

Report
of the
Examination of
Network Health Insurance Corporation
Menasha, Wisconsin
As of December 31, 2010

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

January 17, 2012

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Honorable Theodore K. Nickel
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:

NETWORK HEALTH INSURANCE CORPORATION
Menasha, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Network Health Insurance Corporation (the company or NHIC) was conducted in 2007 as of December 31, 2006. The current examination covered the intervening period ending December 31, 2010, and included a review of such 2011 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement

presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of 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

Network Health Insurance Corporation is a for-profit stock insurance company organized under ch. 611, Wis. Stat. The major product lines for the insurer are a Point-of-Service (POS) health insurance plan and a Medicare Advantage Preferred Provider Organization (PPO) product that includes the Medicare Part D Prescription Drug Plan.

NHIC was incorporated on March 1, 2001, and commenced business on August 1, 2001, as an indemnity insurer. NHIC is a wholly owned subsidiary of Network Health Plan (NHP) and provides indemnity-type (POS) health insurance to its commercial members and PPO health insurance to its Medicare members.

NHP is owned by Network Health System, Inc. (NHS). Effective September 1, 1998, Affinity Health System (AHS) acquired the common and preferred stock of NHS. AHS is co-sponsored by Wheaton Franciscan Services, Inc., and Ministry Health Care, Inc.

According to its business plan, NHIC's service area is comprised of the following counties: Brown, Calumet, Dodge, Door, Fond du Lac, Green Lake, Kewaunee, Manitowoc, Marquette, Oconto, Outagamie, Portage, Shawano, Sheboygan, Waupaca, Waushara, and Winnebago. The principal service area of the company is the Fox Valley region.

In addition to the POS products, NHIC has entered into a contract with the Centers for Medicare and Medicaid Services (CMS) to provide Part A and Part B Medicare benefits to members enrolled in NHIC's Medicare Advantage PPO product. The policies cover all of the required Part A and B benefits for all health care services provided by participating or nonparticipating providers. Higher cost sharing applies when members use nonparticipating providers, but referrals are not required. NHIC contracts with providers to provide Part A and B benefits, whom are reimbursed at the current Medicare fee schedule. The company contracts with a pharmacy benefits manager to administer the Part D Prescription Drug benefits. Part D benefits have copays for generic and preferred brand drugs. Once a member reaches a maximum out-of-pocket drug cost, they pay the greater of a coinsurance or copayment. CMS reimburses NHIC on a monthly capitation payment basis while members pay a monthly premium.

NHIC's primary health care services contract is with Network Health System (also referred to as Affinity Medical Group). Under the contract, NHS agrees to provide medically necessary covered services and to make necessary and appropriate arrangements to assure the availability of primary care services covered by NHIC on a fee-for-service arrangement. The agreement defines Affinity Medical Group to include all its subsidiaries, including all "employed and contracted health care professionals, employees, agents, assigns, and subcontracts, who are professional service corporations, licensed health care providers, and/or who provide health care services." NHIC has no individually contracted providers for the POS products. Payments to providers are handled under a fee-for-service agreement with NHS. However, NHIC contracts with a national PPO and receives discounts from providers.

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
- Prosthetic devices and durable medical equipment
- Newborn services
- Home health care
- Family planning
- Hearing exams and hearing aids
- Diabetes treatment
- Routine eye examinations
- Convalescent nursing home service
- Prescription drugs with copayments
- Cardiac rehabilitation, physical, speech, and/or occupational therapy
- Kidney disease treatment
- Certain transplants
- Chiropractic services

The company provides copayment plans as well as deductible and coinsurance products. Inpatient and outpatient mental health and AODA coverage follows the state mandated benefits. Emergency services may have a copayment or a deductible and coinsurance, which are waived upon admission into an inpatient facility. Skilled nursing care is limited to 40 days.

Out-of-network maternity, skilled nursing facility, extended care facility, and inpatient and some outpatient hospital services require precertification. If precertification is not received, benefits will be denied.

The company currently markets to employer groups and association members. The company uses employee account representatives, as well as outside brokers.

The company uses an actuarially determined base as a beginning point in premium determination. For small groups, as defined in the Wisconsin Statutes, this rate is adjusted to reflect the age, gender, occupation, and coverage characteristics for new groups. Experience is reviewed for renewal groups and, based on the review, adjustments are made to a group's risk assessment factor within limits as dictated by law. For large groups, this rate is adjusted to reflect the age, gender and coverage characteristics. Experience is reviewed for groups and a recommendation is made regarding adjusting the rate or cancelling the group given a credibility factor that is actuarially determined based on group size. Rates are determined by an experience adjustment to base rate with a credibility factor. The base rate is adjusted monthly for inflation and other trending factors.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of ten members. Three directors are elected annually to serve a three-year term. Officers are appointed by the board of directors. Members of the insurer's board of directors may also be members of other boards of directors in the Affinity System. Board members not employed by Affinity Health System currently receive \$500 per meeting for serving on the board. Employees of Affinity Health System are paid through Affinity Health System and do not receive any additional compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Jeff Badger Appleton, WI	Sr. VP Finance, Affinity Health System	2013
Robert Dusenberry Appleton, WI	Community Representative Retired from JC Penney	2013
David Gitter Little Chute, WI	Community Representative Retired President M&I Bank	2013
Christine Griger M.D., Menasha, WI	President, Affinity Medical Group	2013
Fritz Hildebrand, M.D. Neenah, WI	Cardiology, Affinity Medical Group	2011
Sheila Jenkins Neenah, WI	President, Network Health Plan	NA*
Mark Kehrberg, M.D. Oshkosh, WI	Chief Medical Director, Affinity Health System	2012
Daniel Neufelder Neenah, WI	CEO, Affinity Health Systems	2011
Brian Scott, M.D. Appleton, WI	Family Practice, Affinity Medical Group	2011
Paul Veregge, M.D. Appleton, WI	VPMA & Physician Executive McKesson Corporation	2011

* The position as president does not have a term limit on the board of directors.

Officers of the Company

The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office	2010 Compensation
Sheila Jenkins	President	\$121,395*
Jeff Badger	Secretary/Treasurer	7,834*
Daniel Neufedler	Vice Chairperson	14,622*
Tim Temperly	COO	82,458
Marcia Broeren	VP Medicare	412,454
Edward Scanlan, M.D.	Medical Director	61,751
Donald Schumann	VP Network Development	32,218

* The officers' salaries are paid by Affinity Health System through a management agreement with NHP, which has an agreement with the company. The above represents the portion of the officers' salary allocated to the company.

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:

Executive Committee

Sheila Jenkins, Chair
Dan Neufelder
Jeff Badger
Ed Scanlan, M.D.

There are numerous management committees that do not include any members of the board except the chair. Those committees include a Business Operations Committee, Senior Leadership Team, and a Quality Management Committee. Other management committees that report to the Quality Management Committee are as follows:

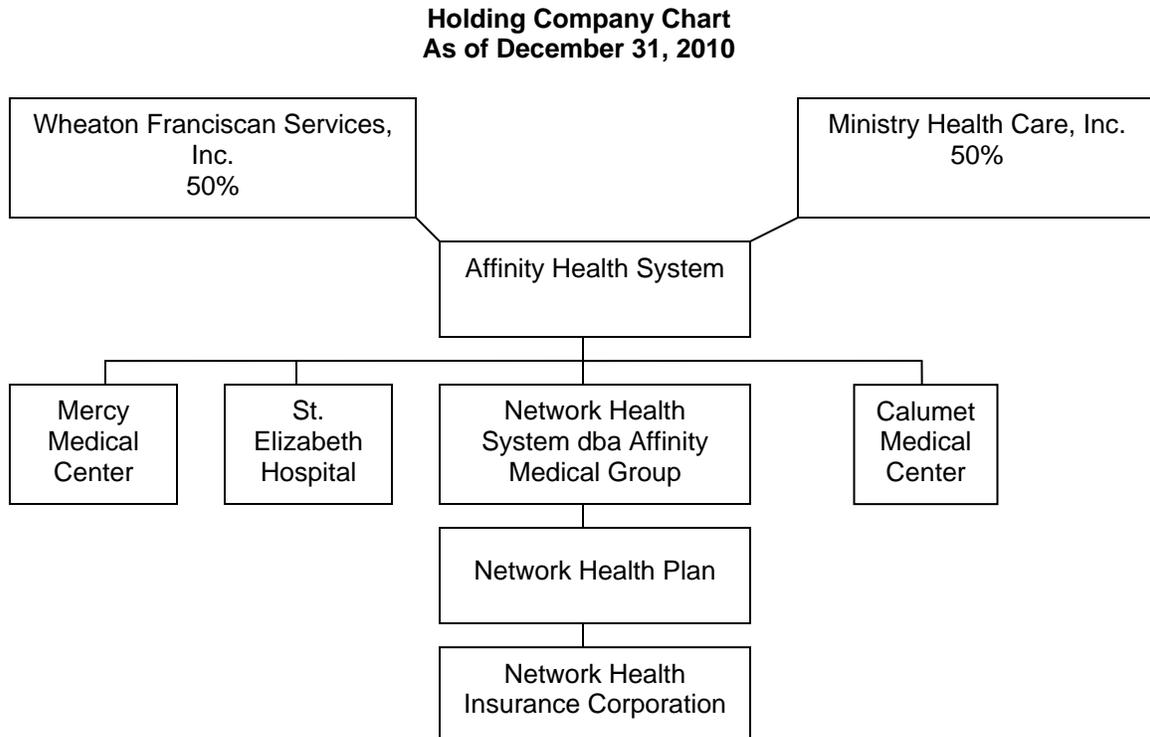
Compliance Committee
Credentials Committee
Peer Review Committee
Medical Policy Committee
Pharmacy and Therapeutics Committee
Grievance Committee
Medicare/PlatinumPlus Appeals Committee

The company has no employees. Necessary staff is provided through an administrative services and program agreement with NHP. Under the agreement, effective July 1, 2001, NHP agrees to market the POS contracts; provide general administration support for the indemnity coverage and underwriting services; complete group application and enrollment

forms; and provide for billing of premiums, utilization review, claims processing, and member services, including member grievances, inquiries, and complaints. NHIC receives 10% of POS premiums, adjusted for refunds, commissions, government charges or assessments, and claims paid for the quarter net of subrogation, as compensation for services rendered. This agreement was amended on January 1, 2005, to include services provided by NHP to NHIC for the Medicare Advantage product. NHIC is to reimburse NHP for all direct administrative costs associated with the Medicare Advantage product plus an allocation of indirect expenses. The company may terminate the agreement, effective at the end of any contract year, by providing written notice of termination on or before September 30 of that year. If either party commits a material breach of its obligation and the breaching party fails to remedy the breach within 14 days, the other party may terminate the agreement by written notice specifying a date of termination not less than 7 days thereafter.

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Affinity Health System, which is co-sponsored by Ministry Health Care, Inc., and Wheaton Franciscan Services, Inc. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.



Ministry Health Care, Inc.

Ministry Health Care, Inc., is a Wisconsin nonstock not-for-profit corporation that manages, promotes, and supports the health care and related ministries of the Milwaukee region of the Sisters of the Sorrowful Mother. As of September 30, 2010, the company's audited financial statement reported assets of \$1.6 billion, liabilities of \$810 million, and total net assets of \$802 million. Operations for 2010 produced net income of \$62 million on revenues of \$1.1 billion.

Wheaton Franciscan Services, Inc.

Wheaton Franciscan Services, Inc. (WFS) is organized as an Illinois not-for-profit organization and operates under the tenets of the Roman Catholic Church and in accordance

with the philosophy and values of the Franciscan Sisters. WFS's subsidiaries provide general health care services to residents within its geographic locations including inpatient, outpatient, emergency room, physician, long-term care, and other related services. As of June 30, 2010, the company's audited financial statement reported assets of \$2.3 billion, liabilities of \$1.5 billion, and total net assets of \$761 million. Operations for 2010 produced net loss of \$63 million on revenues of \$1.9 billion.

Affinity Health System

Affinity Health System is an Illinois nonstock, not-for-profit corporation whose corporate members are Ministry Health Care, Inc. (MHS) and WFS. MHS and WFS operate an integrated health care delivery system in the Fox Valley of Wisconsin through Affinity Health System. As of September 30, 2010, Affinity Health System and Network Health System combined audited financial statement reported assets of \$449 million, liabilities of \$257 million, and total net assets of \$192 million. Operations for 2010 produced net loss of \$30.8 million on revenues of \$515 million.

Network Health System

Network Health System (NHS) provides medical services through its clinic operations and managed care products and services through the company. NHS became a member of AHS as a result of a series of acquisition transactions effective September 1, 1998. NHS filed a combined audited financial statement with AHS as noted above.

Network Health Plan

Network Health Plan is a for-profit network health maintenance organization (HMO) whose principal service area is the Fox Valley region of Wisconsin. NHP offers comprehensive HMO coverages for groups and individuals. As of December 31, 2010, the company's audited financial statement reported assets of \$104.6 million, liabilities of \$29.2 million, and capital and surplus of \$75.4 million. Operations for 2010 produced net income of \$19.5 million on revenues of \$396 million.

V. REINSURANCE

The company has one ceding reinsurance contract and one assumption contract. The company's ceding reinsurance contract is a standard excess of loss contract.

The company entered into an assumption agreement to assume policies that are considered to be part of the NationCare out-of-area program. These are policies for members who are part of a group that was underwritten by NHIC who have a few members that reside outside of the company's provider network. The policies for members that reside outside the provider network are technically written on Sterling Life Insurance Company paper and then ceded back to NHIC. The company entered into this assumption contract to give these members access to a provider network.

The company's ceding contract has reinsurance coverage as outlined below:

1. Reinsurer: RGA Reinsurance Company
Type: Excess of Loss Reinsurance
Effective date: January 1, 2011
Services covered: Inpatient hospital
Inpatient rehabilitation
Skilled nursing facility
Outpatient health
Physician
Drug related
Covered member types: Medicare Advantage
Commercial PPO, POS (out-of-network benefits)
Coverage: Lesser of 100% of billed charges or the amount paid by the company
Claims basis: Losses that are:
Incurred from January 1, 2011, through December 31, 2011;
Paid and reported by June 30, 2012; and
Submitted by July 31, 2012
Deductible: \$350,000 per member per agreement period
Coinsurance: 90% (company retains 10%)
95% (company retains 5%) for qualifying newborn members under the reinsurer's Rosebud program
Reinsurance limit: \$5,000,000 per member per agreement period

Premium: Medicare Advantage—\$0.77 pmpm
Commercial PPO, POS—\$4.13 pmpm
Experience refund available if premium exceeds \$500,000
Experience refund calculated as 30% of the difference between
70% of premiums paid and all losses reimbursed during the
agreement period

Termination: Agreement automatically terminates on December 31, 2011

The reinsurance policy contains the following insolvency provisions:

1. Reinsurer is obligated to continue benefits, without the deductible or coinsurance limitation, for members who are confined in a hospital on the date of insolvency until their discharge or the effective date of any replacement coverage. Members receiving eligible skilled nursing facility services or custodial care are not eligible for inclusion in the insolvency coverage provided under this provision.
2. Reinsurer is obligated to continue benefits, without the deductible or coinsurance limitation, for all benefits for all eligible members until the earlier of (a) the end of the then-current agreement year; (b) thirty days following the date of insolvency; (c) the end of the period for which premiums have been paid to plan on behalf of such members; (d) the effective date of any replacement coverage; and (e) the date a member's coverage would otherwise terminate under term of the reinsurance agreement.

The policy insolvency coverage is subject to an aggregate limit of \$7,500,000.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2010, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company for the period under examination.

Network Health Insurance Corporation
Assets
As of December 31, 2010

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$50,793,449	\$ 0	\$50,793,449
Cash, cash equivalents and short-term investments	11,115,239		11,115,239
Investment income due and accrued	546,033		546,033
Uncollected premiums and agents' balances in the course of collection	10,130,214		10,130,214
Amounts recoverable from reinsurers	37,305		37,305
Funds held by or deposited with reinsured companies	257,066		257,066
Amounts receivable relating to uninsured plans	1,456,852		1,456,852
Current federal and foreign income tax recoverable and interest thereon	1,745,233		1,745,233
Net deferred tax asset	384,032		384,032
Health care and other amounts receivable	972,793	301,818	670,975
Aggregate write-ins for other than invested assets	<u>398,443</u>	<u> </u>	<u>398,443</u>
Total Assets	<u>\$77,836,659</u>	<u>\$301,818</u>	<u>\$77,534,842</u>

Network Health Insurance Corporation
Liabilities and Net Worth
As of December 31, 2010

Claims unpaid		\$33,543,772
Unpaid claims adjustment expenses		1,350,000
Aggregate health policy reserves		782,046
Premiums received in advance		661,731
General expenses due or accrued		17,454
Amounts due to parent, subsidiaries and affiliates		1,251,139
Aggregate write-ins for other liabilities		<u>8,024</u>
Total liabilities		37,614,167
Common capital stock	\$ 3,000,000	
Gross paid in and contributed surplus	20,000,000	
Unassigned funds (surplus)	<u>16,920,675</u>	
Total capital and surplus		<u>39,920,675</u>
Total Liabilities, Capital and Surplus		<u>\$77,534,842</u>

**Network Health Insurance Corporation
Statement of Revenue and Expenses
For the Year 2010**

Net premium income		\$314,517,116
Medical and hospital:		
Hospital/medical benefits	\$264,667,834	
Other professional services	2,612,789	
Emergency room and out-of-area	34,077	
Prescription drugs	<u>27,797,431</u>	
Subtotal	295,112,132	
Less		
Net reinsurance recoveries	<u>51,699</u>	
Total medical and hospital	295,060,433	
Claims adjustment expenses	10,463,135	
General administrative expenses	<u>14,812,866</u>	
Total underwriting deductions		<u>320,336,434</u>
Net underwriting gain or (loss)		(5,819,318)
Net investment income earned		<u>1,203,838</u>
Net income or (loss) before federal income taxes		(4,615,479)
Federal and foreign income taxes incurred		<u>(1,508,898)</u>
Net Income (Loss)		<u>\$ (3,106,581)</u>

**Network Health Insurance Corporation
Capital and Surplus Account
As of December 31, 2010**

Capital and surplus prior reporting year		\$27,010,623
Net income or (loss)	\$(3,106,581)	
Change in net deferred income tax	152,518	
Change in nonadmitted assets	(135,883)	
Surplus adjustments:		
Capital contribution	<u>16,000,000</u>	
Net change in capital and surplus		<u>12,910,053</u>
Capital and Surplus End of Reporting Year		<u>\$39,920,676</u>

Network Health Insurance Corporation
Statement of Cash Flows
As of December 31, 2010

Premiums collected net of reinsurance		\$307,254,755
Net investment income		1,791,646
Miscellaneous income		<u>530,282</u>
Total		309,576,683
Less:		
Benefit- and loss-related payments	\$284,592,181	
Commissions, expenses paid and aggregate write-ins for deductions	26,041,367	
Federal and foreign income taxes paid (recovered) \$0 net tax on capital gains (losses)	<u>3,999</u>	
Total		<u>310,637,547</u>
Net cash from operations		(1,060,865)
Proceeds from investments sold, matured or repaid:		
Bonds	3,250,000	
Cost of investments acquired—long-term only:		
Bonds	<u>12,417,934</u>	
Net cash from investments		(9,167,934)
Cash provided/applied:		
Capital and paid in surplus, less treasury stock	16,000,000	
Other cash provided (applied)	<u>1,438,661</u>	
Net cash from financing and miscellaneous sources		<u>17,438,661</u>
Net change in cash, cash equivalents, and short-term investments		7,209,862
Cash, cash equivalents, and short-term investments: Beginning of year		<u>3,905,379</u>
End of Year		<u>\$ 11,115,240</u>

Growth of Network Health Insurance Corporation

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2010	\$77,534,842	\$37,614,167	\$39,920,675	\$314,517,116	\$295,060,433	\$(3,106,581)
2009	51,574,868	24,564,246	27,010,623	204,625,178	178,708,208	6,418,328
2008	35,259,179	15,196,644	20,062,535	131,407,789	107,089,373	9,597,581
2007	22,472,624	12,930,819	9,541,805	87,092,026	76,491,356	1,744,858
2006	15,305,605	9,896,923	5,409,681	43,859,419	35,582,882	1,899,370

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2010	(0.99)%	93.8%	8.0%	48.0%
2009	3.1	87.3	8.4	34.6
2008	7.3	81.5	8.5	8.7
2007	2.0	87.8	10.4	33.9
2006	4.3	81.1	13.3	45.3

Network Health Insurance Corporation Analysis of Surplus For the Five-Year Period Ending December 31, 2010

The following schedule details items affecting the company's total capital and surplus during the period under examination as reported by the company in its filed annual statements:

	2010	2009	2008	2007	2006
Capital and surplus, beginning of year	\$27,010,623	\$20,062,535	\$ 9,541,806	\$5,409,681	\$3,643,356
Net income	(3,106,581)	6,418,328	9,597,581	1,744,858	1,899,370
Change in net deferred income tax	152,518	58,570	(262,655)	(398,238)	113,337
Change in nonadmitted assets and related items	(135,883)	(57,758)	327,423	(180,134)	(137,285)
Surplus adjustments:					
Paid in	16,000,000		1,000,000	3,000,000	
Write-ins for gains and (losses) in surplus:					
Prior period adjustments	_____	<u>528,948</u>	<u>(141,619)</u>	<u>(34,361)</u>	<u>(109,097)</u>
Capital and Surplus, End of Year	<u>\$39,920,676</u>	<u>\$27,010,623</u>	<u>\$20,062,535</u>	<u>\$9,541,806</u>	<u>\$5,409,681</u>

The company had significant growth in 2010 with a 55% increase in Medicare enrollment resulting in a 68% increase in the Medicare Advantage PPO products. NHIC was profitable in three of four years of the examination period. In 2010, the company reported a net

loss of \$3.1 million which included an increase of 65% in hospital, medical, and administrative costs. The 2010 loss is attributed to the lack of risk assessments for new Medicare Advantage enrollees. New enrollees may take a year for risk assessment scores to be determined which results in a delay in appropriate premium determination. The increase in hospital days per 1,000 from 2007 to 2010 was also a result of the increased enrollment and the utilization associated with this membership. NHIC's parent company, NHP, contributed additional capital of \$16 million to NHIC during 2010 to offset the impact of operating results.

The \$(34,361) prior period adjustment in 2007 was made because during the course of the 2006 audit it was determined that NHIC should be accruing for future payments of the Wisconsin Health Insurance Risk-Sharing Plan assessment. The impact to the 2007 surplus for the prior year was \$(34,361). During 2009 and 2008 NHIC discovered prior errors in various tax-related accounts causing prior period adjustments to surplus for those years of \$526,948 and \$(141,619), respectively.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were 15 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. Management and Control—It is recommended that NHIC report its financial results to its board on an individual company basis and on the company's actual reporting year.

Action—Compliance

2. Executive Compensation—It is recommended that the company properly include all compensation amounts when completing the Report on Executive Compensation.

Action—Compliance

3. Agreements—It is again recommended that the company file agreements with affiliated entities in accordance with s. 617.21, Wis. Stat., and s. Ins 40.04, Wis. Adm. Code.

Action—Noncompliance; see comments in the "Summary of Current Examination Results."

4. Agreements—It is recommended that the company properly file transactions at least 30 days prior to the effective date as required by s. Ins 40.04, Wis. Adm. Code, and properly report all transactions on the annual Holding Company Registration in accordance with s. Ins 40.04 (3), Wis. Adm. Code.

Action—Compliance

5. CPA Engagement Letter—It is recommended that NHIC either enter into an agreement with their current independent auditor that does not contain indemnification language or obtain a firm that meets the qualifications for an independent certified public accountant as prescribed under s. Ins 50.08 (1), Wis. Adm. Code.

Action—Compliance

6. Investments—It is recommended that the company record the trade date as the acquisition date in Schedule D in accordance with SSAP No. 26.

Action—Compliance

7. Investments—It is recommended that the company add indemnification clauses to its custodial agreement in accordance with the NAIC Financial Condition Examiners Handbook.

Action—Compliance

8. Premium—It is recommended that the company obtain proper reports from its third-party administrator or maintain information on its system in order to properly record premium income, uncollected premium, and advanced premium in accordance with SSAP No. 54 and SSAP No. 6.

Action—Compliance

9. Accrued Medical Incentive—It is recommended that the company correctly report amounts owed under the risk-sharing/capitation agreement with Affinity Medical Group as an affiliated receivable or payable.

Action—Compliance

10. Reinsurance—It is recommended that the company report premiums held to pay claims as “Funds held by or deposited with reinsured companies” in accordance with the NAIC Annual Statement Instructions – Health.

Action—Compliance

11. HIRSP Accrual—It is recommended that the company accrue for the HIRSP assessment in accordance with SSAP No. 35.

Action—Compliance

12. SAS70—It is recommended that the company require a Type II SAS70 from its outside service provider.

Action—Compliance

13. Password Controls—It is recommended that the company require passwords for access to its data to be changed no less frequently than 90 days.

Action—Compliance

14. Authorized Access—It is again recommended that a formal periodic process be established to ensure that all IDs with access to the company’s data are authorized and their access is appropriate for them to perform their job responsibilities.

Action—Compliance

15. Disaster Recovery Plan—It is again recommended that the company formally test its disaster recovery plans on an annual basis.

Action—Compliance

Summary of Current Examination Results

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

Audit Committee

The company does not have an audit committee but relies on the audit committee of Affinity Health System. The examiner reviewed the list of audit committee members and the audit committee charter of the Affinity Health System audit committee. It was noted during the review of the charter that the audit committee consists of two representatives of the corporate members, and one community member from the Finance and Operations Committee. The examiners noted that the Audit Committee members are not members of the board of directors of the Affinity Health System.

Under s. Ins 50.15, Wis. Adm. Code, the insurance company is required to have an audit committee that is directly responsible for the appointment, compensation, and oversight of the company's auditor. The auditor engaged is required to report directly to the audit committee. Each member of the audit committee is required to be a member of the board of directors of the insurer or a member of the board of directors of the ultimate controlling person. For insurers with \$300 million to \$500 million in direct annual premium 50% or more of the audit committee members are required to be independent. The company does not have an audit committee meeting the requirements of s. Ins 50.15, Wis. Adm. Code. It is recommended that the company come into compliance with s. Ins 50.15, Wis. Adm. Code, regarding the appointment and operation of its audit committee.

Exhibit of Premiums, Enrollment and Utilization

The examiners noted that the company incorrectly completed Footnote (b) of the Exhibit of Premiums, Enrollment and Utilization. The company reported \$0 in Footnote (b). The 2010 NAIC Health Annual Statement Instructions indicate that Medicare Title XVIII premiums that are exempted from state taxes or other fees by Section 1854(g) of the Medicare Prescription Drug Improvement, and Modernization Act of 2003 should be included in

Footnote (b). This includes premiums written under a Medicare Advantage product, a Medicare PPO product, or a stand-alone Medicare part D product. It is recommended that the company properly complete the Exhibit of Premiums, Enrollment and Utilization according to the NAIC Health Annual Statement Instructions.

Agreements

The prior examination recommended that NHP execute a tax allocation agreement with NHIC and submit this agreement and all future agreements for review by the Commissioner in accordance with s. 617.21, Wis. Stat. The current examination determined that during the period under examination NHP did amend its tax allocation agreement with NHIC but did not submit the amended agreement for review by the Commissioner at least 30 days before the effective date of the transaction as required by s. Ins 40.04, Wis. Adm. Code. It is again recommended that the company file agreements with affiliated entities in accordance with s. Ins 40.04, Wis. Adm. Code.

Board of Directors

According to 3.2 of the company's Articles of Incorporation the terms of directors shall be staggered so that, as near as possible, an equal number of directors shall be elected in each year. As noted in the "Management and Control" section of this report the company reported four directors' terms expire in 2011, one director's term expires in 2012, and four directors' terms expire in 2013. It is recommended that the company comply with its Articles of Incorporation by staggering the terms of directors so that, as near as possible, an equal number of directors shall be elected in each year.

VIII. CONCLUSION

Network Health Insurance Corporation is a for-profit stock indemnity health insurance company that commenced business on August 1, 2001, and whose major product line is Medicare Advantage. NHIP also provides indemnity-type (POS) health insurance. The principal area in which the company does business is the Wisconsin Fox Valley region. NHIC is a wholly owned subsidiary of Network Health Plan. NHP is a wholly owned subsidiary of Network Health System. Network Health System is a wholly owned subsidiary of Affinity Health System.

The company's operating results were favorable in all years but one during the four-year examination period. At December 31, 2010, the company reported assets of \$77.5 million, liabilities of \$37.6 million and capital and surplus of \$39.9 million. Premium over the four-year examination period increased from \$43.9 million in 2006 to \$314.5 million in 2010, which is primarily the result of the company's increased enrollment in Medicare Advantage including the Medicare Part D Prescription Drug program. The company reported a net income in three of the four years.

The examination concluded the company has complied with 14 prior recommendations and did not comply with 1 prior recommendation. This examination has resulted in 4 recommendations in the areas as listed on the following page.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Audit Committee—It is recommended that the company come into compliance with s. Ins 50.15, Wis. Adm. Code, regarding the appointment and operation of its audit committee.
2. Page 22 - Exhibit of Premiums, Enrollment and Utilization—It is recommended that the company properly complete the Exhibit of Premiums, Enrollment and Utilization according to the NAIC Health Annual Statement Instructions.
3. Page 22 - Agreements—It is again recommended that the company file agreements with affiliated entities in accordance with s. Ins 40.04, Wis. Adm. Code.
4. Page 22 - Board of Directors—It is recommended that the company comply with its Articles of Incorporation by staggering the terms of directors so that, as near as possible, an equal number of directors shall be elected in each year.

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
Thomas Houston	Insurance Financial Examiner
Raymond Kangogo	Insurance Financial Examiner
Victoria Chi	IT Specialist

Respectfully submitted,

Judith Michael
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

On February 8, 2012, Ministry Health Care, Inc., purchased the 50% share of Affinity Health System from Wheaton Franciscan Services, Inc. Ministry Health Care, Inc., became the sole corporate sponsor of Affinity Health System, the ultimate parent of Network Health Insurance Corporation.