Report of the Examination of

MercyCare Insurance Company

Janesville, Wisconsin

As of December 31, 2018

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Tony Evers, *Governor*
Mark V. Afable*, Commissioner*

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January 23, 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:

MERCYCARE INSURANCE COMPANY
Janesville, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of MercyCare Insurance Company (MCIC or the company) was conducted in 2015 as of December 31, 2014. The current examination covered the intervening period ending December 31, 2018, and included a review of such 2019 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 insurance company 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 company 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 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.

The company 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 with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

MercyCare Insurance Company (MCIC or the company) was organized in 1993 as a for-profit stock insurance corporation organized under ch. 611, Wis. Stat., named MercyCare Health Plan, Inc. MCIC commenced business on September 16, 1993. Initially, the company was limited to writing health maintenance organization (HMO) business. The HMO restriction was removed in 1996. In 1998, the name was changed to the current one. MCIC's direct parent company is Mercy Health System Corporation (MHS), which is, in turn, a wholly-owned subsidiary of Mercy Health Corporation.

On August 4, 2004, MCIC formed a wholly-owned subsidiary, MercyCare HMO, Inc. (MCHMO). Effective January 1, 2007, MCIC entered a program agreement with MCHMO for the provision of offering a combined product. Under the agreement, MCIC and MCHMO offer a Point of Service (POS) benefit in one contract under several liabilities in MCHMO's service areas. MCHMO is responsible for coverage of emergency care, services, and supplies provided by or referred by MCHMO contracted providers, and all coverage under the POS contract issued by MCIC that is assumed by MCHMO under the Assumption Agreement of September 30, 2004, under which MCHMO assumed the HMO coverage portion of the POS contracts issued by MCIC. MCIC provides coverage for non-emergency services and supplies not provided by or referred by an MCHMO contract provider. MCIC and MCHMO allocate the POS contract premiums and costs between them. A separate report describing MCHMO's operations, financial position, and the result of the examination has been issued.

On October 27, 2014, Mercy Health System Corporation (MHS) announced plans to merge with Rockford Health System to create a five-hospital regional system to provide services to 40 communities in northern Illinois and southern Wisconsin. On November 25, 2015, pursuant to s. 611.72, Wis. Stat., a filing was submitted to this office to restructure the two holding companies. The ultimate controlling person underwent significant holding company restructuring since the last examination as a result of the merging of MHS and Rockford Health System. Effective January 1, 2016, the ultimate controlling person of the holding company system became Mercy Health Corporation.

MCIC's PPO product was rolled out in 2014 and was offered through the Federally Facilitated Market (FFM), Small Business Health Options Program (SHOP), as well as off exchange, which created the need for extensive changes to the company's information systems. MCIC underwent a new information system change with its health system, Mercy Health Corporation in 2017 utilizing EPIC Tapestry.

All insureds must choose a primary care physician at the time of enrollment. Generally, referrals are not necessary if the member sees a specialist in MCIC's approved provider network. Referrals outside the network must be preapproved by MCIC. The company has approximately 167 contracted primary care physicians and 447 specialists.

Most medical care is provided under a contract with MHS; however, the company also contracts with individual physicians and various preferred provider organization networks for primary care and specialty services and for ancillary and mental health services. These contracts include hold-harmless provisions for the protection of policyholders whereby the provider agrees not to seek payment for services from enrollees. In addition, these contracts have a one-year term and may be terminated upon 90 days' prior written notice by either party.

Hospital inpatient and hospital outpatient services are capitated with MHS. The provider contract includes a provision that the insurer will not cover certain serious adverse events such as errors made by health care providers. Additionally, the insurer will not pay for services provided by non-health plan approved providers, excluded services defined in the member's group policy, services not provided under the direction of the member's physician in accordance with policies and procedures, and services that are not emergencies or are not medically necessary in the health plan's judgment. Members are responsible for their own errors and for payment for services that are not covered services.

