

Cigna Dental Health of North Carolina, Inc.

Raleigh, North Carolina

Report on Examination

As of December 31, 2018

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May 27, 2020

Honorable Mike Causey
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

Cigna Dental Health of North Carolina, Inc.

(hereinafter referred to as the “Company”), at its main administrative office located at 1571 Sawgrass Corporate Parkway Suite 140, Sunrise, Florida, 33323. The Company’s statutory home office is located at 225 Hillsborough Street, Raleigh, North Carolina, 27603. The following report on examination is respectfully submitted.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2015 to December 31, 2018, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department’s most recent prior examination of the Company was as of December 31, 2014.

The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

Our examination was conducted as part of a multi-state coordinated financial examination of thirty-eight (38) insurance company subsidiaries of Cigna Corporation, collectively known as Cigna. North Carolina served as one of the eighteen (18) participating states in the coordinated examination.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). 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 identifying and

evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process and the following key functional activities were identified:

Capital and Surplus
Claims Handling and Reserving
Financial Reporting
Investments
Related Parties
Underwriting and Premiums

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58 and evaluating management's compliance with Statutory Accounting Principles. This 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 from the Company's financial statements.

This examination report includes significant findings of fact 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 the Company.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). PriceWaterhouseCoopers, LLP of Hartford, Connecticut, the designated independent public accountant of the Company, issued an unmodified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2018.

REPORT ACRONYMS

Board of Directors	“Board”
Cigna Dental Health of NC, Inc.	“Company”
Cigna Dental Health, Inc.	“CDH”
Cigna Health and Life Insurance Company	“CHLIC”
Connecticut General Corporation	“CGC”
Financial Condition Examiners Handbook	“Handbook”
General Statutes of North Carolina	“GS”
National Association of Insurance Commissioners	“NAIC”
North Carolina Department of Insurance	“Department”

COMPANY HISTORY

The Company is licensed as a dental health maintenance organization (“HMO”) that was incorporated in North Carolina in 1992 and commenced writing business on January 1, 1993. The Company is a wholly owned subsidiary of Cigna Dental Health, Inc. (“CDH”), which is a wholly owned subsidiary of Connecticut General Corporation (“CGC”) and is ultimately controlled by Cigna Corporation, a Delaware corporation.

CAPITAL STOCK

As of December 31, 2018, the Company’s capitalization consisted of the following:

Description	Value
Number of authorized common capital shares	1,000
Number of shares issued and outstanding	1,000
Total common capital stock	1,000
Par value per share	\$1

No additional shares were issued during the period under examination. As of December 31, 2018, all outstanding shares are owned by CDH, which is wholly owned by CGC, an insurance holding company incorporated in the state of Connecticut, with its principal office in Connecticut.

The Company received no additional paid in surplus from its parent Cigna Corporation. At December 31, 2018, the Company reported \$5,479,000 in gross paid-in and contributed surplus and (\$2,717,190) in unassigned funds.

DIVIDENDS TO STOCKHOLDER

Dividends on common stock are paid as declared by the Board of Directors (“Board”) of the Company. Under the insurance regulations of North Carolina, the maximum amounts of dividends which the Company may pay to shareholders is limited to the greater of 10% of the most recent year-end surplus or net income (excluding realized capital gains) earned for that same year-end. The Company paid no dividends in 2018 and 2017.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Board of Directors

The business of the Company is conducted by its management team, and subject to review by the Board. The bylaws specify that the number of Directors shall be not less than three (3) nor more than five (5). Directors are elected annually, at the annual meeting of shareholders or by the written consent of the stockholders, and each director elected shall hold office until a successor is elected and qualified. The Board of Directors are not independent directors due to their dual roles as employees of Cigna.

The following individuals served as directors at December 31, 2018:

Name	Location	Principal Occupation
Fredrick Eugene Scardellette	Philadelphia, PA	Market Managing Director
Amie Lynn Benedict	Bloomfield, CT	Vice President Product Solutions
Jason Dean Meade	Bloomfield, CT	Business Finance Senior Director

The Board of Directors of the Cigna Corporation, as the ultimate controlling party, has established the following committees to provide group level oversight: Executive, Audit, Finance, Corporate Governance, Compliance and People Resource. The Company appointed the Audit Committee of Connecticut General Corporation to act as the audit committee of the Company for purposes of complying with the NAIC Annual Financial Reporting Model.

