

Report of the Examination of
Group Health Cooperative of South Central Wisconsin
Madison, Wisconsin
As of December 31, 2019

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October 7, 2020

Honorable Mark V. Afable
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:

GROUP HEALTH COOPERATIVE OF SOUTH CENTRAL WISCONSIN
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Group Health Cooperative of South Central Wisconsin (the cooperative or GHC-SCW) was conducted in 2016 as of December 31, 2015. The current examination covered the intervening period ending December 31, 2019, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an insurer to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the cooperative were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included

herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the cooperative'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 cooperative to satisfy the recommendations and comments made in the previous examination report.

The cooperative is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

An independent actuarial firm, Lewis & Ellis Actuaries and Consultants, was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the claims unpaid liability and other actuarial items as set forth in the statement of Actuarial Opinion. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

Group Health Cooperative of South Central Wisconsin is described as a nonprofit mixed model health maintenance organization (HMO) insurer. An HMO insurer is defined by s. 609.01 (2), 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, comprehensive health care services performed by providers selected by the organization." Under the mixed model, the cooperative has a delivery system consisting of a combination of staff physicians, clinics, and independent contracting physicians operating out of their separate offices.

GHC-SCW was incorporated on March 13, 1972, and commenced business on March 1, 1976. The cooperative was established as a consumer cooperative under ch. 185, Wis. Stat., with the assistance of federal grants and loans and is federally qualified. The cooperative is a tax-exempt organization as described in s. 501(c)(3) of the Internal Revenue Code.

Inclusive of all products offered, GHC-SCW has over 3,200 affiliated providers, including ancillary providers, of which there were more than 460 primary care physicians (PCP) and over 2,700 specialists in a 13-county service area. In addition, the cooperative has contracted with over 15 hospitals. GHC-SCW operates nine clinic locations in Dane County. While the main focus for the GHC-SCW clinics is primary care, the clinics also provide the following specialty and ancillary care: behavioral health, chiropractic, clinical health education, complementary medicine, dermatology, eye care, podiatry, laboratory services, medical imaging, physical therapy, occupational therapy, retail pharmacy, and sports medicine.

Each GHC-SCW HMO member is required to select a primary care physician. The primary care physician acts as a gatekeeper for certain health care services when it is determined that the services of a specialist are necessary. Members may see certain specialists without a referral from their primary care physician. Self-referral specialty care includes, but is not limited to, OB/GYN, behavioral health, chiropractic, optometric care, and alcohol and drug abuse treatment. The cooperative requires prior authorization for services from a nonparticipating provider.

For HMO members, there are two main networks, Dane and Regional. The determination is based on the location of the chosen PCP. Ninety-seven percent of the HMO members have chosen a PCP in the Dane network. The network then determines the in-network specialty providers and the payment mechanisms. In the Dane network, 89% of the members chose the GHC-SCW Clinics as their primary location. Other options for

primary care in the Dane network include UW Health and Access Community Health Centers. UW Health and UnityPoint Health-Meriter are the primary delivery systems for specialty, outpatient, and inpatient services for the Dane network. For the Regional network, GHC-SCW has contracted directly with hospitals, primary care, specialty care, and ancillary providers.

Physicians employed by GHC-SCW are governed by employment contracts. These contracts provide for compensation in accordance with the GHC-SCW Board-approved compensation plan. The physician agrees to perform such duties relating to the practice of medicine as assigned through the GHC-SCW Chief Medical Officer including, but not limited to, clinic sessions, hospital rounds, urgent care clinic coverage, house calls, and night/weekend emergency call duty. During those hours in which the physician is employed by GHC-SCW, any remuneration for services of the practitioner is deemed income of GHC-SCW and must be submitted to GHC-SCW upon receipt. Physicians are required to give GHC-SCW at least 90 days' written notice to terminate their employment contracts.

Contracted providers have various payment arrangements based on product lines, PCP selection, provider of service, and type of service. Payment arrangements include capitation, diagnosis related groups (DRGs), discounted fee-for-service, per diems, and fee schedules.

The contracts include hold harmless provisions for the protection of policyholders. The contracts have varying terms, typically in the range of one to five years, and may be terminated upon advance written notice.

According to its business plan, the cooperative's service area is comprised of the following counties:

Adams	Iowa	Richland
Columbia	Jefferson	Rock
Dane	Juneau	Sauk
Dodge	Lafayette	Vernon
Green		

The following basic health care coverages are provided:

- Physician services
- Inpatient services
- Outpatient services
- Behavioral health, drug and alcohol abuse services
- Ambulance services
- Special dental procedures (oral surgery)
- Prosthetic devices and durable medical equipment
- Newborn services
- Home health care
- Preventive health services
- Family planning
- Hearing exams and hearing aids

- Diabetes treatment
- Routine eye examinations
- Convalescent nursing home service
- Prescription drugs
- Cardiac rehabilitation, physical, speech, and/or occupational therapy
- Physical fitness or health education
- Kidney disease treatment
- Certain transplants
- Chiropractic services

The cooperative offers comprehensive HMO health care coverage through various plans to groups and individuals. The plans may include deductibles, coinsurance, and/or copayments on covered services. These out-of-pocket expenses vary by plan and are selected by each employer or individual policyholder.

In addition to HMO products, the cooperative offers point-of-service (POS) and preferred provider organization (PPO) plans to group markets. The POS and PPO plans cover services provided by participating and non-participating providers. Services provided by nonparticipating providers are subject to out-of-network benefits, which may have separate or higher deductibles, coinsurance, and out-of-pocket maximums than in-network claims. PPO plans are generally available to employers with their main location in the cooperative's service area with employees who reside outside of the service area.

The cooperative currently offers a variety of health insurance options for employers and individuals. GHC-SCW offers large employer groups standard and custom plan designs. For small groups, the cooperative supports transitional plans and offers Affordable Care Act (ACA) plans. The group plans can choose from HMO, POS, and PPO plans. Individuals and their families are offered Medicare Select, individual and family plans including federally-facilitated exchange and non-exchange plans. The cooperative participates in the Federal Employees Health Benefits program (FEHB) for federal government employees. The cooperative also has dental plans available to group employers who purchase a health insurance plan. GHC-SCW is contracted with the State of Wisconsin to provide services under the BadgerCare Plus managed Medicaid program. In January 2014, OCI approved the cooperative to provide Medicaid Supplemental Security Income (SSI) coverage in Dane County; however, GHC-SCW is not currently participating in the Medicaid SSI program.

The cooperative markets to groups and individuals. The cooperative uses its own sales staff, as well as outside agencies, and pays commissions on both new and renewal business.

As a federally qualified HMO, GHC-SCW is required to adhere to a community rating system as defined in the Health Maintenance Organization Act of 1973, as amended. An actuarial model is used to develop

a base rate as the beginning point in premium determination. The base rate is adjusted on a group-by-group basis using various community rating guidelines such as tiers, demographics, and rating by class.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 11 members. The board of directors has a complex structure. First, directors are separated into two classes: an Individual Class and a Practitioner Employee Class; which are then further divided into categories within each class. The Individual Class consists of nine total directors and has three categories of directors with each category consisting of three members. All nine members serve for a term of three years, but the terms are staggered so that one category of directors' terms end each year." The Practitioner Employee Class directors are separated into two categories, each director serves for a period of three years and the terms are staggered so that each category term expires in a different year. The Individual Class board members receive compensation based on the number of meetings attended. The Practitioner Class board members do not receive compensation for serving on the board.

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Ann Hoyt, Chair Madison, Wisconsin	Retired Professor	2021
Henry Sanders Waunakee, Wisconsin	Publisher	2022
William Oemichen New Glarus, Wisconsin	Researcher and Attorney	2021
Jason Hampton Middleton, Wisconsin	Physician	2022
Matthew Brandrup Madison, Wisconsin	President Rural Electric Supply Cooperative	2020
Colleen Gullickson Madison, Wisconsin	Professor of Nursing	2020
Rebecca Haymaker Verona, Wisconsin	Consultant in Healthcare Revenue	2022
Fazel Hayati Madison, Wisconsin	Professor of Business	2020
Allison Phillipps Sun Prairie, Wisconsin	Nurse Practitioner	2022
Nanetter Schiller Marshall, Wisconsin	Corporate Financial Advisor	2022

Name and Residence	Principal Occupation	Term Expires
Judy Ziewacz Monona, Wisconsin	Retiree	2021

Officers of the Cooperative

The officers serving at the time of this examination are as follows:

Name	Office
Ann Hoyt	Chair
Henry Sanders	Vice Chair
William Oemichen	Treasurer
Jason Hampton	Secretary

Committees of the Board

The cooperative's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Governance (Ad Hoc) Committee

Ann Hoyt, Chair
Jason Hampton
William Oemichen
Judy Ziewacz

Finance/Audit Committee

William Oemichen, Chair
Fazel Hayati
Nanette Schiller
Jason Hampton

Quality, Safety and Patient Experience Committee

Judy Ziewacz, Chair
Matt Brandrup
Colleen Gullickson
Allison Philipps

Board Development Committee

Colleen Gullickson, Chair
Rebecca Haymaker
Fazel Hayati
Nanette Schiller

Business Strategy Committee

Matt Brandrup, Chair
Rebecca Haymaker
Allison Philipps
Henry Sanders

Nominations Committee

Ed Reisch, Chair

The cooperative has its own employees and departments: 1) Finance Department; 2) Information Technology Systems; 3) Case, Utilization and Quality Management; 4) Clinic and Ancillary Services; 5) Human Resources; and 6) Insurance Operations. The cooperative also employs staff at its nine clinic locations, including physicians, physician assistants, nurse practitioners, pharmacists, physical and occupational therapists, behavioral health practitioners, optometrists, chiropractors, laboratory and radiology staff, nursing staff, and support staff.

Insolvency Protection for Policyholders

Under s. Ins 9.04 (6), Wis. Adm. Code, HMOs are required to either maintain compulsory surplus at the level required by s. Ins 51.80, Wis. Adm. Code, or provide for the following in the event of the cooperative's insolvency:

1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

The cooperative has met this requirement through its reinsurance contract, as discussed in the Reinsurance section of this report.

IV. REINSURANCE

The cooperative currently has reinsurance coverage under the contract outlined below:

Reinsurer:	PartnerRe America Insurance Company
Type:	Specific Excess of Loss Reinsurance
Effective date:	January 1, 2019
Retention:	\$450,000 per eligible member under Commercial and Exchange line of business \$375,000 per eligible member under Medicaid line of business
Coverage:	Commercial HMO/PPO/POS Exchange Medicaid
Termination:	This contract terminates on January 1, 2020

The reinsurance policy has an endorsement containing the following insolvency provisions:

1. PartnerRe will continue plan benefits for members who are confined in an acute-care hospital on the date of insolvency until their discharge.
2. PartnerRe will continue plan benefits for any member insured plan until the end of the contract period for which premiums have been paid to plan by that member or on his behalf.
3. PartnerRe will make available to all members within the calendar year, without evidence of insurability, a replacement coverage of the same benefit schedule and rates as then being offered by PartnerRe to other prospective insureds within the state.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the cooperative as reported to the Commissioner of Insurance in the December 31, 2019, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination." Also included in this section are schedules that reflect the growth of the cooperative and the compulsory and security surplus calculation.