The major products marketed by the company are specific to group insurance. The company uses an internal marketing staff as well as outside agencies and pays a fixed dollar amount of commission based on group size on new and renewal business. There are approximately 188 independent agents and four internal sales staff writing for the company.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Eight directors are elected annually to serve a one-year term and the president and chief executive officer of the company is an ex-officio member. Officers are appointed by the board of directors. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation specific to their service on the company's board.

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

Name and Residence	Principal Occupation	Term Expires
Javon R. Bea Janesville, Wisconsin	President and Chief Executive Officer Mercy Health Corporation	Ex-officio
Mark L. Goelzer, M.D. Janesville, Wisconsin	Medical Consultant	2021
Mark D. Kopp Janesville, Wisconsin	Attorney Consigny Law Firm, S.C.	2018
Elizabeth A. Hansch Janesville, Wisconsin	Retired Interior Designer	2018
Rowland J. McClellan Janesville, Wisconsin	Retired Bank President	2021
Thomas R. Pool Rochester, Minnesota	Retired	2020
Larry E. Squire Janesville, Wisconsin	Regional President Johnson Bank	2018
Katherine Schack Harvard, Illinois	Retired Owner and Manager Harvard Retirement Home	2022
Dave L. Syverson Rockford, Illinois	Illinois State Senator	2022

Officers of the Company

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

Name	Office	2018 Compensation
Javon R. Bea	President and Chief Executive Officer	$ 0
E. Patrick Cranley	Vice President	$345,243
Thomas D. Budd	Secretary/Treasurer	$ 0

The officers' salaries are paid by MHS through a support service agreement with the company. The above represents the total gross compensation for the whole Health system.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. MercyCare Insurance Company has no board-appointed committees; therefore, the company's entire board of directors constitutes the audit committee.

The company has no employees. Necessary staff is provided through a management agreement with MHS. Under the agreement, effective January 1, 2007, MHS agrees to provide a full range of administrative services in the following areas:

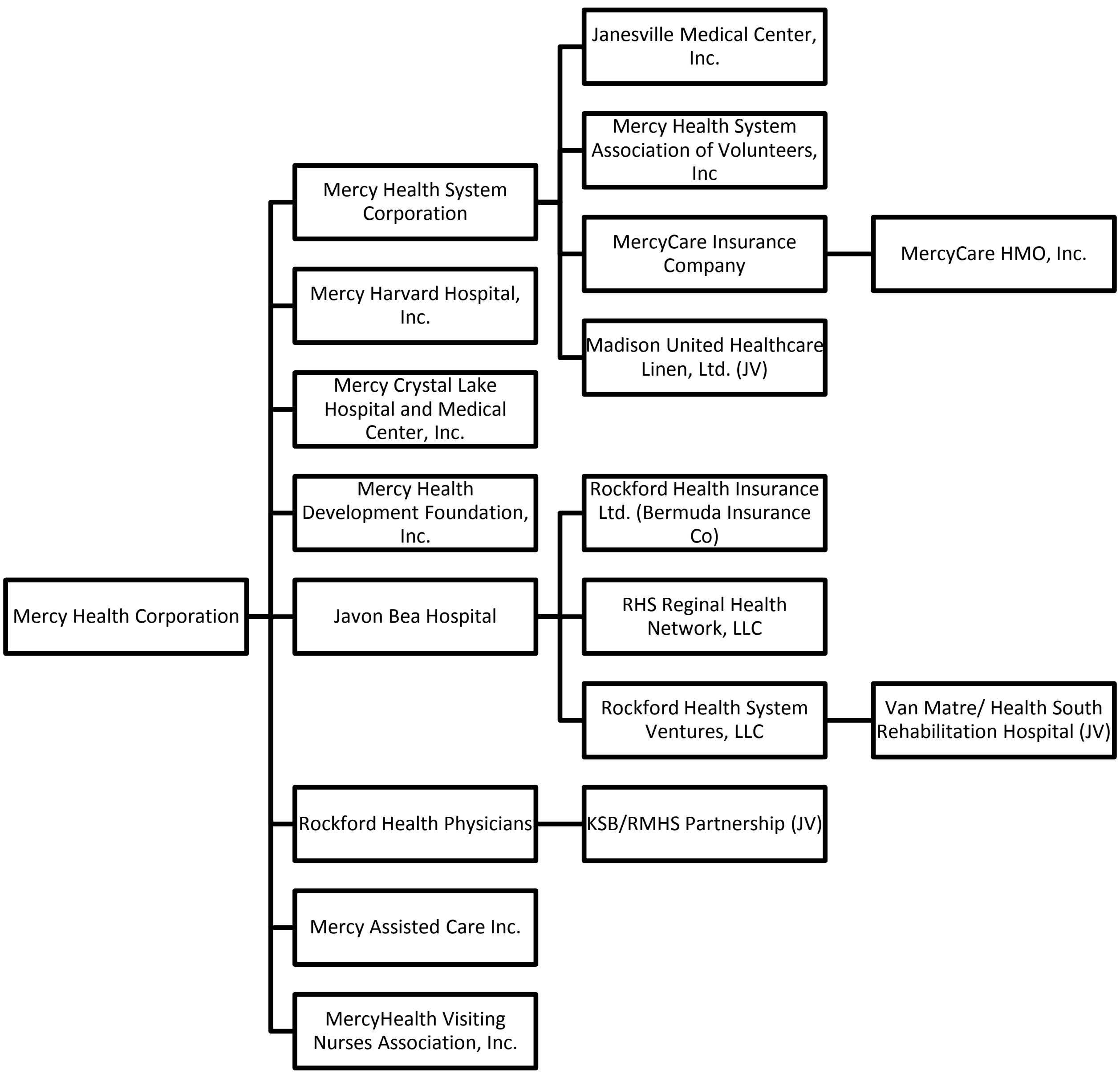
- Financial and medical management
- Provider relations
- Claims and data processing
- General administration
- Marketing and underwriting
- Regulatory relations

The monthly compensation paid to MHS for providing these services is billed at the actual cost to perform them. MHS bills MCIC and MCHMO for an estimate of such cost each month, along with any reconciliation of actual amounts due for any prior month, in advance of the month. MCIC shall pay each such bill within 10 days after receipt. MCIC and MCHMO promptly allocate such compensation between them based on their proportionate share of total premiums written by each during the month at issue. The term of the agreement is three years with automatic renewal. The company may terminate the agreement upon 30 days' written notice if the default of standards of performance continues 60 days after notice of such default.

IV. AFFILIATED COMPANIES

MercyCare Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of affiliates deemed significant follows the organizational chart.

Organizational Chart
As of December 31, 2018



Mercy Health Corporation (MHC)

Mercy Health Corporation is a not-for-profit corporation that serves as the ultimate parent organization for all affiliated entities. MHC provides operational support to all its affiliates. MHC underwent significant holding company restructuring since the last examination as a result of the merging of Mercy Health System and Rockford Health System. Mercy Health Corporation was formerly known as MercyRockford Health System. Part of the restructuring was to eliminate the two intermediate holding companies, Mercy Alliance, Inc., and Rockford Health System by merging the two companies. Effective January 1, 2016, the corporation was renamed Mercy Health Corporation. As of June 30, 2019, MHC's audited consolidated financial statement reported assets of $2.04 billion, liabilities of $1.04 billion, and unrestricted net assets of $998.6 million. Operations for the fiscal year ended June 30, 2019, produced an increase in net assets of $49.4 million on total revenue of $1.12 billion.

Mercy Health System Corporation (MHSC)

Mercy Health System Corporation, headquartered in Janesville, Wisconsin, is a vertically integrated multi-specialty health care delivery system serving southern Wisconsin and northern Illinois. The system operates a 240-bed hospital with approximately 43 physician clinics in southern Wisconsin and northern Illinois. MHSC's holdings include three hospitals, two insurance companies, and a provider network of over 400 multi-specialty physicians. As of June 30, 2019, MHSC's audited financial statement reported assets of $588.5 million, liabilities of $328.1 million, and unrestricted net assets of $260.4 million. Operations for the fiscal year ending June 30, 2019, produced an increase in net assets of $23.3 million on total revenue of $592.9 million.

MercyCare HMO, Inc. (MCHMO)

MercyCare HMO, Inc., is a Wisconsin-domiciled health maintenance organization insurer. MCHMO is the wholly owned subsidiary of MCIC. MHSC is the ultimate parent of MCHMO. As of December 31, 2018, the company's audited financial statement reported assets of $35.7 million, liabilities of $24.9 million, and capital and surplus of $10.8 million. Operations for 2014 produced a net loss of $2.4 million on revenues of $106.8 million.

Javon Bea Hospital (formerly known as Rockford Memorial Hospital)

Javon Bea Hospital operates a 94-bed hospital and another 19-bed hospital providing inpatient, outpatient, and emergency care services to residents in Rockford, Illinois. As of June 30, 2019, the audited financial statements of Javon Bea Hospital reported assets of $819.4 million, liabilities of $626.5 million, and total net assets of $192.9 million. Operations for the fiscal year ending June 30, 2019, produced a decrease in net assets without donor restrictions of $40.3 million on total revenue of $412.9 million.

Rockford Health Physicians

Rockford Health Physicians provides physician and ambulatory care services. As of June 31, 2019, the audited financial statements of Rockford Health Physicians reported assets of $130.1 million, liabilities of $47.0 million, and unrestricted net assets of $83.1 million. Operations for the fiscal year ending June 30, 2019, produced an increase in net assets of $46.7 million on total revenue of $154.9 million.

Agreements with Affiliates

MercyCare Insurance Company has entered into several affiliated agreements. These agreements are described below:

- Effective September 30, 2004, the company entered into an assumption agreement with MCHMO. Under this agreement, MCIC and MCHMO agree to have MCHMO assume all HMO coverage as well as other existing health maintenance organization business of MCIC.

- Effective January 1, 2007, the company entered into a support service agreement with MCHMO and MHS for the provision of covered services to its members.

- Effective January 1, 2007, the company entered a program agreement with MCHMO for the provision of offering a combined product. Under this agreement, the company and MCHMO offer a point-of-service benefit together in one contract in MCHMO’s service area. Premium and expenses are allocated based on the following: MCHMO is responsible for HMO coverage and MCIC is responsible for indemnity coverage. This agreement is described in further detail in the section of this report captioned “History and Plan of Operation.”

- Effective January 1, 2007, the company entered into a tax allocation agreement with MCHMO. Under this agreement, MCIC and MCHMO agree to file a federal consolidated tax return. Each company agrees to contribute towards the payment of the consolidated tax liability in an amount determined on a separate return basis.

- Effective February 7, 2011, the company entered into a provider service agreement with MCHMO and Mercy Assisted Care. Under this agreement, Mercy Assisted Care agrees to deliver or arrange for delivery of certain health care services or benefits to members of MCIC and MCHMO. The agreement also includes an amendment including a professional provider agreement. Under this amendment, the parties agree to include Medicare Advantage Participants under the agreement.

- Effective February 7, 2011, the company entered into a provider service agreement with MCHMO and Mercy Harvard Hospital. Under this agreement, Mercy Harvard Hospital agrees to deliver or arrange for delivery of certain health care services or benefits to members of MCIC and MCHMO. The agreement also includes an amendment including a professional provider agreement. Under this amendment, the parties agree to include Medicare Advantage Participants under the agreement.

- Effective February 7, 2011, the company entered into a provider service agreement with MCHMO and Mercy Health System Corporation. Under this agreement, Mercy Health System Corporation agrees to deliver or arrange for delivery of certain health care services or benefits to members of MCIC and MCHMO.

- Effective November 20, 2015, the company entered into a provider service agreement with MCHMO and Rockford Health Physicians. Under this agreement, Rockford Health Physicians agrees to deliver or arrange for delivery of certain health care services or benefits to members of MCIC and MCHMO.

- Effective November 20, 2015, the company entered into a provider service agreement with MCHMO and Javon Bea Hospital (formerly known as Rockford Memorial Hospital). Under this agreement, Javon Bea Hospital agrees to deliver or arrange for delivery of certain health care services or benefits to members of MCIC and MCHMO.

- Effective November 24, 2015, the company entered into a provider service agreement with MCHMO and Visiting Nurse Association of the Rockford Area. Under this agreement, the Visiting Nurse Association of the Rockford Area agrees to deliver or arrange for delivery of certain health care services or benefits to members of MCIC and MCHMO.

V. REINSURANCE

At the time of the examination, the company had one reinsurance treaty, which is described below.

Reinsurer:	The North River Insurance Company
Type:	Excess of Loss Reinsurance
Scope:	January 1, 2019
Retention:	$500,000 per member per agreement period
Coverage:	$5,000,000 per member per agreement period maximum
Termination:	The agreement terminates on the earliest of the following dates: a. Non-payment of premium will result in termination of this agreement. b. The date that a court of competent jurisdiction declares a party to be insolvent. c. The date of a material change, such as a change in the liability assumed by the company as solely determined by the company. d. The expiration date shown on the Schedule of Reinsurance is December 31, 2019.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2018, annual statement.

MercyCare Insurance Company
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 2,217,705	$	$ 2,217,705
Stocks:			
Common stocks	10,806,465		10,806,465
Cash, cash equivalents, and short-term investments	(797,590)		(797,590)
Investment income due and accrued	11,329		11,329
Uncollected premiums and agents' balances in course of collection	61		61
Net deferred tax asset	420,000	325,000	95,000
Receivable from parent, subsidiaries and affiliates	96,013	96,013	
Write-ins for other than invested assets:			
Deposits	4,884	4,884	
Total Assets	$12,758,867	$425,897	$12,332,970

MercyCare Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2018

Claims unpaid		$ 101,681
Unpaid claims adjustment expenses		3,000
Aggregate health policy reserves		150,000
Premiums received in advance		2,740
General expenses due or accrued		44,349
Amounts due to parent, subsidiaries, and affiliates		1,628,266
Aggregate write-ins for other liabilities (including $(1) current)		$ 69,964
Total Liabilities		2,000,000
Common capital stock	$ 1,000,000	
Gross paid in and contributed surplus	14,281,419	
Unassigned funds (surplus)	(4,948,449)	
Total Capital and Surplus		10,332,970
Total Liabilities, Capital and Surplus		$12,332,970

MercyCare Insurance Company
Statement of Revenue and Expenses
For the Year 2018

Net premium income		$390,856
Medical and Hospital:		
Hospital/medical benefits	$408,164	
Prescription drugs	27,106	
Total medical and hospital	435,270	
Claims adjustment expenses	4,888	
General administrative expenses	76,092	
Increase in reserves for life and accident and health contracts	(350,000)	
Total underwriting deductions		166,250
Net underwriting gain or (loss)		224,606
Net investment income earned	48,430	
Net realized capital gains or (losses)	(11,659)	
Net investment gains or (losses)		36,771
Net Income (Loss)		$261,377

MercyCare Insurance Company
Capital and Surplus Account
For the Five-Year Period Ending December 31, 2018

	2018	2017	2016	2015	2014
Capital and surplus, beginning of year	$16,434,699	$15,351,646	$15,169,001	$16,880,849	$19,633,811
Net income (loss)	261,377	(87,431)	(1,422,349)	(1,016,935)	(107,910)
Change in net unrealized capital gains/losses	(6,191,093)	1,169,484	1,617,603	(869,522)	(2,652,052)
Change in net deferred income tax	(161,000)	1,000	(14,000)	146,000	37,000
Change in nonadmitted assets	(11,013)		1,391	28,609	(30,000)
Capital and Surplus, End of Year	$10,332,970	$16,434,699	$15,351,646	$15,169,001	$16,880,849

MercyCare Insurance Company
Statement of Cash Flow
For the Year 2018

Premiums collected net of reinsurance		$ 463,425
Net investment income		45,925
Total		509,350
Less:		
Benefit- and loss-related payments	$ 556,485	
Commissions, expenses paid and aggregate write-ins for deductions	512,265	
Total		1,068,750
Net cash from operations		(559,400)
Proceeds from Investments Sold, Matured or Repaid:		
Bonds	$1,257,585	
Cost of Investments Acquired—Long-term Only:		
Bonds	1,254,610	
Net cash from investments		2,975
Cash Provided/Applied:		
Other cash provided (applied)		458,939
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(97,486)
Cash, cash equivalents, and short-term investments:		
Beginning of year		(700,104)
End of Year		$ (797,590)

Growth of MercyCare Insurance Company

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2018	$ 12,332,970	$ 2,000,000	$ 10,332,970	$ 390,856	$ 435,270	$ 261,377
2017	18,758,686	2,323,984	16,434,703	562,685	350,248	(87,431)
2016	17,379,230	2,027,584	15,351,649	617,584	1,780,084	(1,422,349)
2015	16,110,241	941,240	15,169,001	2,240,015	2,475,248	(1,016,935)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2018	59.5%	21.8%	20.7%	-30.7%
2017	-13.8%	59.1%	62.2%	-24.5%
2016	-212.4%	288.2%	51.7%	-25.8%
2015	-44.3%	134.2%	13.8%	-32.6%

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2018	835	15.8	3.5
2017	1,206	19.4	5.2
2016	1,597	15.8	3.9
2015	2,151	19.0	3.4

Per Member Per Month Information

	2018	2017	Percentage Change
Premiums:			
Commercial	$36.83	$36.88	-0.1%
Expenses:			
Hospital/medical benefits	38.46	19.84	93.9%
Prescription Drugs	2.55	1.96	30.6%
Total medical and hospital	41.01	21.79	88.2%
Claims adjustment expenses	0.46	15.86	-97.1%
General administrative expenses	7.17	7.09	1.1%
Total underwriting deductions	$15.66	$44.75	-65.0%

The company reported net income during 2018 for the first time in the past five years. As indicated by the Enrollment and Utilization table above, there has been a consistent decline in enrollment during the examination period. Since December 31, 2008, enrollment has declined as members move away from the indemnity POS products toward an HMO product in MCHMO.

Reconciliation of Capital and Surplus per Examination

No adjustments were made to capital and surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2018, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two 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:

1. Custodial or Safekeeping Agreements—It is recommended that the company update its custodial agreement with Johnson Bank to include proper language indemnifying MercyCare Insurance Company against loss due to negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction, and the custodial agreements must include language indicating that the loss of these indemnified securities will be properly replaced or the value of the securities or any loss of rights or privileges will be promptly replaced.

   Action—Noncompliance. Further comment is contained in the section of this report captioned, "Custodial or Safekeeping Agreements."

2. Custodial or Safekeeping Agreements—It is recommended that, if a sub-custodian is used, the custodian's indemnification for negligence or dishonesty under the custodial agreement must be extended to apply to any sub-custodian.

   Action—Noncompliance. Further comment is contained in the section of this report captioned, "Custodial or Safekeeping Agreements."

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.

Custodial or Safekeeping Agreements

The examination found that the custodial agreement has not changed since 2007, despite recommendations contained in the prior examination report indicating the necessity for certain changes. The custodial agreement with Johnson Bank includes indemnification language that does not clearly indemnify the company against loss. The agreement states:

> "Custodian shall not be liable for any loss or depreciation resulting from any action or inaction of Custodian taken in good faith pursuant to the terms of this Agreement or as a result of following a direction or instruction from Client or Investment Advisor. Custodian is specifically indemnified by Client against loss, damage and expense in carrying out Custodian's duties hereunder, provided such loss or expense is not due to its willful misconduct."

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:

- The custodian is obligated to indemnify the insurance company for any loss of securities in the custodian's custody occasioned by the negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction
- In the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly 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

It is again recommended that the company obtain a custodial agreement with its investment custodian that includes proper language indemnifying MercyCare Insurance Company against loss, as noted above, and the custodial agreements must include language indicating that the loss of these indemnified securities will be properly replaced or the value of the securities or any loss of rights or privileges will be promptly replaced.

Furthermore, it was noted that, although the company has a custodial agreement with Johnson Bank (the bank), the assets are held by a sub-custodian, SEI Investments. According to the guidelines for custodial agreements contained in the NAIC *Financial Condition Examiners Handbook*, the terms of the custodial agreement must define, among other things, the custodian's responsibilities for the securities that were lost due to the custodian's negligence or dishonesty. The custodial agreement between the company and the bank does not contain provisions for a sub-custodian. It is unclear what responsibility the bank has with respect to the sub-custodian and vice versa. It is again recommended that if a sub-custodian is used, the custodian's indemnification for negligence or dishonesty under the custodial agreement must be extended to apply to any sub-custodian.

Annual Statement Reporting

The examination disclosed that the company was not reporting the accrued number of hospital patient days experienced by the total membership and hospital days incurred for 2017 were not disclosed. It is highly unlikely that the company had no member encounter hospital patient days or inpatient admissions. An admission is hospital inpatient care for any medical condition. Hospital day is a day for which contractual coverage is provided to a member while receiving inpatient care. It is recommended that the company report total hospital patient days incurred and the number of inpatient admissions in the annual statement Exhibit of Premiums, Enrollment, and Utilization, in accordance with NAIC *Annual Statement Instructions – Health*.

Executive Compensation

The State of Wisconsin requires that each Wisconsin-domiciled insurer file a supplement to the annual statement titled "Report on Executive Compensation" pursuant to ss. 601.42 and 611.63 (4), Wis. Stat. Compensation reported should include all gross, direct, and indirect remuneration paid and accrued during the reporting year for the benefit of the individual, including wages, salaries, bonuses, retirement benefits, deferred compensation, commissions, fees, and other forms of personal compensation. The review and reconciliation of the Report of Executive Compensation form disclosed that the company was not properly recording total compensation. As noted on the form, at the bottom of "Part 1 Officer and Executive Management Compensation," the company marked "Yes" indicating the reporting insurer is a member of a group of insurers or holding company system, and "Yes" indicating total gross compensation disclosed as paid to each individual is by or on behalf of all companies that are part of the group. The examination noted that the Report on Executive Compensation filed by the company for all years during the examination period did not include total gross compensation paid by the company. It is recommended that the company properly complete the Report on Executive Compensation as required by s. 611.63 (4), Wis. Stat.

Corporate Governance

In accordance with a directive of the Commissioner of Insurance dated March 9, 1989, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. In addition, according to the company's Conflict of Interest Policy, "Annually, members of the Board of Directors and Leadership are required to sign a declaration disclosing any relationship that may be construed as a conflict of interest." The examination disclosed the company could not produce signed forms for several individuals. It is recommended that the company's directors, officers, and management employees properly complete and disclose potential conflicts of interest on an annual basis in accordance with the company's Conflict of Interest Policy and the directive of the Wisconsin Office of the Commissioner of Insurance regarding disclosure of conflicts of interest.

Biographical Information

Pursuant to s. Ins 6.52 (5), Wis. Adm. Code, "A report shall be provided by each domestic insurer to which this rule applies with respect to the appointment or election of any new director, trustee or officer elected or appointed within 15 days after such appointment or election…" The examination revealed that the required biographical reports had not been filed on behalf of several individuals. It is recommended that the company timely file biographical information for newly elected or appointed officers and directors in accordance with s. Ins 6.52 (5), Wis. Adm. Code.

Information Systems

The company was unable, after several requests, to supply premium data information for the examination period. The company could not populate or export premium data information from Tapestry for this financial examination; there was limited information to allow verification or confirmation of premium totals with the 2018 annual statement. It is recommended that the company develop or make appropriate modifications to the current information system to capture premium data information.

Other Information System Recommendations

It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management provided in conjunction with this report.

VIII. CONCLUSION

MercyCare Insurance Company commenced business on September 16, 1993, as a for-profit stock insurance corporation organized under ch. 611, Wis. Stat. In August 2004, the company created a subsidiary, MercyCare HMO, Inc., and subsequently transferred all the HMO business to the subsidiary through an assumption agreement. In 2017, membership reductions were anticipated as the company exited its On-SHOP product and converted non-ACA compliant plans to Qualified Health Plans (QHP) in closed-network products. Currently, the company's only business is an indemnity point-of-service product and a PPO product offered on the exchange.

The company reported a net gain during 2018, the first time in the five-year examination period, primarily due to slightly higher premium rates in 2017. There has been a consistent decline in enrollment during the examination period. Since December 31, 2008, enrollment has declined as members move away from the indemnity POS products toward an HMO product in MCHMO. As of December 31, 2018, the company had a membership of 835 people.

The company reported a decrease in surplus for each of the past five years, primarily due to the negative operations of its subsidiary, MCHMO.

The company did not comply with the two recommendations of the prior examination. The current examination resulted in eight recommendations; of that, two were repeated recommendations from the prior exam.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 19 Custodial or Safekeeping Agreements—It is again recommended that the company obtain a custodial agreement with its investment custodian that includes proper language indemnifying MercyCare Insurance Company against loss, as noted above, and the custodial agreements must include language indicating that the loss of these indemnified securities will be properly replaced or the value of the securities or any loss of rights or privileges will be promptly replaced.

2. Page 20 Custodial or Safekeeping Agreements—It is again recommended that if a sub-custodian is used, the custodian's indemnification for negligence or dishonesty under the custodial agreement must be extended to apply to any sub-custodian.

3. Page 20 Annual Statement Reporting—It is recommended that the company report total hospital patient days incurred and the number of inpatient admissions in the annual statement Exhibit of Premiums, Enrollment, and Utilization, in accordance with *NAIC Annual Statement Instructions – Health*.

4. Page 21 Executive Compensation—It is recommended that the company properly complete the Report on Executive Compensation as required by s. 611.63 (4), Wis. Stat.

5. Page 21 Corporate Governance—It is recommended that the company's directors, officers, and management employees properly complete and disclose potential conflicts of interest on an annual basis in accordance with the company's Conflict of Interest Policy and the directive of the Wisconsin Office of the Commissioner of Insurance regarding disclosure of conflicts of interest.

6. Page 21 Biographical—It is recommended that the company timely file biographical information for newly elected or appointed officers and directors in accordance with s. Ins 6.52 (5), Wis. Adm. Code.

7. Page 21 Information Systems—It is recommended that the company develop or make appropriate modifications to the current information system to capture premium data information.

8. Page 22 Other Information System Recommendations—It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management provided in conjunction with this report.

X. ACKNOWLEDGMENT

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
Martha Goettelman	Insurance Financial Examiner
Mark Prodoehl	Insurance Financial Examiner
Jim Krueger	ACL Specialist
Terry Lorenz, CFE	Workpaper Specialist
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Respectfully submitted,

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Examiner-in-Charge