

STATE OF MISSOURI



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 Cox Health Systems Insurance Company, 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 findings, subsequent events, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, financial statements, financial statement changes resulting from examination, comments on financial statement items, and general summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Cox Health Systems Insurance Company, as of December 31, 2018 be and is hereby ADOPTED as filed and for Cox Health Systems Insurance Company, 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 18th day of February, 2020.



Handwritten signature of Chlora Lindley-Myers in blue ink.

Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF THE
FINANCIAL EXAMINATION OF

COX HEALTH SYSTEMS INSURANCE COMPANY

AS OF
DECEMBER 31, 2018

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Springfield, MO
December 19, 2019

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65102

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

Cox Health Systems Insurance Company

hereinafter referred to as such, as CHSIC, or as the Company. Its administrative office is located at 3200 South National, Springfield, Missouri 65807, telephone number 417-269-2900. The fieldwork for this examination began on April 10, 2019, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a full-scope financial examination of Cox Health Systems Insurance Company. The last examination of the Company by the Department covered the period of January 1, 2012 through December 31, 2015. The current examination covers the period of January 1, 2016 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. This examination was performed concurrently with the examination of the Company's direct parent, Cox Health Systems HMO, Inc.

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 CHSIC included investments, related parties, claims and reserves, underwriting and pricing, and capital and surplus. The examination also included a review and evaluation of information technology general controls.

This examination report includes significant findings of fact 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 separately communicated to other regulators and/or the Company.

Reliance upon Others

The examiners relied upon information and workpapers provided by the Company's independent auditor, BKD, LLP of Fort Wayne, Indiana, for its audit covering the period of January 1, 2018 through December 31, 2018. Such reliance included, but was not limited to, narrative descriptions of processes and controls, investment confirmations, and substantive testing.

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.

SUBSEQUENT EVENTS

The Company discontinued offering individual Patient Protection and Affordable Care Act compliant policies as of January 1, 2019, but plans to re-enter the individual Patient Protection and Affordable Care Act market as of January 1, 2020.

COMPANY HISTORY

General

Cox Health Systems Insurance Company was incorporated on March 15, 1994, and commenced business on April 1, 1995, under Chapter 376 RSMo. (Life, Health and Accident Insurance). As of December 31, 2018, the Company had only written group and individual health insurance.

Mergers, Acquisitions, and Major Corporate Events

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

Dividends and Capital Contributions

Cox Health Systems HMO, Inc. (CHMO) owns 100% of the issued and outstanding common stock of CHSIC, and is therefore the direct parent of CHSIC. The Company has neither declared nor paid any dividends since inception. During the examination period, CHMO made the following capital contributions to CHSIC:

Year	Amount
2016	\$ 3,000,000
2017	14,000,000
2018	5,500,000
Total	\$ 22,500,000

Surplus Notes

In 2017, CHSIC issued a surplus note in the amount of \$4,000,000 to Lester E. Cox Medical Centers, adding to the surplus note of \$1,400,000, which had been issued in 1997. The interest rate on the notes may not exceed 5%. There have been no payments of interest or principal on the surplus notes, bringing the total accumulated balance of the notes to \$7,070,799 as of December 31, 2018.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors that are elected at the annual meeting of the stockholder. The Company’s Bylaws specify that the Board of Directors shall consist of no less than nine and no more than twenty-one members. The Board of Directors elected and serving as of December 31, 2018, were as follows:

Name	Principal Occupation and Business Affiliation
Steven D. Edwards	Chief Executive Officer, CoxHealth
Clifford M. Costley	Physician, CoxHealth
James H. Ceasar	Physician, President, Ferrell-Duncan Clinic, Cox Medical Group
Kenneth E. Meyer	President and Owner, Meyer Communications
Rita M. Needham	Chief Executive Officer (Retired) Missouri Association of Manufacturers
Jerry G. Jared	Chairman, Jared Enterprises, Real Estate Investment and Development
Christopher W. Nattinger	President, Skyline Investment Company
John B. Singleton	Financial Planner, Heim, Young and Associates

Effective March 27, 2019, Robert F. McDowell, President and Owner of McDowell Consulting, joined the Board of Directors, bringing the total number of directors to nine.

Officers

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

Name	Office
Matthew J. Aug	President
Lisa J. Odom	Chief Financial Officer
Loree B. Lines	Secretary
Susan M. Butts	Chief Information Officer

Principal Committees

The Company does not have any formal Board committees in place. In order to comply with the requirements of section 375.1030, RSMo. (Annual audit required, report filed, when—extensions granted, when—audit committee required, when), the entire Board of Directors is deemed to constitute the Audit Committee.

Corporate Records

The Company’s Articles of Incorporation and Bylaws were reviewed. The Articles of Incorporation and Bylaws were not amended during the examination period.

The minutes of the meetings of the shareholder and Board of Directors were reviewed for the period under examination. The minutes of the Management Committee of an affiliate, Cox HealthPlans, LLC (Cox HealthPlans), which covered events relating to the Company were also reviewed. The minutes provided sufficient documentation that major corporate transactions were evaluated and approved by the Board of Directors.

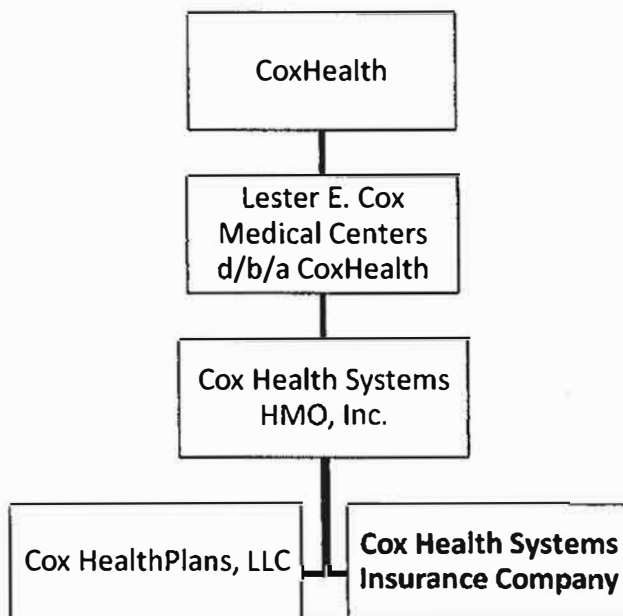
Holding Company, Subsidiaries, and Affiliates

CHSIC is a member of an Insurance Holding Company System, as defined by section 382.010, RSMo. (Definitions). CoxHealth, a nonprofit corporation, is the ultimate controlling entity of the group. The following is a description of the business operations of the directly affiliated entities:

- CoxHealth – The ultimate controlling entity is a nonprofit corporation organized to promote and support the interests and purposes of the healthcare entities within the holding company system.
- Lester E. Cox Medical Centers - A nonprofit corporation owning and operating hospitals, and various healthcare related entities.
- Cox Health Systems HMO, Inc. (CHMO) – A nonprofit Health Maintenance Organization, currently writing no business.
- Cox HealthPlans, LLC (Cox HealthPlans) – A management and consulting company, currently providing services for all daily operations of CHMO and CHSIC.

Organizational Chart

The following abridged organizational chart depicts the holding company system as of December 31, 2018. All subsidiaries are wholly-owned unless otherwise noted. Only entities that are directly related to the Company are listed. All entities are incorporated and domiciled in Missouri.



Intercompany Transactions

The Company's significant intercompany agreements that were in effect as of December 31, 2018 are outlined below.

1. **Type:** Management Agreement
Parties: CHSIC and Cox HealthPlans
Effective: January 1, 2002.
Terms: Cox HealthPlans provides comprehensive administrative, financial, and managerial services for the Company, including premium processing, claims management and provider network administration. Cox HealthPlans receives a negotiated rate agreed upon by the parties for these services.

2. **Type:** Indemnity Agreement
Parties: CHSIC and Lester E. Cox Medical Centers
Effective: June 18, 1999
Terms: Lester E. Cox Medical Centers agrees to indemnify the Company from any and all liability, loss, or damage suffered as a result of the Company's failure to perform its obligations arising under insurance coverage it has issued or assumed, should the Company become insolvent or otherwise financially incapable of furnishing such coverage.

3. **Type:** Company Agreement
Parties: CHSIC and Lester E. Cox Medical Centers
Effective: May 1, 2004
Terms: Lester E. Cox Medical Centers provides health care service through its network of providers to the Company's members.

4. **Type:** Additional Discounts Agreement
Parties: CHSIC and Lester E. Cox Medical Centers
Effective: January 1, 2002
Terms: Lester E. Cox Medical Centers provides the Company with additional provider discounts when the Company's medical loss ratio exceeds an agreed upon percentage during a calendar year.

5. **Type:** Specialty Medication Agreement
Parties: CHSIC and Medical Developments, Inc., doing business as CoxHealth Pharmacy
Effective: July 1, 2017
Terms: CHSIC pays a discounted rate for certain specialty prescription medications for qualified members requiring additional care due to chronic diseases as a part of the group plan.

TERRITORY AND PLAN OF OPERATION

CHSIC is licensed in the State of Missouri under Chapter 376, RSMo. (Life, Health and Accident Insurance). The Company is not licensed in any other states. The Company's business is currently limited to individual and group accident and health insurance. Although CHSIC has authority to write life insurance business, it has no plans to do so at this time.

The Company's service area is concentrated in southwestern Missouri. Business is produced primarily through outside brokers and through salaried employees of Lester E. Cox Medical Centers. The Company had 33,589 insureds as of December 31, 2018.

The Company's primary products are the group preferred provider plans (PPO). These plans provide groups a choice of benefit levels and premiums to offer their members. The PPO plans allow members to use providers of their choice or to use providers from an established network that has a contractual arrangement with the Company. PPO members are responsible for deductibles and coinsurance. Co-payments are greater if out-of-network providers are used. During the examination period, the Company also had a preferred provider plan for individuals with a child-only option; however, as noted under the "Subsequent Events" section of this report, the Company discontinued its individual Patient Protection and Affordable Care Act compliant PPO plans as of January 1, 2019, with plans to re-enter the market in 2020.

GROWTH OF COMPANY AND LOSS EXPERIENCE

The Company's premium grew steadily during the exam period due primarily to increases in group premium. Underwriting losses and net losses increased between 2016 and 2017 and decreased significantly in 2018.

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

(\$000s omitted)

Year	Total Assets	Net Premiums Earned	Underwriting Gain (Loss)	Net Income (Loss)	Capital and Surplus	Ratio of Net Premiums to Surplus
2016	\$ 41,463	\$ 131,820	\$ (6,468)	\$ (6,165)	\$ 14,717	9.0%
2017	49,337	141,663	(14,976)	(14,635)	18,104	7.8%
2018	53,758	153,525	(5,440)	(4,952)	18,720	8.2%

Hospital and medical benefits increased between 2016 and 2017, with a Medical Loss Ratio of 97.7% in 2017. The Medical Loss Ratio decreased significantly in 2018 to 90.7%, due in part to increased premium rates and changes in claims mix distribution, as well as the movement of groups to higher deductible and lesser benefit plans.

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

(\$000s omitted)

Year	Total Revenues	Total Hospital and Medical Benefits	Medical Loss Ratio
2016	\$ 131,810	\$ 121,701	91.3%
2017	141,663	138,802	97.7%
2018	153,525	139,302	90.7%

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

(\$000s omitted)

Premium Type	2016	2017	2018
Direct Premiums Written	\$ 133,566	\$ 142,972	\$ 154,718
Reinsurance Assumed:			
Affiliates	0	0	0
Non-Affiliates	0	0	0
Reinsurance Ceded:			
Affiliates	0	0	0
Non-Affiliates	1,746	1,309	1,193
Net Premiums Written	\$ 131,820	\$ 141,663	153,525

Assumed Reinsurance

The Company did not assume any business during the period under examination.

Ceded Reinsurance

The aim of the Company's reinsurance program is to protect against catastrophic loss. As of December 31, 2018, CHSIC had excess of loss reinsurance through Zurich American Insurance Company (Zurich). Under the terms of the reinsurance agreement, Zurich will reimburse 90% of net excess loss above \$500,000 up to a maximum of \$4,000,000 for each covered person.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

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 Cox Health Systems Insurance Company 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 activity.

