

Report
of the
Examination of
Eye Care of Wisconsin Insurance, Inc.
Fox Point, Wisconsin
As of December 31, 2010

TABLE OF CONTENTS

| | Page |
|--|-------------|
| I. INTRODUCTION | 1 |
| II. HISTORY AND PLAN OF OPERATION | 3 |
| III. MANAGEMENT AND CONTROL..... | 6 |
| IV. AFFILIATED COMPANIES..... | 9 |
| V. FINANCIAL DATA | 10 |
| VI. SUMMARY OF EXAMINATION RESULTS..... | 15 |
| VII. CONCLUSION..... | 22 |
| VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS..... | 23 |
| IX. ACKNOWLEDGMENT..... | 24 |
| X. SUBSEQUENT EVENT | 25 |
| EXHIBIT A..... | 26 |



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

December 21, 2011

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

EYE CARE OF WISCONSIN INSURANCE, INC.
Fox Point, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Eye Care of Wisconsin Insurance, Inc. (the company or ECW) was conducted in 2006 as of December 31, 2005. The current examination covered the intervening period ending December 31, 2010, and included a review of such 2011 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the Company
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

II. HISTORY AND PLAN OF OPERATION

Eye Care of Wisconsin Insurance, Inc., is described as for-profit individual practice association (IPA) model limited service health organization (LSHO) insurer. A LSHO insurer is defined by s. 609.01 (3), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, a limited range of health care services performed by providers selected by the organization." Under the IPA model, the company provides care through contracts with otherwise independent physicians operating out of their separate offices. LSHOs compete with traditional fee-for-service vision care delivery.

The company was incorporated March 29, 1986, as a ch. 613, Wis. Stat., not-for-profit corporation and commenced business April 1, 1989. The Independent Association of Optometrists (IAO) controlled the company until October 22, 1997, when it was converted to a stock corporation. All ECW shares were initially owned by IAO, but in May 1988 IAO distributed shares to some IAO members. IAO owns 54% of ECW shares and eight members own 46%.

According to its business plan, the company's service area is comprised of all counties in Wisconsin. The company provides subscriber-group member enrollees with covered vision care through contracts with providers. Services are rendered by individual optometrist practitioners who are associated with ECW. An enrollee may see any of the ECW affiliated optometrists to provide the enrollee's vision care and designation of a primary care provider is not required. The provider agrees to provide covered vision care benefits in exchange for the discounted fee-for-service or capitation paid by ECW.

The company has one vision service agreement with subscriber groups. All ECW providers enter into an optometrist service agreement to provide services to subscriber enrollees. Each optometrist service agreement remains in force from date of execution without reference to a fixed contract term until terminated under contract provisions. The agreement may be terminated by either party by written notice at least 90 days prior to the intended effective date of termination. Termination may also occur in the event of a material breach by the nonbreaching

party giving a 60-day written notice of the breach to the other party if the breach remains uncured. The agreement is terminated in the event of revocation of the company's certificate of authority or upon final administrative order suspending or revoking the license of either party.

The contracts include hold-harmless provisions for the protection of policyholders. The provider may not bill, charge, collect a deposit from, seek remuneration or compensation from, file or threaten to file with a credit reporting agency or have any recourse against an enrollee or any person acting on the enrollee's behalf, for health care costs for which the enrollee is not liable.

The company offers a limited range of vision care coverage which may be changed by riders to include deductibles and copayments. The following basic vision care coverages are provided:

- A. Vision examination every 12 months.
- B. Frames priced up to \$45 retail; replacement allowed every 24 months.
- C. Lenses (including single vision, bifocal, trifocal, and lenticular) every 12 months provided there is a prescription change necessitating new lenses.
- D. Contact lens allowance up to \$100 every 24 months, in lieu of prescription lenses and frames.

Covered services that are provided by contracting providers are paid in full, subject to specified maximum payment limits. Under certain plan options, coverage is also provided for services delivered by a non-ECW provider outside the company's geographic service area, with reduced payment limits.

Participating providers agree to arrange for delivery of covered services to any eligible enrolled member at the same level, scope, and quality of care provided to all other patients of the provider. In non-emergency cases, services are rendered upon written or verbal referral by the company. In cases of emergency, the provider agrees to notify the company within 24 hours after provision of covered services.

ECW currently markets to groups only. The plan is marketed primarily by the company president and a number of agencies. The agents act as brokers for the administrative

services only (ASO) business and are paid a monthly commission. An actuary originally developed ECW premium charges and capitation rates paid.