**Group Health Cooperative of South Central Wisconsin
Assets
As of December 31, 2019**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$27,460,480	\$	\$27,460,480
Stocks:			
Common stocks	13,316,504		13,316,504
Real Estate:			
Properties occupied by the company	14,167,744		14,167,744
Cash, cash equivalents and short-term investments	12,975,597		12,975,597
Receivable for securities	18,242		18,242
Investment income due and accrued	296,881		296,881
Uncollected premiums and agents' balances in the course of collection	3,257,366	69,097	3,188,269
Accrued retrospective premiums and contracts subject to redetermination	4,421,351		4,421,351
Amounts recoverable from reinsurers	1,722,531		1,722,531
Electronic data processing equipment and software	1,230,214	1,095,146	135,068
Furniture and equipment, including health care delivery assets	5,919,140	1,291,742	4,627,399
Health care and other amounts receivable	13,275,474	1,772,166	11,503,308
Prepaid Expenses	2,181,746	2,039,749	141,997
457(b) Trust	784,657		784,657
Total Assets	<u>\$101,027,925</u>	<u>\$6,267,899</u>	<u>\$94,760,025</u>

**Group Health Cooperative of South Central Wisconsin
Liabilities and Net Worth
As of December 31, 2019**

Claims unpaid		\$33,609,303
Unpaid claims adjustment expenses		765,102
Aggregate health policy reserves		2,322,000
Premiums received in advance		12,045,254
General expenses due or accrued		3,931,460
Amounts withheld or retained for the account of others		784,657
Borrowed money and interest thereon		1,100,664
Payable for securities		1,348
Aggregate write-ins for other liabilities (including \$81,557 current)		<u>81,557</u>
Total Liabilities		54,641,344
Aggregate write-ins for other-than-special surplus funds	\$ 3,800,000	
Gross paid in and contributed surplus	(6,400,000)	
Unassigned funds (surplus)	<u>42,718,682</u>	
Total Capital and Surplus		<u>40,118,682</u>
Total Liabilities, Capital and Surplus		<u>\$94,760,025</u>

**Group Health Cooperative of South Central Wisconsin
Statement of Revenue and Expenses
For the Year 2019**

Net premium income		\$408,094,581
Medical and Hospital:		
Hospital/medical benefits	\$214,950,179	
Other professional services	59,821,249	
Outside referrals	1,800,734	
Emergency room and out-of-area	33,294,350	
Prescription drugs	50,836,868	
Aggregate write-ins for other medical and hospital	<u>20,772,788</u>	
Subtotal	381,476,168	
Less		
Net reinsurance recoveries	<u>2,725,357</u>	
Total medical and hospital	378,750,811	
Claims adjustment expenses	10,472,175	
General administrative expenses	26,919,745	
Increase in reserves for life and accident and health contracts	<u>2,200,000</u>	
Total underwriting deductions		<u>418,342,731</u>
Net underwriting gain or (loss)		(10,248,150)
Net investment income earned	2,320,037	
Net realized capital gains or (losses)	<u>233,727</u>	
Net investment gains or (losses)		2,553,764
Net gain or (loss) from agents' or premium balances charged off		(92,529)
Aggregate write-ins for other income or expenses		<u>39,349</u>
Net Income (Loss)		<u>\$ (7,747,566)</u>

**Group Health Cooperative of South Central Wisconsin
Capital and Surplus Account
For the Four-Year Period Ending December 31, 2019**

	2019	2018	2017	2016
Capital and surplus, beginning of year	\$45,135,966	\$45,977,953	\$39,593,470	\$39,194,499
Net income (loss)	(7,747,566)	2,554,407	5,524,177	914,274
Change in net unrealized capital gains/losses	1,607,305	(2,276,865)	1,576,861	(214,940)
Change in nonadmitted assets	<u>1,122,977</u>	<u>(1,119,529)</u>	<u>(716,555)</u>	<u>(300,362)</u>
Capital and Surplus, End of Year	<u>\$40,118,682</u>	<u>\$45,135,966</u>	<u>\$45,977,953</u>	<u>\$39,593,471</u>