The following individuals served on the Audit Committee at December 31, 2018:

Audit Committee

Mary T. Hoeltzel - Chair
David P. Bourdon
Mark Parsons
Jeffery T. Rigg
Neil B. Tanner
James Yablecki
Jonathan Winderman
Ryan Loyd

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Corporation shall consist of a chairman of the Board, president, secretary, treasurer and such vice chairmen of the board, as the board of directors may from time to time appoint. Any two or more offices may be held by the same person, but no officer may act in more than one capacity where action of two or more officers is required.

The following individuals served as officers of the Company at December 31, 2018:

Name	Title
Fredrick Eugene Scardellette	President and Market Managing Director
Anna Krishtul	Secretary and Associate Senior Counsel
Scott Ronald Lambert	Treasurer and Vice President
Gregory Nicholas Malone	Actuary & Actuarial Managing Director
Amie Lynn Benedict	Vice President of Product Solutions
Lance Manuel Thomas	Vice President and Application Development Senior Director
Maureen Hardiman Ryan	Vice President and Business Project Senior Advisor
Joanne Ruth Hart	Vice President and Financial Analyst Senior Director
Mark Paul Fleming	Vice President and Treasurer Analysis Senior Manager
Kathleen Murphy O'Neil	Vice President and Accounting Senior Director

CODE OF CONDUCT AND CONFLICT OF INTEREST

The Company has an established policy and procedure to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Company requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed the Company acted in accordance with its policy and procedure for disclosure of conflicts of interest.

CORPORATE RECORDS

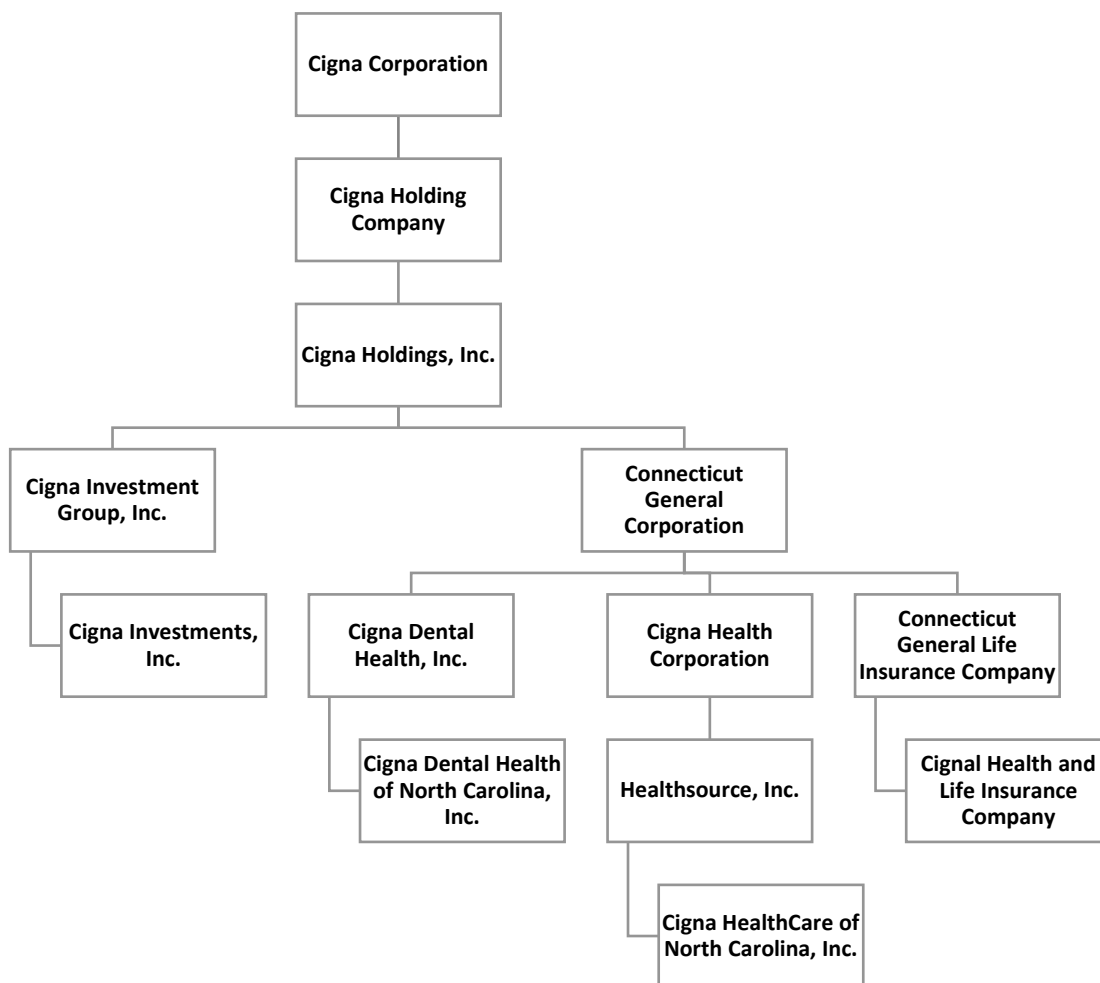
We reviewed the minutes of the meetings of the Board and its committees for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. As of December 31, 2018, the Company has not amended its Articles of Incorporation and Bylaws for any purpose. The minutes of the meetings of the Board and Audit Committee were reviewed for the period under examination. Based on the review, it appears that the Company acted in accordance with policy and procedure for its Articles of Incorporation and Bylaws.