ECW had participation agreements with Humana Insurance Company, Humana Wisconsin Health Organization Insurance Corporation, EmpheSys Wisconsin Insurance Company, and Employers Insurance of Wausau (collectively, "the insurers"). They were all terminated as of December 31, 2010, except for the Employers Insurance of Wausau contract. That contract is not an at-risk business for ECW. ECW gave them a Preferred Provider Panel of their provider network. This contract has been in place since 1999 and there is no termination date contained in the agreement.

Based on these agreements, ECW arranged for providers to render services to members of the insurer's benefit plans. ECW was paid capitation rates as reimbursement for most services; however, some services were paid according to fee schedules. ECW was solely responsible for compensating providers for all health services. Capitation payments were calculated based on the number of members and the benefit contracts of the insurers. Revenues collected under these agreements were reported as "Risk Revenue and Fee-for-Service" on ECW's annual statement.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of six members. Directors are elected annually to serve a 3-year term. Officers for the board are elected at the board's annual meeting. Members of the company's board of directors are also members of the board of directors of the Independent Association of Optometrists. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

| Name and Residence | Principal Occupation | Term Expires |
|--|--|------------------------------------|
| Patrick D. Cashin, OD Thiensville, WI | Doctor of Optometry, Retired. | 2012 |
| Darwin Chentnik Milwaukee, WI | Doctor of Optometry | 2012 |
| Daniel Dewinter, OD Muskego, WI | Doctor of Optometry | 2012 |
| Kevin Harry, OD Brookfield, WI | Doctor of Optometry | 2012 |
| Thomas Motisi, OD Elm Grove, WI | Doctor of Optometry | 2012 |
| Patrick T. Flanagan* Milwaukee, WI | Former President of Eye Care of Wisconsin Insurance, Inc. | *Left the company in July 2011. |

Officers of the company

The officers appointed by the board of directors and serving at the time of this examination are as follows:

| Name | Office | 2010 Compensation |
|----------------------|----------------|------------------------------|
| Patrick Cashin | CEO – Chairman | \$15,865.92 |
| Patrick T. Flanagan* | President* | 77,506.29 |
| Thomas Motisi | Treasurer | 0.00 |
| Darwin Chentnik | Secretary | 0.00 |

* Note: Patrick Flanagan left the company in July of 2011. His duties were assumed by Patrick Cashin, CEO – Chairman.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The company has no formal board committees, however, they did have the following internal management committees at the time of the examination:

Quality Assurance Committee

Paul Godich, OD, Chair
John Hall, OD
Eric Knight, OD
Stephen Waclawski, OD
Dave Ziegler, OD

Peer Review Committee

Paul Godich, OD, Chair
John Hall, OD
Eric Knight, OD
Stephen Waclawski, OD
Dave Ziegler, OD

The company has its own employees. A list of employee positions and a brief job description is included in Exhibit A. In addition, ECW has an administrative service agreement with Cyganiak Planning, Inc. (referred to as Administrator) and Wisconsin Insurance Benefit Trust. Pursuant to the agreement the Administrator will provide all personnel, equipment, and facilities necessary to the performance of its duties and will bear the entire cost thereof. The Administrator will provide the following services:

- Obtain, maintain, and update eligibility records
- Prepare and mail premium statements
- Reconcile premium statements
- Terminate policyholders, covered participants, or employer/member unit of group enrollment
- Maintain a principle administrative office

- Keep books and records of all transactions
- Pay agent commission
- Collect all insurance charges or premiums
- Remit all charges and premiums due, less the amount of the total monthly commission and marketing fee, to ECW monthly

Based on the agreement, ECW agrees that the Administrator will charge the policyholder, covered participants, or employer/member unit of a group enrollment agreement a maximum billing fee of \$15 for performing services hereunder.

The Administrator shall defend, indemnify, and hold ECW harmless from any and all claims, demands, causes of actions, and damages arising out of Administrator's performance. The Administrator is bonded to provide protection to ECW against loss by acts of theft, fraud or dishonesty, and error and omissions.

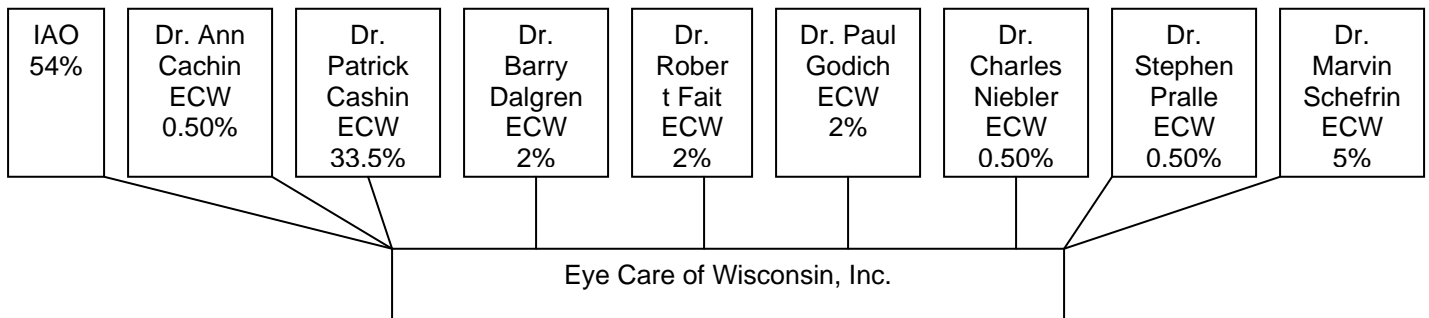
ECW also has a marketing agreement with the Administrator under which both parties will market and sell the prepaid Vision Insurance Program. The Administrator is solely responsible for developing marketing strategies to target sales of the Vision Insurance Program for members and prospective members of Wisconsin Insurance Benefit Trust. Wisconsin Insurance Benefit Trust is a program that allows employers who are members to purchase group insurance through the trust. The Administrator will become knowledgeable about all underwriting requirements ECW has set forth and agrees to adhere to the requirements when marketing and enrolling groups in the Vision Insurance Program. The Administrator may not modify any term or condition of the policy or group enrollment agreement or waive a provision or benefit of the Vision Insurance Program. The Administrator is only allowed to use such advertising materials pertaining to the business enrolled in the Vision Insurance Program as provided by or approved in writing by ECW in advance of their use.

The Administrator will bear its own expenses associated with the marketing of the Vision Insurance Program. ECW will bear the cost of preparing printed marketing materials, such as brochures and applications, provider directories, proposals, administrative materials, folders and any other items as agreed upon by ECW and the Marketing Organization. The Administrator is paid a monthly marketing fee equal to 6% of the premiums paid.

IV. AFFILIATED COMPANIES

Eye Care of Wisconsin Insurance, Inc., is a member of a holding company system. Its ultimate parents are the Independent Association of Optometrists (IAO) and eight individual members. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of ECW follows the organizational chart.

Holding Company Chart As of December 31, 2010



Independent Association of Optometrists

IAO is a Wisconsin non-stock membership corporation organized under ch. 181, Wis. Stat. IAO was retained as an independent physician association (IPA) able to contract with out-of-state provider groups. Pursuant to the plan of reorganization, IAO transferred substantially all of its assets, contracts and liabilities to ECW. At this time, IAO has no contract risk or fee for service. The company holds 54% of ECW stock. The same individuals that own ECW also own IAO.

Please see "Subsequent Event" section in regards to the change of ownership of the company subsequent to the exam.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2010, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Net Worth per Examination."

Eye Care of Wisconsin Insurance, Inc.
Assets
As of December 31, 2010

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|-------------------------|---------------------------|----------------------------|
| Cash, cash equivalents and short-term investments | \$169,367 | \$ | \$169,367 |
| Investment income due and accrued | 300 | | 300 |
| Electronic data processing equipment and software | 6,876 | 6,876 | |
| Health care and other amounts receivable | <u>26,235</u> | <u> </u> | <u>26,235</u> |
| Total Assets | <u>\$202,778</u> | <u>\$6,876</u> | <u>\$195,902</u> |

Eye Care of Wisconsin Insurance, Inc.
Liabilities and Net Worth
As of December 31, 2010

| | | |
|--|---------------|-------------------------|
| Claims unpaid | | \$ 26,098 |
| General expenses due or accrued | | 6,562 |
| Amounts due to parent, subsidiaries and affiliates | | <u>1,000</u> |
| Total liabilities | | 33,660 |
| Gross paid in and contributed surplus | \$142,301 | |
| Unassigned funds (surplus) | <u>19,941</u> | |
| Total capital and surplus | | <u>162,242</u> |
| Total Liabilities, Capital and Surplus | | <u>\$195,902</u> |

**Eye Care of Wisconsin Insurance, Inc.
Statement of Revenue and Expenses
For the Year 2010**

| | | |
|---|----------------|--------------------|
| Net premium income | | \$ 46,646 |
| Fee-for-service [net of \$(1) medical expenses] | | 271,054 |
| Risk revenue | | 272,622 |
| Aggregate write-ins for other non-health revenues | | <u>115,178</u> |
| Total revenues | | 705,500 |
| Medical and hospital: | | |
| Other professional services | \$490,473 | |
| Claims adjustment expenses | 99,144 | |
| General administrative expenses | <u>145,443</u> | |
| Total underwriting deductions | | <u>735,060</u> |
| Net underwriting gain or (loss) | | (29,560) |
| Net investment income earned | | <u>437</u> |
| Net income or (loss) before federal income taxes | | (29,123) |
| Federal and foreign income taxes incurred | | <u>7,646</u> |
| Net Income (Loss) | | <u>\$ (36,769)</u> |

**Eye Care of Wisconsin Insurance, Inc.
Capital and Surplus Account
As of December 31, 2010**

| | |
|---|------------------|
| Capital and surplus prior reporting year | \$199,011 |
| Net income or (loss) | <u>(36,769)</u> |
| Capital and Surplus End of Reporting Year | <u>\$162,242</u> |

Eye Care of Wisconsin Insurance, Inc.
Statement of Cash Flows
As of December 31, 2010

| | | |
|--|-----------|------------------|
| Premiums collected net of reinsurance | | \$ 46,646 |
| Net investment income | | 437 |
| Miscellaneous income | | <u>589,070</u> |
| Total | | 636,153 |
| Less: | | |
| Benefit- and loss-related payments | \$443,001 | |
| Commissions, expenses paid and aggregate write-ins for deductions | | <u>206,604</u> |
| Total | | <u>649,605</u> |
| Net cash from operations | | (13,452) |
| Other cash provided (applied) | | <u>(74,865)</u> |
| Net change in cash, cash equivalents, and short- term investments | | (88,317) |
| Cash, cash equivalents, and short-term investments: Beginning of year | | <u>257,684</u> |
| End of Year | | <u>\$169,367</u> |

Growth of the Company

The following schedules reflect the growth of the company during the examination period:

| Year | Assets | Liabilities | Capital and Surplus | Premium Earned | Medical Expenses Incurred | Net Income |
|------|-----------|-------------|---------------------|----------------|---------------------------|-------------|
| 2010 | \$195,902 | \$ 33,660 | \$162,242 | \$ 46,646 | \$490,473 | \$ (36,769) |
| 2009 | 340,221 | 141,209 | 199,011 | 64,280 | 553,903 | 110,515 |
| 2008 | 193,088 | 105,017 | 89,638 | 69,825 | 539,590 | (21,037) |
| 2007 | 192,695 | 102,989 | 89,706 | 100,685 | 657,850 | (1,998) |
| 2006 | 189,115 | 84,426 | 104,688 | 93,448 | 548,156 | (27,101) |
| 2005 | 251,372 | 131,628 | 119,774 | 148,142 | 917,298 | (3,093) |

| Year | Profit Margin | Medical Expense Ratio | Administrative Expense Ratio | Enrollment | Change in Enrollment |
|------|---------------|-----------------------|------------------------------|------------|----------------------|
| 2010 | -4.1% | 69.5% | 34.7% | 527 | -26.0% |
| 2009 | 12.7 | 68.6 | 26.5 | 707 | -43.0 |
| 2008 | -2.7 | 80.6 | 34.8 | 1,233 | -9.0 |
| 2007 | -0.2 | 78.6 | 31.8 | 1,351 | -30.0 |
| 2006 | 3.5 | 73.3 | 33.4 | 1,909 | -45.0 |
| 2005 | -0.3 | 76.3 | 24.6 | 3,471 | -35.9 |

Overall, the company has been in a state of decline in most financial performance areas during the time period since the last examination. Enrollment had decreased by 85% to 527 enrollees in 2010, down from 3,471 enrollees in 2005. Premium had declined by 69% from \$148,142 in 2005 to \$46,646 in 2010. The company ended its relationship with most vision care subscriber groups and did not actively seek new insurance business.

Reconciliation of Net Worth per Examination

The examination resulted in no adjustments to the reconciliation of capital and surplus that was reported by the company. The capital and surplus amount of \$162,242 reported by the company as of December 31, 2010, is accepted.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were 35 financial and 1 market conduct specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

Financial

1. Company Name—It is recommended that the company change its name to be in compliance with s. 611.12 (1) (a), Wis. Stat., within 120 days of adoption of this report.
Action—Compliance.
2. Articles and Bylaws—It is again recommended that the company update its articles of incorporation and file an amendment to Article VIII concerning the location of its corporate office.
Action—Compliance.
3. Articles and Bylaws—It is again recommended that the company keep its bylaws up to date and file any amendments to their bylaws with the commissioner pursuant to s. 611.12 (4), Wis. Stat.
Action—Compliance.
4. Management and Control—It is again recommended that the company hold its annual meeting in accordance with its bylaws and maintain meeting minutes to show active governance of the company.
Action—Compliance.
5. Management and Control—It is again recommended that directors be elected to the board of directors on an annual basis at the company's annual meeting in conformity with company bylaws and with s. 611.12 (2), Wis. Stat.
Action—Compliance.
6. Executive Compensation—It is recommended that the company properly include all compensation amounts when completing the Report on Executive Compensation (Form OCI 22-065).
Action—Compliance.
7. Insurance Coverage—It is again recommended that the company obtain adequate blanket employee dishonesty (i.e., fidelity) coverage.
Action—Compliance.
8. Corporate Records—It is again recommended that employee benefits be discussed and approved by the board prior to payment.
Action—Compliance.

9. Corporate Records—It is again recommended that the company provide notice to individuals about its privacy policies and practices and describe the conditions under which the company may disclose nonpublic personal health information and nonpublic personal financial information about individuals to affiliates and non-affiliated third parties pursuant to s. Ins 25.02 (1) (a) and (b), Wis. Adm. Code.

Action—Compliance.

10. Corporate Records—It is recommended that the company maintain complete copies of all corporate records.

Action—Compliance.

11. Budgets—It is recommended that the company develop a single report that compares the budget to actual financial results and provide a copy to the board of directors on at least a semiannual basis.

Action—Compliance.

12. Affiliated Companies—It is again recommended that the company negotiate cost-sharing agreements with its affiliates for the allocation and/or sharing of expenses and file such agreements with the commissioner within 120 days of the adoption of this report, pursuant to s. Ins 40.04, Wis. Adm. Code.

Action—Compliance.

13. Affiliated Companies—It is recommended that the company and IAO begin depositing funds received under various contracts in the appropriate company's bank account and that expenses be allocated to each company in a manner consistent with the cost-sharing agreement(s) recommended in this report.

Action—Compliance.

14. Affiliated Companies—It is again recommended that the company report and record transactions with affiliates as required by s. 617.21, Wis. Stat.

Action—Compliance.

15. Affiliated Companies—It is recommended that the company complete the Holding Company Registration Statement in accordance with ss. Ins 40.03 and 40.15, Wis. Adm. Code.

Action—Compliance.

16. Cash—It is recommended that the company accurately report the value of its certificate of deposit in future statement filings.

Action—Compliance.

17. Cash—It is again recommended that the company complete Schedule E Part 3 of the annual statement correctly and list special deposits which are not for the benefit of all policyholders, claimants and creditors of the company as required by the NAIC Annual Statement Instructions—Health.

Action—Noncompliance; see comments in the “Summary of Current Examination Results.”

18. Cash—It is again recommended that the company identify and verify reconciling items on a timely basis.

Action—Compliance.

19. Cash—It is again recommended that the company comply with ch. 177, Wis. Stat., as regards unclaimed funds, and that liability for unclaimed funds be established in future statutory annual statements to account for all checks outstanding for one year.

Action—Compliance.

20. Cash—It is again recommended that the company report a petty cash account on the trial balance.

Action—Compliance.

21. Investment Income—It is again recommended that the company establish procedures to properly accrue for investment income.

Action—Compliance.

22. Health Care Receivables—It is recommended that the company only record a health care receivable for those balances that are actually due in accordance with SSAP No. 84.

Action—Compliance.

23. Premiums—It is again recommended that the company establish a premium receivable account and report the balance on the annual statement in accordance with SSAP No. 6 and the NAIC Annual Statement Instructions—Health.

Action—Compliance.

24. Premiums—It is again recommended that the company include service and billings fees with written premium in accordance with s. 600.03, Wis. Stat.

Action—Compliance.

25. Premiums—It is recommended that the company recognize premium, including advance premium, in accordance to SSAP No. 54.

Action—Compliance.

26. Premiums—It is recommended that the company record refunds from claim overpayments as a reduction to claim expense and that revenue received for health services/items that are excluded from the prepaid benefit package be reported as Fee-for-Service revenue in accordance to the NAIC Annual Statement Instructions—Health.

Action—Compliance.

27. Other Revenue—It is recommended that the company report the fees received for acting as an IPA as a write-in to other non-health revenue in accordance with the NAIC Annual Statement Instructions—Health.

Action—Compliance.

28. Property and Equipment—It is recommended that the company report its EDP equipment in accordance to SSAP No. 16.

Action—Compliance.

29. Property and Equipment—It is again recommended that the company depreciate its property and equipment in accordance with SSAP No. 19.

Action—Compliance.

30. Property and Equipment—It is recommended that the company report the carrying value of furniture and equipment in the annual statement consistent with its detailed records supporting such value.

Action—Compliance.

31. Contracts—It is recommended that the company amend its provider contracts to specify the actual reimbursement to be paid to providers and to include initial term of the contract.

Action—Noncompliance; see comments in the “Summary of Current Examination Results.”

32. Contracts—It is recommended that the company amend its “Letter of Agreement” with EyeMed to clearly identify the actual reimbursement method being used.

Action—Compliance.

33. Accruals—It is recommended that the company properly accrue for its payroll and related employer payroll expenses in future periods.

Action—Compliance.

34. Accounts Payable —It is again recommended that the company create an accounts payable account for general expense and include the account on its trial balance.

Action—Compliance.

35. Reporting Errors—It is recommended that the company comply with the NAIC Annual Statement Instructions—Health for the items noted above.

Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Cash

The prior examination recommended that the company complete Schedule E of the annual statement correctly and list special deposits which are not for the benefit of all policyholders, claimants and creditors of the company in the appropriate section as required by the NAIC Annual Statement Instructions—Health. In order for the company to obtain a letter of credit, the company is required to have a certificate of deposit of \$75,000 at the bank as collateral. The \$75,000 certificate of deposit is listed in the company's cash account. However, this certificate of deposit is considered to be restricted based on the fact that funds may not be available to pay policyholder claims or other general obligations for the company. The current examination determined that the company continues to not list deposits that are not for the benefit of all policyholders, claimants and creditors in the appropriate section of Schedule E. The certificate of deposit should have been disclosed in Schedule E Part 3 of the annual statement in accordance with NAIC Annual Statement Instructions—Health. It is again recommended that the company complete Schedule E Part 3 of the annual statement correctly and list special deposits which are not for the benefit of all policyholders, claimants and creditors of the company as required by the NAIC Annual Statement Instructions—Health.

Contracts

The prior examination and the current examination called for a review of the contracts the company has with its providers. All of the contracts that were reviewed did not include specific reimbursement rate language. The contracts stated the provider will be reimbursed at a rate developed by the company. In addition, the reviewed contracts did not specifically state the time period for which the contract is in effect. Having contracts that do not specify detailed reimbursement rates or the term of the contracts does not lend itself to good business practices.

It is again recommended that the company amend its provider contracts to specify the actual reimbursement to be paid to providers and to include the term of the contract.

Financial Requirements

The financial requirements for an LSHO under s. Ins 9.04, Wis. Adm. Code, are as follows:

| | Amount Required |
|---|--|
| 1. Minimum capital or permanent surplus | Not less than \$75,000 |
| 2. Security deposit | Each LSHO is required to maintain a deposit of securities with the state treasurer or an acceptable letter of credit on file with the Commissioner's office. The amount of the deposit or letter of credit shall not be less than \$75,000. The letter of credit must be payable to the Commissioner whenever liquidation or rehabilitation proceedings are initiated against the company. |
| 3. Compulsory surplus | Not less than the greater of: 3% of the premiums earned by the company in the previous 12 months or \$75,000 The Commissioner may accept the deposit or letter of credit under par. 2. to satisfy the compulsory surplus requirement if the company demonstrates to the satisfaction of the Commissioner that all risk for loss has been transferred to the providers. |
| 4. Security surplus | The company should maintain a security surplus to provide an ample margin of safety and clearly assure a sound operation. The security surplus should not be less than 110% of compulsory surplus. |

The company's calculation as of December 31, 2010, is as follows:

| | | |
|--|---------------|------------------|
| Assets | \$195,902 | |
| Irrevocable letter of credit | <u>75,000</u> | |
| Amount available to satisfy surplus requirements | 270,902 | |
| Less: | | |
| Liabilities | 33,660 | |
| Examination adjustments | <u>0</u> | |
| Net amount available to satisfy surplus requirements | | \$237,242 |
| Net premium earned | 46,646 | |
| Compulsory factor | <u>3%</u> | |
| Compulsory surplus (\$75,000 minimum) | | <u>75,000</u> |
| Compulsory Excess/(Deficit) | | <u>\$162,242</u> |
| Net amount available to satisfy surplus requirements | | \$237,242 |
| Compulsory surplus | \$75,000 | |
| Security surplus factor | <u>140%</u> | |
| Security surplus | | <u>105,000</u> |
| Security Excess/(Deficit) | | <u>\$132,242</u> |

VII. CONCLUSION

Eye Care of Wisconsin Insurance, Inc., was incorporated on March 29, 1986, as a not-for-profit corporation and commenced business on April 1, 1989. The company is owned by the Independent Association of Optometrists and eight optometrists. ECW is not actively seeking any new insurance business which has resulted in decreased enrollment and premium. The company has subsidized the reduction in premium with a number of network access contracts with other companies.

The prior examination resulted in 35 financial recommendations. The company has complied with 33 recommendations and failed to comply with 2 recommendations. The current examination resulted in no financial recommendations.

The company's surplus is \$132,242. There was no adjustment made to surplus as a result of this examination.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 19 - Cash—It is again recommended that the company complete Schedule E Part 3 of the annual statement correctly and list special deposits which are not for the benefit of all policyholders, claimants and creditors of the company as required by the NAIC Annual Statement Instructions—Health.
2. Page 20 - Contracts—It is again recommended that the company amend its provider contracts to specify the actual reimbursement to be paid to providers and to include the term of the contract.

IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

| Name | Title |
|------------------|------------------------------|
| Angelita Romaker | Insurance Financial Examiner |

Respectfully submitted,

Richard A. Onasch
Examiner-in-Charge

X. SUBSEQUENT EVENTS

Effective January 20, 2012, ECW was acquired by Mrs. Deborah Hovila and Integrity Holdings, LLC. Ownership pre- and post-acquisition by shares are presented below:

| <u>Name</u> | <u>Pre Acquisition</u> | <u>Sold</u> | <u>Post Acquisition</u> |
|---------------------|------------------------|-------------|-------------------------|
| IAO | 5,400 | 5,400 | 0 |
| Dr. Marvin Schefrin | 500 | 500 | 0 |
| Dr. Barry Dahlgren | 200 | 200 | 0 |
| Dr. Paul Godich | 200 | 200 | 0 |
| Dr. Robert Fait | 200 | 200 | 0 |
| Dr. Charles Niebler | 50 | 50 | 0 |
| Dr. Ann Cashin | 50 | 50 | 0 |
| Dr. Stephen Pralle | 50 | 50 | 0 |
| Dr. Patrick Cashin | 3,350 | 17 | 3,333 |

| <u>Name</u> | <u>Pre Acquisition</u> | <u>Purchased</u> | <u>Post Acquisition</u> |
|-------------------------|------------------------|------------------|-------------------------|
| Deborah Hovila | 0 | 3,333.5 | 3,333.5 |
| Integrity Holdings LLC. | 0 | 3,333.5 | 3,333.5 |

Under the new ownership, operations will materially change from a wholesaler of vision insurance to a retailer model. Policyholders will be solicited directly through sales calls and direct marketing efforts, via the internet, as well as select insurance brokers. The majority of business previously originated from large health insurance organizations renting ECW's network of optometrists.

ECW currently operates with many manual processes and minimal use of technology (e.g., no Web site). The new ownership plans to create a Web site which will be the hub of ECW's operations. Member's and provider's access is also expected to be enhanced to allow the following:

- Prospective members will be able to sign up for a plan through the Web site
- Members will have access to their accounts, via a secure login, to verify their benefit selections, as well as monitor the usage of those benefits
- A secure login for providers will allow access to member availability, as well as the ability to submit claims
- A secure link will be established for broker networks as well to allow similar electronic transmissions of information

Any services required for establishment of the Web site are expected to be provided from unrelated parties.

EXHIBIT A