**Group Health Cooperative of South Central Wisconsin
Statement of Cash Flow
For the Year 2019**

Premiums collected net of reinsurance		\$407,764,287
Net investment income		<u>3,428,036</u>
Total		411,192,323
Less:		
Benefit- and loss-related payments	\$380,456,685	
Commissions, expenses paid and aggregate write-ins for deductions	<u>37,586,564</u>	
Total		<u>418,043,250</u>
Net cash from operations		(6,850,927)
Proceeds from Investments Sold, Matured or Repaid:		
Bonds	\$11,408,028	
Stocks	<u>2,817,657</u>	
Total investment proceeds		14,225,686
Cost of Investments Acquired—Long-term Only:		
Bonds	7,238,799	
Stocks	1,016,673	
Real estate	1,365,807	
Miscellaneous applications	<u>11,177</u>	
Total investments acquired		<u>9,632,456</u>
Net cash from investments		4,593,230
Cash Provided/Applied:		
Borrowed funds received	(86,050)	
Other cash provided (applied)	<u>(958,081)</u>	
Net cash from financing and miscellaneous sources		<u>(1,044,132)</u>
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(3,301,829)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>16,277,428</u>
End of Year		<u>\$ 12,975,599</u>

Growth of Group Health Cooperative of South Central Wisconsin

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2019	\$94,760,025	\$54,641,344	\$40,118,682	\$408,094,581	\$378,750,811	\$(7,747,566)
2018	94,992,248	49,856,283	45,135,965	395,718,417	355,953,057	2,554,407
2017	88,148,630	42,170,677	45,977,953	363,109,845	325,617,678	5,524,179
2016	85,957,385	46,363,915	39,593,470	364,925,859	330,846,722	914,274

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2019	-1.9%	93.3%	9.2%	3.7%
2018	0.6	90.0	10.0	2.8
2017	1.5	89.7	10.0	-1.7
2016	0.2	90.7	10.5	0.0

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2019	79,489	251.87	4.1
2018	76,680	265.75	4.1
2017	74,559	277.93	4.2
2016	75,819	257.82	4.0

Per Member Per Month Information

	2019	2018	Percentage Change
Premiums:			
Commercial	\$462.08	\$454.21	1.7%
Medicare	241.46	223.36	8.1
Medicaid	166.63	170.59	-2.3
Composite	<u>427.46</u>	<u>430.03</u>	-0.1
Expenses:			
Hospital/medical benefits	231.08	220.75	4.0
Other professional services	64.31	58.87	9.2
Outside referrals	1.94	1.64	18.0
Emergency room and out-of-area	35.79	31.90	12.2
Prescription Drugs	54.65	52.93	3.3
Other medical and hospital	22.33	21.39	4.4
Less: Net reinsurance recoveries	<u>2.93</u>	<u>0.67</u>	338.1
Total medical and hospital	407.17	386.82	5.3
Claims adjustment expenses	11.26	11.52	-2.3
General administrative expenses	28.94	31.52	-8.2
Increase in reserves for accident and health contracts	<u>2.37</u>		N/A
Total underwriting deductions	<u>\$449.73</u>	<u>\$429.86</u>	4.6

In 2016, the cooperative underwent a substantial transition in its board executive officers, replacing the chair, vice chair, and secretary. Corrective actions and new initiatives were developed to address negative trends following the prior examination. Operations did improve; however, trends did not stay favorable and changed in 2019. The cooperative has had challenges in maintaining membership during the examination period with fluctuating membership and continuing increases in hospital and medical expenses. The cooperative's primary source of cash inflow is premium revenue. Premium revenue dollars have continued to increase throughout the examination period. However, the overall medical inflation and utilization has continued to increase substantially, resulting in an unfavorable trend. In 2019, the cooperative recognized a substantial net loss and an overall decrease in surplus, which was the result of a high level of benefit and loss payments, the costs associated with re-opening a GHC-SCW clinic after it had been closed for over a year due to a flood, and \$3.9 million in claims liability from increased utilization.

Financial Requirements

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

Amount Required

- | | |
|---|--|
| 1. Minimum capital or permanent surplus | Either:
\$750,000, if organized on or after July 1, 1989
or
\$200,000, if organized prior to July 1, 1989 |
| 2. Compulsory surplus | The greater of \$750,000 or:

If the percentage of covered liabilities to total liabilities is less than 90%, 6% of the premium earned in the previous 12 months;

If the percentage of covered liabilities to total liabilities is at least 90%, 3% of the premium earned in the previous 12 months |
| 3. Security surplus | The greater of:
140% of compulsory surplus reduced by 1% of compulsory surplus for each \$33 million of additional premiums earned in excess of \$10 million
or
110% of compulsory surplus |

Covered liabilities are those due to providers who are subject to statutory hold harmless provisions.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were seven specific comments and recommendations in the previous examination report.

Comments and recommendations contained in the last examination report and actions taken by the cooperative are as follows:

1. Conflict of Interest Statements—It is recommended that the cooperative properly maintain its conflict of interest statements in accordance with a directive issued by the Office of the Commissioner of Insurance.

Action—Compliance

2. Premium Deficiency Reserve—It is recommended that business segments showing deficient premium deficiency reserve shall be reported in the Underwriting and Investment Exhibit, Part 2D – Aggregate Reserve for Accident and Health Contracts Only, in accordance with SSAP No. 54 of the NAIC *Accounting Practices and Procedures Manual*, and as required in the NAIC *Annual Statement Instructions – Health*.

Action—Compliance

3. Actuarial Memorandum—It is recommended that the cooperative provide an actuarial memorandum that conforms to the requirements prescribed in the NAIC *Annual Statement Instructions – Health*.

Action—Partial Compliance

4. Investments – Statutory Compliance—It is again recommended that the cooperative divest excess investments within three months after adoption of this examination report in accordance with ss. 620.23 (2) (b) and 620.22 (9), Wis. Stat.

Action—Compliance

5. Report on Executive Compensation—It is recommended that the cooperative include all employer-paid insurance premium for the executive in any future Report on Executive Compensation in accordance with s. 611.63 (4), Wis. Stat., and as required in the revised OCI Form 22-060 (R 12/2015).

Action—Compliance

6. Supplemental Compensation Exhibit—It is recommended that the cooperative include all employer-paid insurance premiums for the executives in the future filing of Supplemental Compensation Exhibit, Part 2, of the annual statement in accordance with the NAIC *Annual Statement Instructions – Health*.

Action—Compliance

7. Provider Contracts—It is recommended that the cooperative provide a summary notice to all its contracting providers and participating providers regarding the “hold harmless” provision pursuant to s. 609.94 (1), Wis. Stat., and use the form prescribed in Appendix C of ch. Ins 9, Wis. Adm. Code.

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 cooperative's operations is contained in the examination work papers.

Annual Financial Reporting

The examination disclosed that the cooperative was not properly and consistently reporting the service areas in which the insurer is licensed to operate. During the period of the examination, two of the four annual financial statements did not list Adams county as a service area in the General Interrogatories Part 2 – Health Interrogatories. It is recommended that the cooperative list all authorized service areas on the Annual Statement Filing General Interrogatories Part 2 Health Interrogatories in accordance with the NAIC *Annual Statement Instructions – Health*.

Custodial Agreement

The review of the cooperative's custodial agreement with Johnson Bank, which was amended in 2018, disclosed that the agreement was missing several provisions. The NAIC *Financial Condition Examiners Handbook* sets forth satisfactory safeguards and controls that should be included in custodial or safekeeping agreements. These safeguards and controls include, but are not limited to:

- Those securities held indirectly by a custodian or in a clearing corporation shall be separately identified on the custodian's official records as being owned by the insurance company.
- The custodian is obligated to indemnify the insurance company for any insurance companies loss of securities in the custodian's custody, except that, unless domiciliary state law regulation or administrative action otherwise required a stricter standard, the custodian shall not be so obligated to the extent that such loss was caused by other than the negligence or dishonesty of the custodian.
- In the event of a loss of securities of which the custodian is obligated to indemnify the insurance company, the securities shall be properly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.
- In the event the custodian gains entry in a clearing corporation through an agent, there should be a written agreement between the custodian and the agent that the agent shall be subjected to the same liability of loss to the securities as the custodian. If the agent is governed by laws that differ from the regulation of the custodian, the Commissioner of Insurance of the state of domicile may accept a liability applicable to the agent that is different from standard liability.
- If the custodian agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within 3 business days of termination or withdrawal, to the insurer's domiciliary commissioner.

- During regular business hours, and upon reasonable notice, an officer or employee of the insurance company, an independent accountant selected by the insurance company and a representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, its records relating to securities if the custodian is given written instructions to that effect from an authorized officer of the insurance company.
- The custodian and its agents, upon reasonable request, shall be required to send all reports which they receive from a clearing corporation, which the clearing corporation permits to be redistributed including reports prepared by the custodian's outside auditors, to the insurance company on their respective systems of internal control.
- The custodian shall provide upon written request from a regulator or an authorized officer of the insurance company, the appropriate affidavits, with respect to the insurance company's securities held by the custodian.
- The custodian shall secure and maintain insurance protection in an adequate amount.
- The foreign bank acting as a custodian, or a U.S. custodian's foreign agent, or a foreign clearing corporation is only holding foreign securities or securities required by the foreign country in order for the insurer to do business in that country. A U.S. custodian must hold all other securities.

It is recommended that the cooperative obtain a custodial agreement with its investment custodian that includes proper language indemnifying Group Health cooperative of South Central Wisconsin as set forth in the NAIC *Financial Condition Examiners Handbook*.

Reinsurance Intermediary

The review of the reinsurance intermediary contract between Beecher Carlson Ins. Services, LLC and the cooperative disclosed the contract was missing several provisions. The Wisconsin Administrative Code sets forth required contract provisions for reinsurance intermediary brokers that should be included in the reinsurance intermediary contract. These provisions include, but are not limited to:

- The reinsurance intermediary-broker will render accounts to the insurer accurately detailing all material transactions, including information necessary to support all commissions, charges and other fees received by, or owing, to the reinsurance intermediary-broker, and remit all funds due to the insurer within 30 days of receipt.
- The reinsurance intermediary-broker will hold all funds collected for the insurer's account in a fiduciary capacity in a qualified United States financial institution.
- The reinsurance intermediary-broker will comply with s. Ins 47.04 in regards to keeping a complete record for each transaction for at least 10 years after the expiration of each contract of reinsurance transacted by the reinsurance intermediary-broker and shall give access to and the right to copy and audit all accounts and records maintained by the reinsurance intermediary-broker to the insurer in a form usable by the insurer

- The reinsurance intermediary-broker will comply with the written standards established by the insurer for the cession or retrocession of all risks.
- An insurer shall annually obtain a copy of statement of the financial condition of each reinsurance intermediary-broker with which it transacts business.

It is recommended that the cooperative obtain a reinsurance intermediary contract that includes the required provisions in accordance with ch. Ins. 47, Wis. Adm. Code.

Actuarial Memorandum

With the assistance of the Lewis & Ellis Actuaries and Consultants, the examination reviewed the cooperative's independent actuary memorandum. The cooperative's Actuarial Memorandum from Oliver Wyman does not comply with annual statement instructions and limited detail was provided in the Technical Component. The Technical Component provided a reserve summary and metrics comparing prior year and current year incurred claims and reserves. A reconciliation of the Underwriting and Investment (U&I) Exhibit Part 2B to Annual Statement Page 4 had limited detail. No detailed documentation of the actual development of any reserve items or asset accruals was provided. The required reconciliation of the claim lag data used in the development of the Claims Unpaid Liability was also not provided in either the Narrative Component or the Technical Component.

According to the NAIC *Annual Statement Instructions – Health*, the actuarial memorandum should contain both narrative and technical components. The narrative component should provide sufficient detail to clearly explain to the cooperative management, the regulator, or other authorities the findings, recommendations and conclusions, as well as their significance. The technical component should provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. This technical component must show the analysis from the basic data (e.g., claim lags) to the conclusions. Furthermore, the actuarial memorandum must include an exhibit which ties to the annual statement and compares the actuary's conclusions to the carried amounts, and the documentation of the required reconciliation from the data used for analysis to the Underwriting and Investment Exhibit, Part 2B. It is recommended that, in the future, the cooperative obtain an actuarial memorandum each year that conforms to the following requirements prescribed in the NAIC *Annual Statement Instructions – Health*:

- a) The Actuarial Memorandum should outline all amounts upon which the actuary is opining.

- b) The Actuarial Memorandum should include enough detail in the Technical Component to describe the process from the initial data to the final calculated and reported balances.
- c) The Actuarial Memorandum should include documentation of the reconciliation from the data used for the U&I Exhibit, Pt 2b, columns 1 and 2. This should identify amounts from all claim triangles as well as all other amounts included, and the total should tie to Row 13 of the Exhibit.

VII. CONCLUSION

Group Health Cooperative of South Central Wisconsin is a nonprofit mixed model HMO that was incorporated on March 13, 1972, and commenced business on March 1, 1976. The cooperative is the only one of its kind in the State of Wisconsin in that it has a delivery system consisting of staff physicians, owned clinics and contracted hospital and physician groups. The cooperative staffs and operates nine clinic locations that focus on primary care and specialty services complementary to primary care. The additional specialty services include dermatology, sports medicine, behavioral health, occupational and physical therapy, podiatry, optometry, chiropractic care, and complementary medicine. As of December 31, 2019, the cooperative had 79,489 members and its service area was comprised of 13 Wisconsin counties.

During the period under examination, the cooperative's admitted assets increased 12.5% and surplus increased 2.4%. The cooperative's commercial segment has been a significant source of growth for the Cooperative and the primary driver in premium revenue. The cooperative's entrance into the Federal Exchange contributed to its growth as well. The overall unfavorable trends are results of increased utilization and medical inflation.

The examination determined that the cooperative was in compliance with all of the recommendations made by the previous examination. The current examination resulted in four recommendations, but no adjustment to surplus. The amount of surplus reported by the cooperative as of December 31, 2019, is accepted.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 Annual Statement Reporting—It is recommended that the cooperative list all authorized service areas on the Annual Statement Filing General Interrogatories Part 2 Health Interrogatories in accordance with the NAIC *Annual Statement Instructions – Health*.
2. Page 19 Custodial or Safekeeping Agreements—It is recommended that the cooperative obtain a custodial agreement with its investment custodian that includes proper language indemnifying Group Health cooperative of South Central Wisconsin as set forth in the NAIC *Financial Condition Examiners Handbook*.
3. Page 20 Reinsurance Intermediary—It is recommended that the cooperative obtain a reinsurance intermediary contract that includes the required provisions in accordance with ch. Ins. 47, Wis. Adm. Code.
4. Page 20 Actuarial Memorandum—It is recommended that, in the future, the cooperative obtain an actuarial memorandum each year that conforms to the following requirements prescribed in the NAIC Annual Statement Instructions – Health:
 - a) The Actuarial Memorandum should outline all amounts upon which the actuary is opining.
 - b) The Actuarial Memorandum should include enough detail in the Technical Component to describe the process from the initial data to the final calculated and reported balances.
 - c) The Actuarial Memorandum should include documentation of the reconciliation from the data used for the U&I Exhibit, Pt 2b, columns 1 and 2. This should identify amounts from all claim triangles as well as all other amounts included, and the total should tie to Row 13 of the Exhibit.

IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the Cooperative 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
Jake Burkett	Insurance Financial Examiner
Dana Tice	Insurance Financial Examiner
Jim Krueger	Data Specialist
Dave Jensen, CISA	IT Specialist
Karl Albert, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Sheng Vang
Examiner-in-Charge

XI. SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) a pandemic. As of the Date of this report, significant uncertainty remains on the effect that the pandemic will have on the insurance industry, economy, and society at large. The examination's review of the impact to the society through the date of this report noted that there has not yet been a significant impact to the cooperative overall, however, due to the various uncertainties with the pandemic, it is unclear whether this will continue to have a minimal impact to the cooperative or if it will escalate considering that the cooperative primarily writes health business. The Office of Commissioner of Insurance continues to closely monitor the impact of the pandemic on the cooperative and will take necessary action if a solvency concern arises.