



## DEPARTMENT OF COMMERCE & INSURANCE

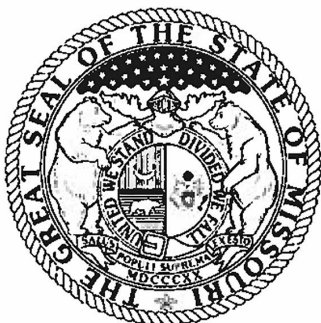
P.O. Box 690, Jefferson City, Mo. 65102-0690

### ORDER

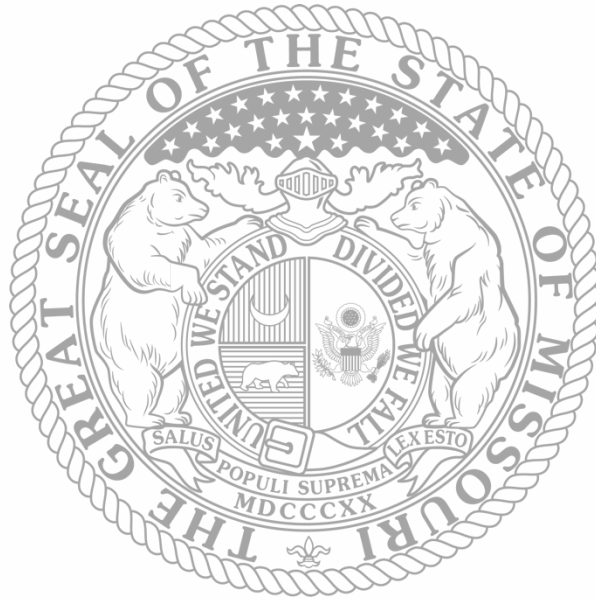
After full consideration and review of the report of the financial examination of First Commonwealth of Missouri, Inc. for the period ended December 31, 2018, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Commerce and Insurance pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant finding, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, accounts and records, financial statements, comments on financial statement items, financial statement changes resulting from examination, summary of recommendations and subsequent events.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of First Commonwealth of Missouri, Inc. as of December, 31, 2018 be and is hereby ADOPTED as filed and for First Commonwealth of Missouri, Inc. to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 08<sup>th</sup> day of July, 2020.



*Chlora Lindley-Myers*  
Chlora Lindley-Myers, Director  
Department of Commerce and Insurance



REPORT OF THE  
FINANCIAL EXAMINATION OF

# FIRST COMMONWEALTH OF MISSOURI, INC.

AS OF  
DECEMBER 31, 2018

STATE OF MISSOURI  
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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St. Louis, MO  
May 19, 2020

Honorable Chlora Lindley-Myers, Director  
Missouri Department of Commerce and Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope financial examination has been made of the records, affairs, and financial condition of

**First Commonwealth of Missouri, Inc. (NAIC #47716)**

hereinafter referred to as such, as FCWMO, or as the Company. Its administrative office is located at 550 West Jackson Boulevard, Chicago, IL 60661, telephone number (312) 993-1000. The fieldwork for this examination began on November 5, 2019, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The Missouri Department of Commerce and Insurance (Department) has performed a multiple-state financial examination of First Commonwealth of Missouri, Inc. The last examination of the Company by the Department covered the period of January 1, 2012 through December 31, 2013. The current examination covers the period of January 1, 2014 through December 31, 2018, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

**Procedures**

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. The *Handbook* requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination also included a review of significant estimates made by management and evaluation of management's compliance with Statutory Accounting Principles. 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 following the Company's financial statements.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Those activities considered in the examination as key to FCWMO included Investments, Premium/Underwriting and Reserves/Claims Handling. The examination also included a review and evaluation of information technology general controls.

This examination was conducted as part of a coordinated examination of the insurance holding company system of which The Guardian Life Insurance Company of America is the ultimate controlling entity, which consists of seventeen insurance companies domiciled in numerous states. The New York Department of Financial Services is the lead state regulator for the group. Along with Missouri, ten other states participated in the coordinated examination.

This examination report includes significant findings of fact, as mentioned in Section 374.205 RSMo (Examination, director may conduct, when...) and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the Company.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

### **COMPANY HISTORY**

#### **General**

The Company originally incorporated as Confi-Dent Health Plan, Inc. on October 18, 1988, as a wholly-owned subsidiary of Group Health Plan, Inc. The Company's name was changed to Champion Dental Services, Inc. on September 6, 1989. First Commonwealth, Inc. purchased the Company on December 31, 1996, and changed the Company's name to First Commonwealth of Missouri, Inc. on January 3, 1997.

#### **Mergers, Acquisitions, and Major Corporate Events**

There were no mergers, acquisitions or other major corporate events during the examination period.

#### **Dividends and Capital Contributions**

The Company declared and paid extraordinary dividends as follows. All dividends were approved by the Department.

<b>Year</b>	<b>Amount</b>
2014	\$ 500,000
2015	500,000
2016	500,000
2017	300,000
2018	0
<b>Total</b>	<b>\$ 1,800,000</b>

#### **Surplus Notes**

There were no surplus notes issued or outstanding during the examination period.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

The management of the Company is vested in a Board of Directors that are elected by the shareholders. The Company's Bylaws specify that there shall be no less than three members. The Board of Directors elected and serving as of December 31, 2018, were as follows:

<b><u>Name and Address</u></b>	<b><u>Principal Occupation and Business Affiliation</u></b>
Walter Klein Enfield, CT	President, CEO and COO First Commonwealth of Missouri, Inc.
Sharri Norman Spokane, WA	Assistant Vice President The Guardian Life Insurance Company of America
Larry Weiss New York, NY	Assistant Vice President The Guardian Life Insurance Company of America

### **Senior Officers**

The officers elected and serving, as of December 31, 2018, were as follows:

<b><u>Name</u></b>	<b><u>Office</u></b>
Walter Klein	President, CEO and COO
Cherita Thomas	Secretary
Walter Skinner	Treasurer
Stuart Shaw	Vice President
John Dolan	Assistant Secretary
Chi Kwok	Investment Officer
Harris Oliner	Assistant Secretary
Sanford Penn	Vice President & Appointed Actuary
Gail Wallach	Assistant Secretary
Larry Weiss	Controller

### **Principal Committees**

The Company had an audit committee as of December 31, 2018, with membership consisting of the three Board members. Larry Weiss was Chairman of the committee.

### **Corporate Records**

The Company's Articles of Incorporation and Bylaws were reviewed. There were no revisions to either document during the examination period. The minutes of the Board, shareholders and Audit Committee were reviewed for the period under examination.

### **Holding Company, Subsidiaries, and Affiliates**

FCWMO is a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo (Definitions). The Company is wholly-owned by First Commonwealth, Inc., which in turn is wholly owned by The Guardian Life Insurance Company of America, a New York domiciled mutual life insurance company.

**Organizational Chart**

The following organizational chart depicts the applicable portion of the holding company group as of December 31, 2018. All companies are wholly-owned unless otherwise noted.



**Intercompany Transactions**

The following agreements represent significant contracts executed with affiliated entities that were in effect as of December 31, 2018. A brief description of these agreements are as follows:

Investment Management: An agreement between Guardian Life Insurance Company of America (Guardian) and FCWMO, effective October 1, 2009, whereby Guardian is authorized to identify, purchase, sell, repurchase, resell, convert, tender or exchange securities or other investments according to the FCWMO Investment Plan.

Amended and Restated Management and Administrative Services: An agreement between Guardian, First Commonwealth, Inc. and FCWMO, effective March 23, 2010, whereby Guardian performs specified management and administrative services for the Company. First Commonwealth, Inc. maintains membership information for the dental entities, collects fees and forwards amounts owed to Guardian on a monthly basis.

Amended and Restated Tax Sharing: An agreement between Guardian and its subsidiaries, including FCWMO, effective March 2, 2018, whereby each participant computes its tax as if it were filing a separate unconsolidated return and remits such tax payment to Guardian.

**TERRITORY AND PLAN OF OPERATION**

The Company is licensed as a prepaid dental plan per Chapter 354 RSMo (Health Service Corporations). At December 31, 2018, the Company was licensed only in Missouri.



FCWMO markets its products through local insurance agencies and independent brokers. Broker commissions are paid monthly. The Company provides brochures explaining the products and funding alternatives available to prospective enrollees.

The Company offered a Dental HMO Plan and a Dental PPO Plan during the examination period. These products are described below.

#### Dental HMO Plan

This product allows groups to select benefit levels and co-payment amounts related to covered services. Coverage provided under the Dental HMO Plan includes diagnostic and preventative services, basic and restorative services, major services and orthodontic services. Subscribers are required to select a general dentist from the Company's provider listing. The selected dentist then arranges for all dental care needs. The Company pays monthly capitation fees, based on the number of subscribers, to participating dentists. The Dental HMO product is typically offered in conjunction with the Company's PPO products, Guardian's PPO products or other Guardian products (life, disability, etc.).

#### Dental PPO Plan

This product provides coverage similar to the Dental HMO Plan. Subscriber co-payments are lower for services provided by a dentist in the PPO network. Network dentists agree to receive lower reimbursement rates in order to gain access to FCWMO enrollees.

### **GROWTH OF COMPANY AND LOSS EXPERIENCE**

The table below summarizes the Company's growth for the period under examination:

*(\$000s omitted)*

<b>Year</b>	<b>Total Assets</b>	<b>Net Premiums Earned</b>	<b>Underwriting Gain (Loss)</b>	<b>Net Income (Loss)</b>	<b>Capital and Surplus</b>	<b>Ratio of Net Premiums to Surplus</b>
2014	\$ 2,331	\$ 1,780	\$ 222	\$ 142	\$ 1,538	1.16
2015	1,937	1,557	250	155	1,193	1.31
2016	1,531	1,309	188	117	810	1.62
2017	1,142	1,271	177	120	630	2.02
2018	916	1,221	117	94	724	1.69

The table below summarizes the Company's total revenues, incurred dental expenses, and medical loss ratios for the period under examination:

*(\$000s omitted)*

<b>Year</b>	<b>Total Revenues</b>	<b>Total Dental Benefits</b>	<b>Dental Loss Ratio</b>
2014	\$ 1,790	\$ 1,259	0.70
2015	1,559	1,049	0.67
2016	1,312	897	0.68
2017	1,271	904	0.71
2018	1,226	898	0.73

## REINSURANCE

### General

The Company does not assume or cede any reinsurance.

## ACCOUNTS AND RECORDS

### Independent Auditor

The certified public accounting (CPA) firm, Pricewaterhouse Coopers LLP, in New York, NY, performed the statutory audit of the Company for the years under examination. Reliance was placed upon the CPA workpapers as deemed appropriate.

### Actuarial Opinion

The Company's actuarial opinion regarding loss reserves, loss adjustment expense (LAE) reserves, and other actuarial items was issued by Sanford Penn, FSA, MAAA, for all years in the examination period. Mr. Penn is employed by Guardian Life Insurance Company of America in New York, NY.

### Consulting Actuary

No consulting actuary was engaged to review the FCWMO reserves. DCI Supervising Life & Health Actuary, William Leung, FSA, MAAA, reviewed the underlying actuarial assumptions and methodologies used by FCWMO to determine the adequacy of loss reserves and LAE reserve. Mr. Leung determined that the Company made a reasonable provision for the loss and LAE reserves that were reported in the statutory financial statements, as of December 31, 2018.

### Information Systems

In conjunction with this examination, Andrew Balas, CPA, CFE, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems.

## FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of First Commonwealth of Missouri, Inc. for the period ending December 31, 2018. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of the financial statements. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual key activity.

**ASSETS**

As of December 31, 2018

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 553,451	\$	\$ 553,451
Cash, Cash Equivalents, and Short- Term Investments	334,021		334,021
Investment Income Due and Accrued Premiums and Considerations:	5,275		5,275
Uncollected Premiums and Agents' Balances in the Course of Collection	1,631	327	1,304
Net Deferred Tax Asset	1,524	1,524	0
Receivables from Parent, Subsidiaries, and Affiliates	22,047		22,047
<b>TOTAL ASSETS</b>	<b>\$ 917,949</b>	<b>\$ 1,851</b>	<b>\$ 916,098</b>

**LIABILITIES, CAPITAL AND SURPLUS**

As of December 31, 2018

Claims Unpaid	\$ 77,906
Unpaid Claims Adjustment Expenses	1,225
Aggregate Health Policy Reserves	3,304
Premiums Received in Advance	18,961
General Expenses Due or Accrued	60,629
Current Federal and Foreign Income Tax Payable and Interest Thereon	189
Amounts Withheld or Retained for the Account of Others	1,224
Amounts Due to Parent, Subsidiaries, and Affiliates	29,025
Aggregate Write-Ins for Other Liabilities	7
<b>TOTAL LIABILITIES</b>	<b>\$ 192,471</b>
Common Capital Stock	50,000
Gross Paid-In and Contributed Surplus	357,253
Aggregate Write-Ins for Other-Than-Special Surplus Funds	150,000
Unassigned Funds (Surplus)	166,374
<b>TOTAL CAPITAL AND SURPLUS</b>	<b>\$ 723,627</b>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b>\$ 916,098</b>

**STATEMENT OF REVENUE AND EXPENSES**

For the Year Ended December 31, 2018

Net Premium Income	\$ 1,221,254
Change in Unearned Premium Reserves and Reserve for Rate Credits	3,692
Aggregate Write-Ins for Other Non-Health Revenues	1,260
<b>Total Revenue</b>	<b>\$ 1,226,206</b>
Other Professional Services	897,500
Emergency Room and Out-of-Area	125
Claims Adjustment Expenses	4,256
General Administrative Expenses	207,256
<b>Total Underwriting Deductions</b>	<b>\$ 1,109,137</b>
<b>Net Underwriting Gain (Loss)</b>	<b>\$ 117,069</b>
Net Investment Income Earned	8,036
<b>Net Investment Gain (Loss)</b>	<b>\$ 8,036</b>
<b>Net Income (Loss) After Capital Gains Tax and Before All Other Federal Income Taxes</b>	<b>\$ 125,105</b>
Federal and Foreign Income Taxes Incurred	31,527
<b>NET INCOME (LOSS)</b>	<b>\$ 93,578</b>

**RECONCILIATION OF CAPITAL AND SURPLUS**

Changes from January 1, 2014 to December 31, 2018

(\$000's omitted)

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Capital and Surplus, Beginning of Year	\$ 1,896	\$ 1,538	\$ 1,193	\$ 810	\$ 630
Net Income (Loss)	142	155	117	120	94
Change in Net Deferred Income Tax	(0)	0	2	(1)	0
Change in Nonadmitted Assets	0	(0)	(2)	1	(0)
Dividends to Stockholders	(500)	(500)	(500)	(300)	0
Net Change in Capital and Surplus	(358)	(345)	(383)	(180)	93
<b>Capital and Surplus, End of Year</b>	<b>\$ 1,538</b>	<b>\$ 1,193</b>	<b>\$ 810</b>	<b>\$ 630</b>	<b>\$ 724</b>

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

None.

**FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION**

None.

**SUMMARY OF RECOMMENDATIONS**

None.

**SUBSEQUENT EVENTS**

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

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

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the officers and the employees of First Commonwealth of Missouri, Inc. during the course of this examination is hereby acknowledged and appreciated.

**VERIFICATION**

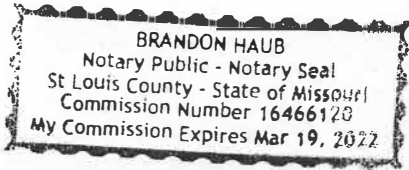
State of Missouri            )  
  )    ss  
County of St.-Charles     )

I, Karen Milster, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records, or other documents of First Commonwealth of Missouri, Inc., its agents or other persons examined, or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Karen Milster  
Karen Milster, CPA, CFE  
Examiner-In-Charge  
Missouri Department of Commerce and  
Insurance

Sworn to and subscribed before me this 17<sup>th</sup> day of June, 2020.

My commission expires: 03/19/2022 Brandon Haub  
Notary Public



**SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the *Financial Condition Examiners Handbook* has been confirmed, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



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Michael Shadowens, CFE  
Assistant Chief Financial Examiner  
Missouri Department of Commerce and  
Insurance