

Report
of the
Examination of
Wisconsin Collaborative Insurance Company
Waukesha, Wisconsin
As of December 31, 2017

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark V. Afable, Commissioner

Wisconsin.gov

May 9, 2019

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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:

WISCONSIN COLLABORATIVE INSURANCE COMPANY
Waukesha, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

This is the first full-scope examination of Wisconsin Collaborative Insurance Company (the company or WCIC). The current examination covered the period from the company's incorporation on March 31, 2016, through December 31, 2017, and included a review of such 2018 and 2019 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of Anthem, Inc. The Indiana Department of Insurance (IDOI) acted in the capacity as the lead state for the coordinated examinations. Work performed by the IDOI was reviewed and relied on where deemed appropriate.

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 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.

The company is exempt from being audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code.

II. HISTORY AND PLAN OF OPERATION

Wisconsin Collaborative Insurance Company is described as a for-profit 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 network model, the company provides care through contracts with two or more clinics.

The company was incorporated March 31, 2016, and commenced business January 1, 2017. The company is 50% owned by Crossroads Acquisition Corporation on behalf of Anthem, Inc., (Anthem) and 50% owned by Aurora Health Care, Inc. (Aurora). Through this joint venture, Aurora and Anthem expect to capitalize on Aurora's expertise in clinical operations and Anthem's expertise in claims operations to improve patient care coordination and reduce medical cost trends.

As of December 31, 2017, the Company only had self-insured business but added fully insured business in 2018. WCIC's products will initially be focused on individual, small group, and large group employers (fully insured and self-funded), as well as the public exchanges. WCIC will evaluate the opportunity to launch Medicare and Medicaid plans in the future.

The provider network will include Aurora-owned and affiliated hospitals, clinics, and physician practices, as well as most of Anthem's existing Blue Priority partnered health systems, including but not limited to:

- About Health's six member health systems
- Children's Hospital of Wisconsin
- Affiliated pediatric health professionals of the Medical College of Wisconsin,
- Meriter Health Services
- Watertown Memorial Hospital

The company will not contract directly with providers. Instead, Blue Cross Blue Shield of Wisconsin (BCBSWI) will be the contracting entity. The company will be entitled to utilize the networks

created under the BCBSWI agreements because it is an "Affiliate" under the terms of the provider agreements.

According to its business plan, the company's service area is comprised of the all 72 counties in Wisconsin. The company offers comprehensive health care coverage which may be changed by riders to include deductibles and copayments. The following basic health care coverages are provided:

- Physician services
- Inpatient services
- Outpatient services
- Mental 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--\$5.00 copayment
- Cardiac rehabilitation, physical, speech, and/or occupational therapy
- Physical fitness or health education (\$30.00 per year maximum)
- Kidney disease treatment
- Certain transplants
- Chiropractic services

Members are required to choose a primary care physician from the listing of participating physicians available.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of eight members. Each director shall hold office until a successor is duly elected and qualified or until the director's death, resignation, disqualification, or removal. Officers are elected annually by the majority vote of the board of directors. The board members currently receive no compensation arrangement for serving on the board.

The board of directors at the time of this examination consists of the following persons:

Name and Residence	Principal Occupation	Term Expires *
Stephen Edward Bablitch, Chairman Milwaukee, WI	Chief of Strategic Business Affairs, Aurora Health Care, Inc.	
William Patrick Crossen Denver, CO	Regional Vice President of Commercial and Consumer Finance, Anthem, Inc.	
Beth Butler Ginzinger Thousand Oaks, CA	Registered Nurse, Health Care Executive Anthem, Inc.	
Gail Leigh Hanson Milwaukee, WI	Chief Financial Officer, Aurora Health Care, Inc.	
Richard Glenn Klein Milwaukee, WI	Executive Vice President, Aurora Health Care, Inc.	
Michael Howard Lappin Mequon, WI	Retired, board member of Aurora Health Care, Inc.	
Theodore Michael Osthelder Waukesha, WI	Senior Government Relations Director, Anthem, Inc.	
Lawrence Glenn Schreiber Waukesha, WI	President of Empire HealthChoice Assurance, Inc., and Empire HealthChoice HMO, Inc.	

*No term limits

Officers of the Company

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

Name	Office	2017* Compensation
John Joseph Foley	President	\$0
Robert David Kretschmer	Treasurer	0
Michael Howard Lappin	Secretary	0
Lawrence Glenn Schraeiber	Chief Executive Officer	0

*Officers do not receive compensation in their capacity as an officer.

Committees of the Board

The company'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:

Audit Committee

Gail Hanson, Chair
Michael Lappin
Beth Ginzinger
Theodore Osthelder

Pricing Committee

Lawrence Schreiber, Chair
John J. Foley

Executive Committee

Stephen Bablitch, Chair
Richard Klein
Lawrence Schreiber
Theodore Osthelder
William Crossen

Finance Committee

William P. Crossen, Chair
Stephen Bablitch
Gail Hanson
Lawrence Schreiber

The company has no employees. Necessary staff is provided through a management agreement with Anthem, Inc., and Aurora Health Care, Inc. Under the agreement, effective April 15, 2016, Anthem and Aurora agree to negotiate employer, provider, subscriber, and other contracts; advise the board; maintain accounting and financial records; provide recruitment, marketing, and utilization review; provide claims processing personnel; and provide or contract for claims processing and MIS. The Administrative Service Agreement with Anthem and Aurora is detailed in Section IV "Affiliated Companies" of this report.

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 company'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.

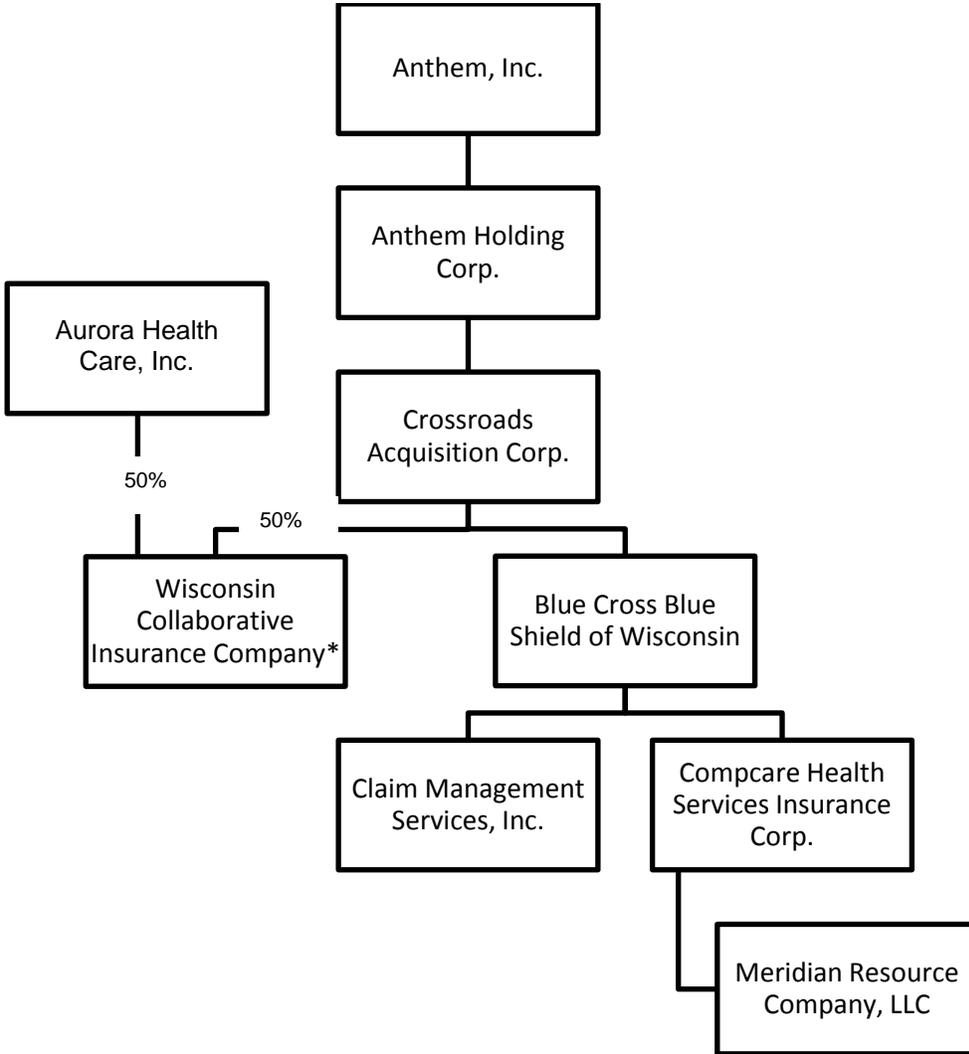
The company has met this requirement through its reinsurance contract, as discussed in the Reinsurance section of this report.

IV. AFFILIATED COMPANIES

Wisconsin Collaborative Insurance Company is a member of a holding company system. Its ultimate parent is Anthem, Inc. The holding company system offers a broad spectrum of network-based care plans to the large and small employer, individual, Medicaid, and senior markets. The holding company's care plans include preferred provider organizations, health maintenance organizations, point-of-service plans, traditional indemnity plans, and other hybrid plans, including consumer-driven health plans, hospital-only, and limited-benefit products. In addition, the holding company system provides a broad array of managed care services to self-funded customers, including claims processing, underwriting, stop-loss insurance, actuarial services, provider network access, medical cost management, and other administrative services. An array of specialty and other products and services are also provided, including pharmacy benefit management, group life and disability insurance, dental, vision, behavioral health benefits, worker's compensation, and long-term care insurance.

The abbreviated organizational chart below is a simplified version of the complete organizational chart due to the size and complexity of the holding company system. The chart includes affiliates that are mentioned elsewhere in the report, are party to WCIC's intermediate holding company, or have agreements with the company's direct parent. A brief description of affiliates follows the organizational chart.

Organization Chart
As of December 31, 2017



Anthem, Inc.

Anthem, Inc., is a publicly traded company listed on the New York Stock Exchange under the ticker symbol ANTM and is domiciled in the state of Indiana. Anthem, Inc., is one of the largest health benefit companies in terms of membership in the United States. The company was formed when WellPoint Health Network Inc., and Anthem, Inc., merged in 2004. The parent company originally assumed the WellPoint, Inc., name at the time of the merger. In December 2014, WellPoint, Inc., changed its corporate name to Anthem, Inc. It is also an independent licensee of the Blue Cross Blue Shield Association, an association of independent health benefit plans. Anthem, Inc., and its subsidiaries offer a broad spectrum of network-based managed care plans to the large and small employer, individual, Medicaid, and senior markets.

As of December 31, 2017, the consolidated GAAP audited financial statements of Anthem, Inc., reported assets of \$70.5 billion, liabilities of \$44.0 billion, and stockholders' equity of \$26.5 billion. Operations for 2017 produced a net income of \$3.8 billion on revenues of \$90.0 billion.

Anthem Holding Corp.

Anthem Holding Corp., is a holding company incorporated in the state of Indiana. Anthem Holding Corp.'s operations consist mainly of its investments in various health care entities across the United States.

As of December 31, 2017, Anthem Holding Corp.'s unaudited financial statements reported assets of \$20.8 billion, liabilities of \$1.1 billion, and equity of \$19.7 billion. Operations for 2017 produced a net income of \$1.1 billion.

Aurora Health Care, Inc.

Aurora Health Care is a Wisconsin non-stock not-for-profit corporation with hospitals, medical clinics, doctors, and pharmacies located primarily in Wisconsin. WCIC received capital contributions from its parents in the amount of \$3.2 million, \$5 million, and \$2.7 million on March 23, 2017, September 25, 2017, and December 26, 2017, respectively.

As of December 31, 2017, the consolidated GAAP financial statements of Aurora Health Care reported assets of \$11.1 billion, liabilities of \$4.1 billion, and surplus of \$7.0 billion. Operations for 2017 produced a net income of \$220.0 million.

Crossroads Acquisition Corp.

Crossroads Acquisition Corp. is a holding company incorporated in the state of Delaware. Crossroads' operations consist mainly of its investment holdings in Blue Cross Blue Shield of Wisconsin and its subsidiaries.

As of December 31, 2017, the GAAP financial statements of Crossroads reported assets of \$1,205.1 million, liabilities of \$2.5 million, and equity of \$1,202.6 million. Operations for 2017 produced a net income of \$155.8 million.

Blue Cross Blue Shield of Wisconsin

Blue Cross Blue Shield of Wisconsin is a stock insurance company domiciled in the state of Wisconsin. BCBSWI was originally incorporated in 1939 as a nonstock, service insurance corporation organized pursuant to ch. 613, Wis. Stat. Effective March 23, 2001, BCBSWI converted to a stock insurance corporation organized pursuant to ch. 611, Wis. Stat. BCBSWI offers traditional indemnity and managed health care products and services to groups and individuals in Wisconsin.

As of December 31, 2017, BCBSWI's statutory-basis audited financial statements reported assets of \$576.6 million, liabilities of \$299.9 million, and capital and surplus of \$276.7 million. Operations for 2017 produced a net income of \$92.8 million on revenues of \$769.1 million.

Compcare Health Services Insurance Corporation

Compcare Health Services Insurance Corporation (CHS) is a wholly owned subsidiary of BCBSWI domiciled in the state of Wisconsin that offers a variety of health maintenance organization and point-of-service medical, and dental products in Wisconsin. The company is licensed for its commercial lines of business as a smaller controlled affiliate licensee of the BlueCross BlueShield Association and markets its commercial products under the trade name of Anthem Blue Cross Blue Shield.

As of December 31, 2017, Compcare's statutory-basis audited financial statements reported assets of \$308.5 million, liabilities of \$155.6 million, and capital and surplus of \$152.9 million. Operations for 2017 produced a net income of \$41.5 million on revenue of \$798.4 million.

Agreements with Affiliates

WCIC is a licensed HMO in Wisconsin; the company is 50% owned by Crossroads Acquisition Corp. on behalf of Anthem, Inc., and 50% owned by Aurora Health Care, Inc. The company has no employees of its own, and all of the care and medical management services are conducted by employees of Aurora Health Care, Inc. All health plan and medical management services are conducted by employees of Anthem, Inc., in accordance with the business practices and internal controls of both organizations. In addition to ongoing common management and control by their upstream parents, various written agreements and undertakings affect the company's relationship to its affiliates. A brief summary of the affiliated agreements follows in order by the effective date.

Cash Concentration Agreement

The company entered into a cash concentration agreement effective December 15, 2014, with Anthem, Inc., (WellPoint, Inc.) and amended on January 1, 2017, to include WCIC. Compcare and BCBSWI also participate in this agreement. Anthem is the designated cash manager and will perform one or more of the following on behalf of Compcare, WCIC, and BCBSWI:

1. Accept the receipt of funds, including but not limited to:
 - a. Premium payments and other revenue, and
 - b. Benefit and administrative expense reimbursements.
2. Distribution of funds, including but not limited to:
 - a. Benefit payments,
 - b. Payroll payments, and
 - c. General administrative expense and accounts payable payments.

Settlement of intercompany payables and receivables established pursuant to the agreement are to be settled within 30 days from the date of establishment. The cash manager will be reimbursed for the direct and indirect costs and expenses it incurs while acting as Cash Manager. The agreement may be terminated at the end of any quarter with written notice no later than 90 days prior to the last day of any quarter.

Administrative Services Agreement

Effective April 15, 2016, Anthem, Inc., and Aurora Health Care, Inc., entered into an administrative service agreement with Wisconsin Collaborative Insurance Company (WCIC). The agreement was amended and restated to include additional services to be provided by parents to WCIC. The agreement reflects how Anthem and Aurora are to be compensated for administrative services provided under this agreement. The company will be charged a fee for management, administrative, and clerical services actually used by the company based on costs the performing parent incurs for wages and compensation for employees and other personnel providing such services plus an appropriate load mutually agreed upon. In addition, the company will pay the amounts per member, per month to Aurora and Anthem for the performances of services by such parties, which are subject to adjustment for actual costs and permitted margins. Either party may terminate the agreement with 90-days' written notice prior at any time.

In Force Business Transfer Agreement

Compcare entered into an in force business transfer agreement with Wisconsin Collaborative Insurance Company effective January 1, 2017. Compcare is to cease offering, underwriting, and administering the Blue Priority Plans. Compcare is to ensure a smooth transition of the Blue Priority employer groups to WCIC, and WCIC will enroll such Blue Priority employer groups in WCIC. Compcare will cease offering Blue Priority Plans to new ASO employer groups, new large employer groups, and new small employer groups after the announcement of the effective date. Under the terms of the agreement, WCIC will pay Compcare \$9.9 million, which represents the transition fee less 'the withhold'. The withhold is the adjusted compcare membership count. This agreement may be terminated at any time in writing.

Network Rental Agreement

The company entered into a network rental agreement between Wisconsin Collaborative Insurance Company, Blue Cross Blue Shield of Wisconsin and Compcare Health Services Insurance Corporation effective January 1, 2018. Under this agreement, WCIC has exclusive rights to BCBSWI's Blue Priority network. BCBSWI has other networks including dental and vision that WCIC may want to use for its product offerings. All network rental and administrative services fees will be compliant with

Statutory Accounting Principles. Each party may terminate this agreement upon 180-days' prior written notice.

V. REINSURANCE

The company has reinsurance coverage under the contract outlined below:

Reinsurer:	American Fidelity Assurance Company
Type:	Excess of Loss Reinsurance
Effective date:	January 1, 2018
Retention:	Per member per agreement: \$500,000 A specific insured member: \$700,000 Maximum Payable per Covered Person: \$2,000,000
Coverage:	Commercial member hospital inpatient and hospital outpatient, physician services, long-term acute care facility, skilled nursing facility, rehabilitation facility, home health care, pharmaceuticals, durable medical equipment, and transportation
Termination:	January 1, 2019

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

1. American Fidelity Assurance Company 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.

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, 2017, 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 company for the period under examination.

Wisconsin Collaborative Insurance Company
Assets
As of December 31, 2017

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash, cash equivalents and short-term investments	\$9,358,711	\$	\$9,358,711
Amounts receivable relating to uninsured plans	9,384,701	599,842	8,784,859
Write-ins for other than invested assets:			
Intangibles – customer base	2,000,700	2,000,700	
Prepaid expenses	<u>56,682</u>	<u>56,682</u>	<u> </u>
Total Assets	<u>\$20,800,794</u>	<u>\$2,657,224</u>	<u>\$18,143,570</u>

Wisconsin Collaborative Insurance Company
Liabilities and Net Worth
As of December 31, 2017

General expenses due or accrued		\$ 3,505
Amounts due to parent, subsidiaries and affiliates		7,917,978
Liability for amounts held under uninsured accident and health plans		960,815
Aggregate write-ins for other liabilities (including \$(1) current)		<u>1,511</u>
Total Liabilities		8,883,809
Common capital stock	\$ 3,000,000	
Preferred capital stock		
Gross paid in and contributed surplus	17,200,700	
Aggregate write-ins for other than special surplus funds		
Unassigned funds (surplus)	<u>(10,940,939)</u>	
Total capital and surplus		<u>9,259,761</u>
Total liabilities, capital and surplus		<u>\$18,143,570</u>

**Wisconsin Collaborative Insurance Company
Statement of Revenue and Expenses
For the Year 2017**

Claims adjustment expenses	\$ 326,599	
General administrative expenses	<u>1,585,399</u>	
Total underwriting deductions		<u>\$ 1,911,998</u>
Net underwriting gain or (loss)		(1,911,998)
Net income (loss)		<u><u>\$(1,911,998)</u></u>

**Wisconsin Collaborative Insurance Company
Capital and Surplus Account
For the Two-Year Period Ending December 31, 2017**

	2017	2016
Capital and surplus, beginning of year	\$ 3,574,838	\$
Net income (loss)	(1,911,998)	(6,371,717)
Change in nonadmitted assets	(2,603,779)	(53,445)
Capital changes:		
Paid in		3,000,000
Surplus adjustments:		
Paid in	<u>10,200,700</u>	<u>7,000,000</u>
Surplus, end of year	<u><u>\$ 9,259,761</u></u>	<u><u>\$3,574,838</u></u>

**Wisconsin Collaborative Insurance Company
Statement of Cash Flow
For the Year 2017**

Commissions, expenses paid and aggregate write-ins for deductions		\$10,332,379
Cash Provided/Applied:		
Capital and paid in surplus, less treasury stock	\$10,200,700	
Other cash provided (applied)	<u>5,396,365</u>	
Net cash from financing and miscellaneous sources		<u>15,597,065</u>
Net change in cash, cash equivalents, and short-term investments		5,264,686
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>4,094,025</u>
End of Year		<u><u>\$ 9,358,711</u></u>

Wisconsin Collaborative Insurance Company was incorporated on March 31, 2016, and commenced business January 1, 2017. As of January 1, 2017, the company began operations by selling self-insured business. The company received capital contributions from its parents in the amount of \$10.0 million on April 18, 2016. During 2017, the company received capital contributions from its parents in the amount of \$3.2 million, \$5.0 million, and \$2.0 million on March 23, September 25, and December 26, respectively.

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.

The company's calculation as of December 31, 2017, as modified for examination

adjustments is as follows:

Assets		\$18,143,570
Less:		
Liabilities		<u>8,883,809</u>
Adjusted surplus		9,259,761
Net premium earned		0
Compulsory surplus (subject to a \$750,000 minimum)		<u>750,000</u>
Compulsory surplus excess (deficit)		<u>8,509,761</u>
Adjusted surplus (from above)		9,259,761
Compulsory Surplus	\$750,000	
Security factor	<u>140%</u>	
Security surplus		<u>1,050,000</u>
Security surplus excess (deficit)		<u>\$ 8,209,761</u>

VII. SUMMARY OF EXAMINATION RESULTS

Summary of Current Examination Results

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

Information Technology

WCIC is reliant on Anthem Group Information Technology Services (IT). The examination review of the systems that the company uses in day-to-day operations showed that the formal processes and procedures of Anthem's controls over its information systems were not as robust as the high-risk level required. The review resulted in certain findings that were presented in a letter to management dated May 9, 2019. It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management dated May 9, 2019.

VIII. CONCLUSION

The company reported assets of \$18.1 million, liabilities of \$8.8 million, and capital and surplus of \$9.3 million for 2017. Operations for 2017 produced a net loss of \$1.9 million. The company was incorporated March 31, 2016, and commenced business January 1, 2017. As of December 31, 2017, the company only had self-insured business but added fully insured business in 2018. The company received capital contributions from its parent in the amount of \$3.2 million, \$5.0 million, \$2.0 million, and \$10.0 million on March 23, 2017, September 25, 2017, December 26, 2017, and April 18, 2016, respectively.

The examination of WCIC resulted in one recommendation with no examination adjustments, or reclassifications.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Information Technology—It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management dated May 9, 2019.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is 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
Karl Albert, CFE	Workpaper Specialist
Eleanor Lu	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Judith Michael
Examiner-in-Charge