CORPORATE ORGANIZATION

The Company is a member of an insurance holding company group as defined in GS § 58-19. The Company is a wholly owned subsidiary of CDH, which is an indirect wholly owned subsidiary of CGC. The ultimate controlling party is Cigna Corporation.

The Company's 2018 Annual Statement Schedule Y contains a complete organization chart.



STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2018 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state.

FIDELITY BONDS AND OTHER INSURANCE

The Company is a named insured under a fidelity bond issued to Cigna Corporation with coverage totaling \$20,000,000 in aggregate. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the Handbook for Cigna Corporation on a consolidated basis.

In addition, the Company is a named insured on various corporate property and liability policies issued to Cigna Corporation, which appeared to be adequate to cover risks in the normal course of business.

EMPLOYEE BENEFITS AND PENSION PLANS

An affiliated company, Cigna Health and Life Insurance Company (“CHLIC”) performs certain functions on behalf of the Company.

CHLIC provides certain post-retirement benefits to retired employees, spouses and other eligible dependents through a plan sponsored by Cigna. CHLIC also participates in a capital accumulation 401(k) plan sponsored by Cigna in which employee contributions are supplemented by the Company’s matching contributions. The Company has no legal obligation for benefits under these plans.

RELATED PARTY AGREEMENTS

The Company is a member of an insurance holding company system and related-party activities have a significant impact on the financial condition of the Company. The majority of the Company’s contracts/agreements in place as of December 31, 2018 were made with affiliated entities.

Management Services Agreement

Under this agreement, effective July 31, 2002, Cigna Dental Health of Florida and CDH provides management services to the Company for a fixed monthly fee on a per-member, per-month basis. The service fees charged are based largely on the Company’s plan participants as a percentage of total applicable participants for the Company and its affiliates. CDH charged the Company \$504,590 and \$548,777 for administrative and management services in 2018 and 2017, respectively.

Investment Advisory Agreement

Under this agreement, dated October 16, 2009, Cigna Investments, Inc. provides investment advisory service to the Company. The expense incurred under this agreement was \$2,063 in 2018 and \$1,457 in 2017.

Fee Sharing Agreement and Amendment One

The Company participates in a Fee Sharing Agreement with Cigna and its subsidiaries that are subject to the Health Insurance Providers Fee. Under the agreement, dated July 30, 2014 and amended May 10, 2016, the Company has designated Cigna as its designated entity for the payment of this fee. The fee is allocated among the Cigna subsidiaries each year in proportion to estimates of each subsidiary’s premiums for the year. The Company incurred no charges under this agreement in 2018 and 2017.

Consolidated Federal Income Tax Agreement

The Company participates in the Amended and Restated Consolidated Federal Income Tax Agreement dated January 1, 1997. Under this agreement, Cigna Corporation and its subsidiaries file a consolidated federal income tax return as an affiliated group. The Company makes payment to Cigna for its taxable

income and receives a refund from Cigna for taxable losses that Cigna is able to utilize in the consolidated tax return. The Company incurred no charges under this agreement in 2018 and 2017.

TERRITORY AND PLAN OF OPERATION

The Company is a Dental Health Maintenance Organization that is licensed to write health care insurance in all counties in the state of North Carolina and provides dental health care services to a defined, enrolled population for a predetermined, prepaid monthly fee

TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five-year period ended 2018:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income(loss)
2018	\$3,121,278	\$2,762,810	\$5,329,892	\$5,329,892	\$539,850
2017	\$2,620,626	\$2,224,214	\$5,763,702	\$5,763,702	\$328,951
2016	\$2,270,099	\$1,896,597	\$5,302,547	\$5,302,547	\$31,254
2015	\$2,158,391	\$1,864,297	\$5,435,066	\$5,435,066	\$423,025
2014	\$2,042,530	\$1,438,458	\$5,194,964	\$5,194,964	\$32,721

ACTUARIAL OPINION

Every health insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary in accordance with GS § 58-2-165(c).

The statutory reserves and related items for 2018 were reviewed and certified by the Company's Appointed Actuary, Gregory N. Malone, FSA, Actuarial Managing Director of Cigna Corporation. Actuarial opinions regarding the Company's reserves for loss and loss adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the loss and loss adjustment expense reserve. According to the actuarial opinions, the Company's reserve on the loss and loss adjustment expense met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid claims and unpaid claim expense obligations of the Company.

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 the Company for the period ending December 31, 2018. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2017, are unexamined and are presented for comparative purposes only.

Cigna Dental Health of North Carolina, Inc.
Statutory Statement of Admitted Assets
December 31, 2018

	2018	2017 <i>(unexamined)</i>
Bonds	\$331,086	\$331,469
Cash and short-term investments	2,329,777	1,765,911
Total cash and invested assets	2,660,863	2,097,380
Investment income due and accrued	1,792	1,792
Premiums and agents' balances in course of collection	446,547	472,580
Federal income tax recoverable	-	32,586
Net deferred tax asset	2,004	1,942
Receivable from parent, subsidiaries and affiliates	253	14,346
State premium tax receivable	9,819	-
Total admitted assets	\$3,121,278	\$2,620,626

Cigna Dental Health of North Carolina, Inc.
Statutory Statement of Liabilities, Capital and Surplus
December 31, 2018

	2018	2017 <i>(unexamined)</i>
Claims unpaid	\$293,004	\$344,452
Unpaid claims adjustment expenses	4,331	4,301
Premiums received in advance	24,844	27,129
General expenses due or accrued	-	17,321
Current federal and foreign income taxes	24,739	-
Remittances and items not allocated	2,717	3,209
Accrued Commission Payable	8,833	-
Total Liabilities	358,468	396,412
Surplus appropriated for ACA Section 9010 Fee	-	112,241
Common capital stock	1,000	1,000
Gross paid in and contributed surplus	5,479,000	5,479,000
Unassigned funds	(2,717,190)	(3,368,027)
Total capital and surplus	2,762,810	2,224,214
Total Liabilities, Capital and Surplus	\$3,121,278	\$2,620,626

Cigna Dental Health of North Carolina, Inc.
Statutory Statement of Operations
December 31, 2018

	2018	2017 <i>(unexamined)</i>
Underwriting Income		
Total Revenues	\$5,329,892	\$5,763,702
Hospital and Medical:		
Other professional services	3,372,849	4,085,694
Outside referrals	633,507	601,387
Total hospital and medical subtotal	4,006,356	4,687,081
Claims adjustment expenses	8,241	9,970
General administrative expenses	648,356	579,081
Total underwriting deductions	4,662,953	5,276,132
Net underwriting gain	666,939	487,570
Investment Income:		
Net investment income earned	41,679	18,278
Net realized capital losses	4	(6)
Net investment gain	41,683	18,272
Other Income		
Net loss from agents' or premium balances charged off	(33)	527
Net income after capital gains tax and before federal income tax	708,589	506,369
Federal income taxes incurred	168,739	177,418
Net Income	\$539,850	\$328,951

Cigna Dental Health of North Carolina, Inc.
Statutory Statement of Capital and Surplus
December 31, 2018

	2018	2017 <i>(unexamined)</i>
Capital and surplus, beginning of year	\$2,224,214	\$1,896,597
Net Income	539,850	328,951
Change in net deferred income tax	62	(985)
Change in non-admitted assets	(1,316)	(349)
Net Change in capital and surplus	538,596	327,617
Capital and surplus, end of year	\$2,762,810	\$2,224,214

Cigna Dental Health of North Carolina, Inc.
Statutory Statement of Cash Flow
December 31, 2018

	2018	2017 <i>(unexamined)</i>
Cash From Operations		
Premiums collected net of reinsurance	\$5,352,324	\$5,736,878
Net investment income	42,062	18,653
Total	5,394,386	5,755,531
Benefit and loss related payments	4,057,804	4,676,669
Commissions, expenses paid and aggregate write-ins	674,907	575,957
Federal income taxes paid	111,415	125,025
Total	4,844,126	5,377,651
Net cash from operations	550,260	377,880
Cash From (Used By) Investments		
Proceeds from investments sold, matured, or repaid	5	(9)
Net cash from (used by) investments	5	(9)
Cash From (Used By) Financing and Miscellaneous Sources		
Other cash provided/(applied)	13,601	(11,226)
Net cash from (used by) financing and miscellaneous sources	13,601	(11,226)
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	563,866	366,645
Cash and short-term investments, beginning of year	1,765,911	1,399,266
Cash and short-term investments, end of year	\$2,329,777	\$1,765,911

COMMENTS ON FINANCIAL STATEMENTS

Basis of Presentation and Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

Bonds: Carried at amortized cost using the scientific method. Bonds with lower credit ratings are carried at the lower of amortized cost or fair value.

Cash and Cash Equivalents: Carried at amortized cost (which approximates fair value) and includes debt securities with maturities of less than one year.

Premiums: Insurance premiums are earned over the terms of the policies. The portion of direct premiums written applicable to the unexpired terms of the policies is recorded as unearned premium.

Non-admitted Assets: Certain assets, such as premiums over 90 days past due are “non-admitted” and are charges against surplus.

Claims Unpaid and Unpaid Claims Adjustment Expenses: Includes amounts determined from individual case estimates and loss reports and amounts, based on experience, for losses incurred but not reported.

Analysis of Assets:

The Company reported uncollected premiums and agent's balances totaling \$2,138 as non-admitted at December 31, 2018.

Summary of Reserves:

The following provides a reconciliation of the Company's reserves for losses and loss adjustment expenses:

	2018	2017
Reserve for losses and loss adjustment expenses, beginning of year	\$ 348,753	\$ 338,440
Add:		
Provision for losses and loss adjustment expenses, current year	4,054,015	4,786,271
Change in estimated losses and loss adjustment expenses, prior years	(39,418)	(89,220)
Total incurred	4,014,597	4,697,051
Deduct:		
Losses and loss adjustment expenses paid, current year	3,756,679	4,437,518
Losses and loss adjustment expenses paid, prior year	309,336	249,220
Total paid	4,066,015	4,686,738
Reserve for losses and loss adjustment expenses, end of year	297,335	348,753
(Decrease) Increase in reserve for losses and loss adjustment expenses	(\$51,418)	\$10,313

Capital and Surplus:

The following, in conjunction with the Statutory Statement of Capital and Surplus, represents the changes in the Company's capital and surplus since the Department's last examination as of December 31, 2014:

	2016	2015
Capital and surplus, beginning of year	\$1,864,297	\$1,438,458
Capital and surplus increases (decreases):		
Net income	31,254	423,025
Change in net deferred income tax	(260)	3,187
Change in non-admitted assets	1,306	(373)
Change in surplus as regards policyholders for the year	32,300	425,839
Capital and surplus, end of year	\$1,896,597	\$1,864,297

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. The Department along with the other insurance regulators have been in communication with Cigna regarding the impact of COVID-19 on its business operations and the financial position, including its Pandemic Preparedness Plan and material Third Party Vendors business continuity plans. For example, Cigna has created an Emerging Virus Workgroup to make COVID-19 related benefits and coverage recommendations to the Enterprise COVID-19 Command Center that determines whether they should be implemented. No current material operational, solvency or liquidity concerns resulted from the high level assessment of Cigna's operational and solvency position as a result of COVID-19.

On March 31, 2020 Anna Krishtul resigned from the position of Secretary.

Cigna Dental Health of North Carolina, Inc.
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2018

Kathleen Murphy O'Neil
Accounting Senior Director
900 Cottage Grove Road, C6ACC
Bloomfield, Connecticut 06002

CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-67-110 for the kinds of insurance that the Company has been authorized to write, which is \$50,000.

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,



Ke Xu, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

May 27, 2020

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Bill Keely, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature: Bill Keely Date: 5/27/20
Bill Keely

Sworn and subscribed before me this 27th day of May, 2020.

Notary Public Signature: Jennifer Ishihara Notary Public Seal:

