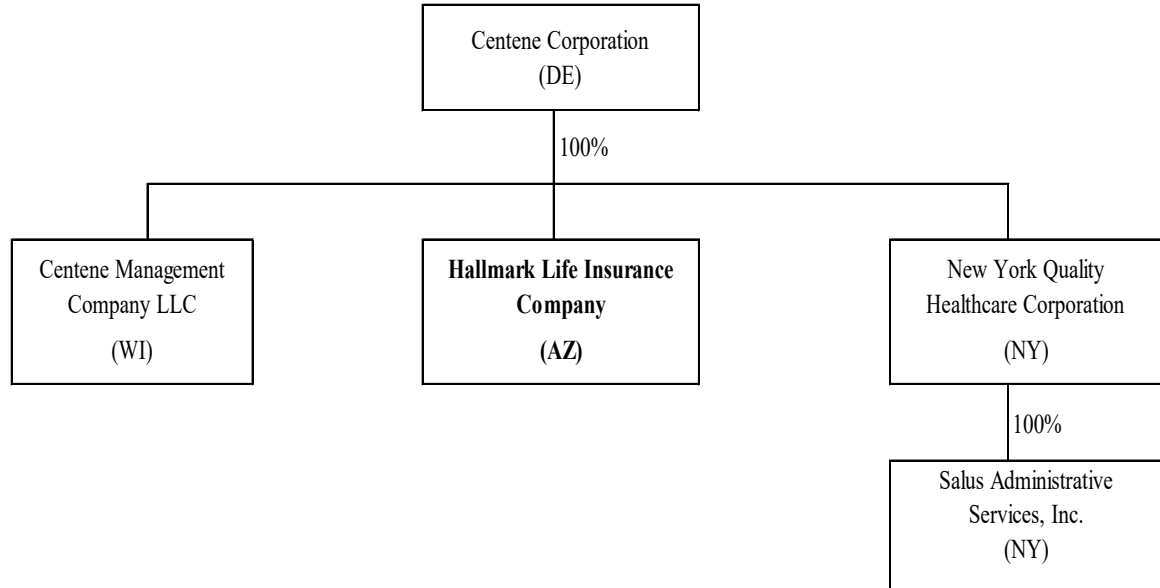
B. Territory and Plan of Operation

HLIC does not write any direct business. As of December 31, 2018, HLIC's only business was what it assumed from NYSCHP's State of New York health plans. The assumption consisted of a total membership of 171,684 comprised of Medicare and commercial businesses.

C. Holding Company System

Centene files holding company registration statements with the State of Texas. HLIC also files registration statements with its state of domicile, Arizona.

An abbreviated organizational chart depicting the relationship between HLIC and significant entities in its holding company system as of December 31, 2018, is as follows:



As of December 31, 2018, HLIC has the following intercompany agreements:

HLIC has an administrative services agreement with CMC effective June 1, 2008. Under the terms of this agreement, CMC will provide HLIC administrative services including, but not limited to, program planning and development, management information systems, financial systems and services, claims administration, provider and enrollee services and records, utilization review, quality assurance and premium billing and collections. The management fee is paid monthly and based upon the variable degrees of management services required to support different categories of enrollees covered by HLIC as set forth by the agreement.

Effective April 11, 2008, HLIC became party to a tax sharing agreement with Centene and certain other affiliated subsidiaries of Centene. Under the terms of the agreement, Centene

prepares, and files consolidated federal and state income tax returns on behalf of itself and its subsidiaries. Each subsidiary, including HLIC, pays Centene an amount equal to their respective component of the consolidated tax liability.

D. Significant Operating Ratios

HLIC's significant operating ratios, as of December 31, 2018, were as follows:

Hospital and medical expenses	\$ 603,477,530	91.65%
Claims adjustment expenses	14,379,388	2.18%
General administrative expenses	68,491,923	10.40%
Increase in reserves	36,429,767	5.53%
Net underwriting loss	<u>(64,335,950)</u>	<u>(9.76)%</u>
Net premiums earned	\$ <u>658,442,658</u>	<u>100.00%</u>

The underwriting ratios presented above are on an earned and incurred basis for the one-year period covered by this examination.

E. Accounts and Records

Management

HLIC has no employees, and all management services are provided through the administrative services agreement with CMC (effective June 1, 2008).

Upon the acquisition of NYSCHP's assets effective July 1, 2018, NYSCHP or a wholly owned subsidiary of NYSCHP, Salus Administrative Services, Inc., entered into a management agreement with CMC and Centene Company of New York, LLC.; which substantially covers the management and administrative services described in the paragraph above. This agreement

facilitates the orderly transition of the business which temporarily remained with NYSCHP or a whole subsidiary of NYSCHP. Centene's costs related to this agreement are passed on to HLIC.

3. FINANCIAL STATEMENTS

The following shows the assets, liabilities and surplus as contained in HLIC's 2018 filed annual statement, a condensed summary of operations and a reconciliation of the surplus account for the year under review.

Independent Accountants

The firm of KPMG was retained by HLIC to audit HLIC's combined statutory basis statements of financial position as of December 31st of the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

KPMG concluded that the statutory financial statements presented fairly, in all material respects, the financial position of HLIC at the respective audit date. Balances reported in these audited financial statements were reconciled to the corresponding annual statements with no discrepancies noted.

A. Balance Sheet**Assets**

Bonds	\$ 574,110
Cash and short-term investments	382,775,654
Investment income due and accrued	574,478
Uncollected premiums in the course of collection	4,921,842
Accrued retrospective premiums	41,929,627
Other amounts receivable under reinsurance contracts	2,763,573
Amounts receivable relating to uninsured plans	9,157,097
Current federal income tax recoverable and interest thereon	8,357,164
Receivables from parent, subsidiaries and affiliates	15,000,000
Healthcare and other amounts receivables	<u>28,444,912</u>
Total assets	\$ <u>494,498,457</u>

Liabilities

Claims unpaid	\$ 185,878,598
Accrued medical incentive pool and bonus amounts	7,707,627
Unpaid claims adjustment expenses	4,852,909
Aggregate health policy reserves	36,429,767
Premiums received in advance	82,863
General expenses due and accrued	17,513,605
Amounts due to parent, subsidiaries affiliates	40,800,697
Aggregate write-ins for other liabilities	<u>98,066,366</u>
Total liabilities	\$ <u>391,332,432</u>

Capital and Surplus

Common capital stock	\$ 400,000
Gross paid-in and contributed surplus	188,347,129
Unassigned funds (surplus)	<u>(85,581,104)</u>
Total capital and surplus	\$ <u>103,166,025</u>
Total liabilities, capital and surplus	\$ <u>494,498,457</u>

B. Statement of Revenue and Expenses and Capital and Surplus

Capital and surplus increased by \$98,948,798 during the one-year examination period, January 1, 2018 through December 31, 2018, detailed as follows:

Revenue

Net premium income	\$ <u>658,442,658</u>	
Total revenue		\$ 658,442,658

Hospital and medical expenses

Hospital/medical benefits	\$ 514,098,812	
Other professional services	2,205,966	
Emergency room and out-of-area	12,813,540	
Prescription drugs	72,157,921	
Incentive pool, withhold adjustments, and bonus amounts	2,201,291	
Claims adjustment expenses	14,379,388	
General administrative expenses	68,491,923	
Increase in reserves for accident and health contracts	<u>36,429,767</u>	
Total underwriting expenses		<u>722,778,608</u>
Net underwriting loss		\$ (64,335,950)
Net investment income earned		<u>3,956,832</u>
Net loss before federal income taxes		\$ (60,379,118)
Federal income taxes incurred		<u>(8,516,628)</u>
Net loss		\$ <u>(51,862,490)</u>

Changes in Capital and Surplus

Surplus, per annual statement, as of January 1, 2018		\$ 4,217,227
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	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net loss	\$ 0	\$ 51,862,490	
Change in net deferred income tax	0	214	
Change in non-admitted assets	0	34,535,627	
Capital paid-in	300,000	0	
Surplus paid-in	<u>185,047,129</u>	<u>0</u>	
Net increase in capital and surplus			\$ <u>98,948,798</u>
Surplus, per report on examination, as of December 31, 2018			\$ <u>103,166,025</u>

4. **SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the U.S. and global insurance and reinsurance industry is still unknown at the time of releasing this report. The Department is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. The Department and all insurance regulators, with the assistance of the National Association of Insurance Commissioners (NAIC), are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers.

There are currently no business plans for HLIC beyond 2020. As of January 1, 2021, HLIC was no longer assuming business and as such is subject to any run-off risks from assumed business in-force on or prior to December 31, 2020; including, but not limited, to any impact from the coronavirus.

Respectfully submitted,

Jan Pierre Santiago, CFE
Examiner-In-Charge
INS Regulatory Insurance Services, Inc.

STATE OF NEW YORK)

)SS.

)

COUNTY OF NEW YORK)

Jan Pierre Santiago, being duly sworn deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

Jan Pierre Santiago, CFE
Examiner-in-Charge
INS Regulatory Insurance Services, Inc.

Subscribed and sworn to before me
this _____ of _____, 2022.

Respectfully submitted,

Wai Wong, CFE
Financial Services Manager 2

STATE OF NEW YORK)

)SS.

)

COUNTY OF NEW YORK)

Wai Wong, being duly sworn deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

Wai Wong, CFE
Financial Services Manager 2

Subscribed and sworn to before me
this _____ of _____, 2022.

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, LINDA A. LACEWELL, 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:

INS Regulatory Services, Inc.

as a proper person to examine the affairs of the

Hallmark Life Insurance Company

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

Company

with such other information as they 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 September, 2020

LINDA A. LACEWELL
Superintendent of Financial
Services

By: *Alice W. McKenney*

*Alice McKenney
Deputy Chief
Health Bureau*