ASSETS
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 16,989,957	\$	\$ 16,989,957
Stocks:			
Preferred Stocks	73,875		73,875
Cash, Cash Equivalents, and Short-Term Investments	30,808,450		30,808,450
Investment Income Due and Accrued	99,060		99,060
Premiums and Considerations:			
Uncollected Premiums and Agents' Balances in the Course of Collection	314,505	12,289	302,216
Reinsurance:			
Amounts Recoverable from Reinsurers	2,386,115		2,386,115
Net Deferred Tax Asset			
Guaranty Funds Receivable or on Deposit	225,384		225,384
Health Care and Other Amounts Receivable	2,872,764		2,872,764
TOTAL ASSETS	\$ 53,770,110	\$ 12,289	\$ 53,757,821

LIABILITIES, SURPLUS, AND OTHER FUNDS
As of December 31, 2018

Claims Unpaid	\$ 22,351,605
Unpaid Claims Adjustment Expenses	359,670
Aggregate Health Policy Reserves	7,302,516
Premiums Received in Advance	3,395,511
General Expenses Due or Accrued	660,784
Amounts Due to Parent, Subsidiaries, and Affiliates	968,107
TOTAL LIABILITIES	\$ 35,038,193
Common Capital Stock	800,000
Gross Paid-In and Contributed Surplus	37,689,682
Surplus Notes	7,070,799
Unassigned Funds (Surplus)	(26,840,853)
TOTAL CAPITAL AND SURPLUS	\$ 18,719,628
TOTAL LIABILITIES AND SURPLUS	\$ 53,757,821

STATEMENT OF OPERATIONS
For the Year Ended December 31, 2018

Net Premium Income	\$ 153,524,898
Total Revenue	\$ 153,524,898
Hospital/Medical Benefits	104,265,749
Outside Referrals	4,172,528
Emergency Room and Out-of-Area	3,740,964
Prescription Drugs	29,844,190
Net Reinsurance Recoveries	(2,721,650)
Claims Adjustment Expenses	3,815,784
General Administrative Expenses	15,847,728
Total Underwriting Deductions	\$ 158,965,293
Net Underwriting Gain (Loss)	\$ (5,440,395)
Net Investment Income Earned	499,319
Net Realized Capital Gains	(10,999)
Net Investment Gain (Loss)	\$ 488,321
Net Income (Loss) After Capital Gains Tax and Before All Other Federal Income Taxes	\$ (4,952,074)
NET INCOME (LOSS)	\$ (4,952,074)

RECONCILIATION OF CAPITAL AND SURPLUS
Changes from December 31, 2015 to December 31, 2018

	2016	2017	2018
Capital and Surplus, Beginning of Year	\$ 17,498,074	\$ 14,716,584	\$ 18,104,018
Net Income (Loss)	(6,164,944)	(14,634,796)	(4,952,074)
Change in Net Unrealized Capital Gains (Losses) Less Capital Gains Tax	(509)	40	(1,687)
Change in Nonadmitted Assets	383,962	22,191	69,371
Change in Surplus Notes	26,979	4,031,537	121,331
Surplus Adjustments:			
Paid In	3,000,000	14,000,000	5,500,000
Aggregate Write-Ins for Gains (Losses) in Surplus	(26,979)	(31,537)	(121,331)
Net Change in Capital and Surplus	(2,781,490)	3,387,435	615,609
Capital and Surplus, End of Year	\$ 14,716,584	\$ 18,104,018	\$ 18,719,927

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

SUMMARY OF RECOMMENDATIONS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Cox Health Systems Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Mark Nance, CPA, CFE, Kimberly Dobbs, CFE, AES, Lisa Li, CPA, CFE, and Emily Pennington, CFE, examiners for the Missouri Department of Commerce and Insurance, also participated in this examination. The actuarial firm of Taylor-Walker Consulting, LLC also participated as a consulting actuary.

VERIFICATION

State of Missouri)
County of Jackson)

I, Laura Church, 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 Cox Health Systems Insurance Company, 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.



Laura Church, CPA, CFE
Examiner-In-Charge
Missouri Department of Commerce and
Insurance

Sworn to and subscribed before me this 9th day of January, 2020.

My commission expires: July 22, 2023 M. Ridenhour
Notary Public



M. RIDENHOUR
My Commission Expires
July 22, 2023
Platte County
Commission #19603483

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.

A handwritten signature in black ink, appearing to read "Levi Nwasoria", written over a horizontal line.

Levi Nwasoria, CPA, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance