



COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE

HNE Insurance Company, Inc.

Springfield, Massachusetts

As of December 31, 2019

NAIC GROUP CODE 04756

NAIC COMPANY CODE 14198

EMPLOYER ID NUMBER 45-4462433

HNE INSURANCE COMPANY, INC.

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COMMONWEALTH OF MASSACHUSETTS
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COMMISSIONER OF INSURANCE

May 28, 2021

The Honorable Gary D. Anderson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws ("M.G.L."), Chapter 175, Section 4 and Chapter 176G, Section 10 and other applicable statutes, an examination has been made of the financial condition and affairs of

HNE INSURANCE COMPANY, INC.

at its home office located at 1 Monarch Place, Suite 1500, Springfield, MA 01144. Due to the COVID-19 pandemic, the examination was conducted remotely. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

HNE Insurance Company, Inc. (“HIC” or “Company”) was last examined as of December 31, 2015 by the Massachusetts Division of Insurance (“Division”). The current examination was also conducted by the Division and covers the 4-year period from January 1, 2016 through December 31, 2019, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) Financial Condition (E) Committee and prescribed by the current NAIC Financial Condition Examiners Handbook (“Handbook”), the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating 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. 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.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 175, Section 4, and general information about the insurer 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.

The Company is audited annually by Deloitte & Touche LLP (“Deloitte”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2016 through 2019. A review and use of the Certified Public Accountants’ work papers was made to the extent deemed appropriate and effective. The Company is required to comply with the Model Audit Rule (“MAR”). All control work papers associated with MAR compliance have been reviewed as a source of information and were tested and leveraged as deemed appropriate and effective.

KPMG LLP (“KPMG”) was engaged to perform certain agreed upon procedures, which are in compliance with the NAIC *Financial Condition Examiners’ Handbook*. KPMG’s Health Actuaries were involved in the performance of those procedures to the extent that such procedures related to the Company’s reserves for unpaid claims and loss adjustment expenses and provider risk sharing settlements as of December 31, 2019. KPMG’s Information Technology Advisory Services personnel were engaged to review the adequacy and effectiveness of the Information Technology systems controls to determine the level of reliance to be placed on the information generated by the data processing systems. All procedures were performed under the management

and control and general supervision of the examination staff of the Division.

This examination was conducted as part of a coordinated group financial examination in compliance with the *Coordination of Holding Company Group Exams* framework of the Handbook. The Division acted as the Lead State, and coordinated with the participating state, Connecticut Insurance Department.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report. There were a number of internal control improvements recommendations identified by the examination team in the previous report of examination. The Company has implemented numerous improvements to mitigate the risks associated with identified control deficiencies.

COMPANY HISTORY

General

The Company is a for-profit insurance company incorporated in the State of Massachusetts effective February 16, 2012 and licensed by the Commonwealth of Massachusetts Division of Insurance.

The Company is a direct subsidiary of HNE Holding Company, a subsidiary of Health New England, Inc. (“HNE”). The ultimate controlling entity is Baystate Health, Inc. Funding for this new corporation occurred on February 24, 2012 when HNE paid \$5,000,000 for 100,000 shares in HIC.

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board of Directors (“Board”) and its Committees for the period under examination were reviewed and they indicated that all meetings were held in accordance with the Company’s bylaws and the laws of the Commonwealth of Massachusetts.

Articles of Organization and Bylaws

The articles of organization and bylaws of the Company were reviewed. The bylaws provide guidance related to corporate governance, including the roles and responsibilities of the Board and officers of the Company.

HNE Insurance Company, Inc.

Board of Directors

According to the bylaws, the Company's business shall be managed by a Board which may exercise all of the powers of the Company, except as otherwise provided by the articles of organization, by law, or the bylaws. "There shall be a Board consisting of not fewer than three (3) directors, except that whenever there shall be fewer than three (3) shareholders, the number of directors may be not less than the number of shareholders." As of December 31, 2019, the Company's Board of Directors consisted of the following individuals:

<u>Name of Director</u>	<u>Title</u>
Marion McGowan, PhD	President & CEO, Health New England, Inc.
Jody Gross	Vice President Operations and Government Programs, Health New England, Inc.
Susan O'Connor	VP & General Counsel, Health New England, Inc.
Steven Sigal	Vice President & CFO, Health New England, Inc.
Judith M. Danek	Secretary, Health New England, Inc.

Officers

According to the Company's bylaws, "the officers shall consist of a President, a Treasurer, a Secretary and such other officers as the Board of Directors may determine. The President, Treasurer, and Secretary shall be elected by the Board of Directors at any meeting thereof. Other officers shall be elected by the Board of Directors or by the Executive Committee."

Senior Officers of the Company as of December 31, 2019 were as follows:

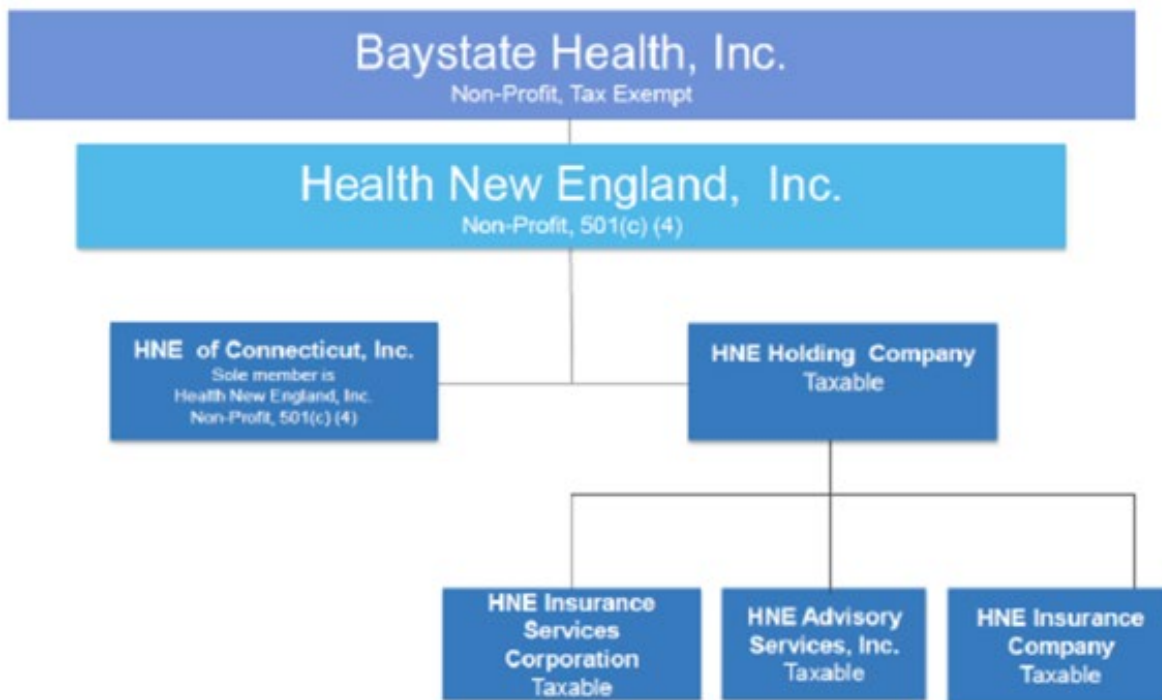
<u>Name of Officers</u>	<u>Title</u>
Marion McGowan, PhD	President
Steven Sigal	Treasurer
Judith M. Danek	Secretary

Affiliated Companies

As stated in the Insurance Holding Company System Form B as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of Massachusetts General Laws, Chapter 175, Section 206C and 211 CMR 7.00. Baystate Health, Inc. is the ultimate controlling person of the holding system.

Organizational Chart

The following documents the Company's organizational chart as of December 31, 2019:



Transactions and Agreements with Subsidiaries and Affiliates

Intercompany Services Agreement: Through this agreement between HNE, HNE Advisory Services, HNE of Connecticut, HNE Insurance Company, HNE Holding Company, and HNE Insurance Services; HNE provides for the administrative and other services between HNE and its subsidiaries. Services provided by HNE include:

- Medical services,
- Marketing and planning functions,
- Enrollment services,
- Claims processing, screening, and auditing services,
- Accounting services,
- Member and provider relations,
- Quality assurance,
- Utilization review and peer review services, and
- Other administrative services.

HNE of Connecticut, HNE Insurance Services, and HNE Insurance Company pay a proportional share of HNE's total administrative costs on a monthly basis determined by assessing whether

each entity used a particular expense and the proportion of each expense that is attributed to each entity.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in Massachusetts and primarily writes Medicare Supplement insurance.

REINSURANCE

The Company is not a party to any assumed or ceded reinsurance agreements.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2019. The financial statements are the responsibility of Company management.

Statement Admitted Assets, Liabilities and Net Worth as of December 31, 2019

Statement of Income for the Year Ended December 31, 2019

Changes in Statutory Net Worth for Each Year in the Four-Year Period Ended December 31, 2019

HNE Insurance Company, Inc.

Statement of Assets, Liabilities, Capital and Surplus As of December 31, 2019

	Per Annual Statement
Assets	
Cash, cash equivalents and short-term investments	\$5,610,823
Subtotals, cash and invested assets	5,610,823
Current federal and foreign income tax recoverable and interest thereon	5,500
Receivables from parent, subsidiaries and affiliates	47,866
Total assets	\$5,664,189
Liabilities	
Claims unpaid	\$440,055
Unpaid claims adjustment expenses	6,000
Aggregate health policy reserves	41,925
Premiums received in advance	93,428
General expenses due or accrued	6,403
Total liabilities	587,811
Common capital stock	2,000,000
Gross paid in and contributed surplus	3,000,000
Unassigned funds (surplus)	76,378
Total capital and surplus	5,076,378
Total liabilities capital, and surplus	\$5,664,189

HNE Insurance Company, Inc.

Statement of Income For the Year Ended December 31, 2019

	Per Annual Statement
Member Months	<u>10,293</u>
Net premium income	\$1,781,276
Total revenues	<u>\$1,781,276</u>
Deductions:	
Hospital/medical benefits	<u>1,569,600</u>
Subtotal	<u>1,569,600</u>
Net reinsurance recoveries	-
Total hospital and medical	<u>1,569,600</u>
Claims adjustment expenses	(734)
General administrative expenses	265,688
Increase in reserves for life and accident and health contracts	41,925
Total underwriting deductions	<u>1,876,479</u>
Net underwriting gain or loss	(95,203)
Net investment income earned	89,351
Net realized capital gains (losses) less capital gains tax	-
Net investment gain	<u>89,351</u>
Aggregate write-ins for other income or expenses	-
Net income, after capital gains tax and before all other federal income taxes	<u>(5,852)</u>
Federal and foreign income taxes incurred	<u>(26,462)</u>
Net income	<u>\$20,610</u>

HNE Insurance Company, Inc.

Reconciliation of Capital and Surplus

For Each Year in the Four-Year Period Ended December 31, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Capital and surplus, December 31 prior year	\$5,050,897	\$5,008,975	\$4,945,696	\$4,901,375
Net income	20,610	66,845	65,734	56,812
Change in net unrealized capital gains				
Change in net deferred income tax	1,677	6,303	(13,199)	(12,794)
Change in nonadmitted assets	<u>3,194</u>	<u>(31,226)</u>	<u>10,744</u>	<u>303</u>
Net change in capital and surplus for the year	<u>25,481</u>	<u>41,922</u>	<u>63,279</u>	<u>44,321</u>
Capital and surplus, December 31 current year	<u><u>\$5,076,378</u></u>	<u><u>\$5,050,897</u></u>	<u><u>\$5,008,975</u></u>	<u><u>\$4,945,696</u></u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There have been no changes made to the Financial Statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

As a result of the examination, no issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

Claims Unpaid

The Company uses estimates for determining its claims incurred but not yet reported which are based on claim payment patterns, healthcare trends and membership and includes a provision for adverse changes in claim frequency and severity. Amounts incurred related to prior years may vary from previously eliminated liabilities as the claims are ultimately settled.

KPMG actuaries prepared independent estimates of the IBNR liabilities as of December 31, 2019 for the Medicare Supplement line of business. The calculations were performed using historical claims data displaying claims paid by incurred month. Payments through December 31, 2019 were included. Based on the analysis of the Company's data and information, a range of estimated incurred claims was developed based on the view of a range of assumptions that could be developed from a reasonable analysis of the factors that impact the Company's reserves. A range of estimates for the unpaid claim liabilities was developed by subtracting the claims paid to-date from the range of incurred claims estimates. The HIC booked reserves fell within the KPMG actuary's estimated range.

Premium Deficiency Reserve

The Company did not hold a Premium Deficiency Reserve ("PDR") as of December 31, 2019. Based on a review of the best estimate projections at the time, KPMG actuaries determined this was appropriate, and a PDR was not required as of December 31, 2019.

SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there was significant uncertainty on the effect that the pandemic would have on the insurance industry, economy, and society at large. Any impact to the Company will take time to assess and will be specific to the class and mix of business it underwrites. The Division will continue to monitor how the pandemic might impact the Company.

SUMMARY OF RECOMMENDATIONS

No significant recommendations were identified during the examination that should be noted in this report.

SIGNATURE PAGE

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination. The assistance rendered by KPMG who participated in the examination is hereby acknowledged.

John M Curran

John M. Curran, CFE
Supervising Examiner
Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance