

Cigna Healthcare 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 (“§”) 58-67-100 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 Healthcare of North Carolina, Inc.

(hereinafter referred to as the “Company”), at its main administrative office located at 900 Cottage Grove Road, Bloomfield, Connecticut 06002. The Company’s statutory home office is located at 701 Corporate Center Drive, Raleigh, North Carolina 27607. 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, 2014 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, 2013.

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
Health Items
Investments
Reinsurance Ceding
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 Behavioral Health, Inc.	“CBH”
Cigna Corporation	“Cigna”
Cigna Health and Life Company	“CHLIC”
Cigna Health Corporation	“CHC”
Cigna Healthcare of North Carolina, Inc.	“Company”
Connecticut General Corporation	“CGC”
eviCore Healthcare MSI, LLC	“eviCore”
Express Scripts, Inc.	“ESI”
Financial Condition Examiners Handbook	“Handbook”
General Statutes of North Carolina	“GS”
Health Maintenance Organization	“HMO”
National Association of Insurance Commissioners	“NAIC”
North Carolina Department of Insurance	“Department”

COMPANY HISTORY

The Company is a Health Maintenance Organization (“HMO”) that commenced operations on April 18, 1986. The Company is licensed to write health care insurance in all counties in the state of North Carolina and provides health care services to a defined, enrolled population for a predetermined, prepaid monthly fee.

The Company is a member of an insurance holding company group. The Company is a wholly owned subsidiary of Healthsource, Inc., which is a wholly owned subsidiary of Cigna Health Corporation (“CHC”), which is an indirect wholly owned subsidiary of Connecticut General Corporation (“CGC”) and the ultimate controlling party is Cigna Corporation.

CAPITAL STOCK

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

Description	Value
Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	100
Total common capital stock	10
Par value per share	\$0.10

No additional shares were issued during the period under examination. As of December 31, 2018, all outstanding shares are owned by CHC, 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 additional paid in surplus from its parent Cigna Corporation totaling \$12,250,000 during 2015 and 2016. At December 31, 2018, the Company reported \$19,725,000 in gross paid-in and contributed surplus and \$17,267,656 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 amount of dividends which the Company may pay to its 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 2017 and 2018.

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 five (5) nor more than twenty-five (25). 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 following individuals served as directors at December 31, 2018:

Name	Location	Principal Occupation
Michael Todd Crompton	Bloomfield, CT	Accounting Managing Director
Charles Carpenter Pitts	Charlotte, NC	President
Edward Neal Hunsinger	Lewisville, NC	Medical Senior Principal
Peter Wesley McCauley	Chicago, IL	Medical Officer
Scott Tracy Josephs	Raleigh, NC	Chief Medical Officer

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, chief executive officer, secretary, treasurer and such other officers 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
Charles Carpenter Pitts	President and Market Leader
Anna Krishtul	Secretary and Associate Senior Counsel
Scott Ronald Lambert	Treasurer and Treasury Analysis Managing Director
Glenn Michael Gerhard	Vice President and Business Analytics Managing Director
Maureen Hardiman Ryan	Vice President and Business Project Senior Advisor
Gregory James Allen	Vice President and Market Leader
Andrew W. Reeves	Vice President and Executive Management Market Leader
Brian Evanko	Vice President and President Government Business
Michael Todd Crompton	Vice President and Accounting Managing Director
Edward Vincent Stacey Jr.	Vice President and Director of Provider Contracting
Mark Paul Fleming	Vice President and Treasury Analysis Senior Manager
David Wolff	Vice President and Sales Managing Director
Todd Rooker	Vice President and Strategy Managing Director
Scott Tracy Josephs	Vice President and Chief Medical Officer
Kathleen O'Neil	Vice President and Accounting Senior Director
Joanne Ruth Hart	Vice President and Financial Analysis Senior Director
Sheffield Young	Vice President and Managed Care Executive
Timothy Sheridan	Vice President and Vice President of Finance

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.

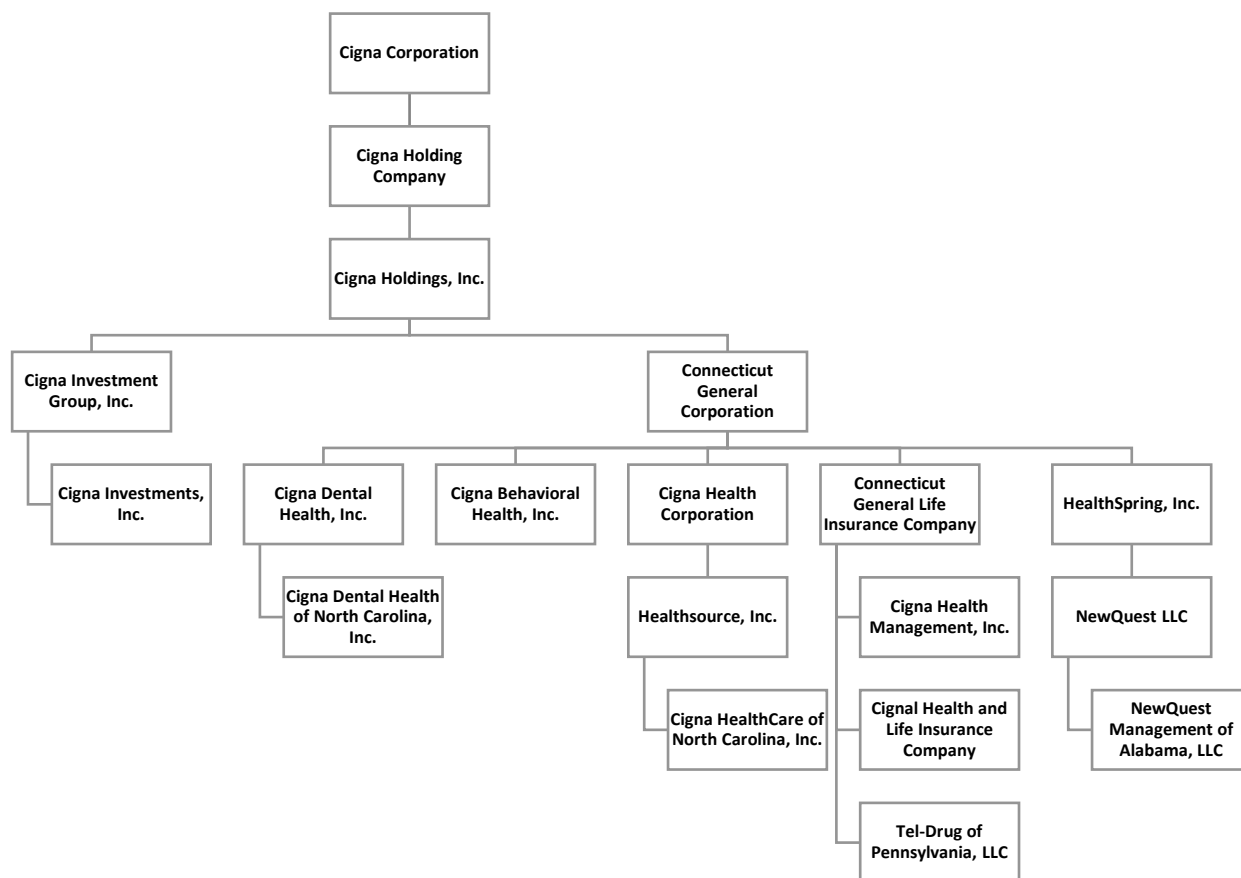
CORPORATE RECORDS

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 part of an insurance holding company system as defined in GS § 58-19. The Company's 2018 Annual Statement Schedule Y contains a complete organizational 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 post-retirement benefits to retired employees, spouses and other eligible dependents through a plan sponsored by Cigna. CHLIC participates in a 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. The Company’s expense credit for such benefits was \$10,032 and \$162,671 for 2018 and 2017, respectively.

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 agreements in place as of December 31, 2018 were made with affiliated entities. The material transactions between related parties are summarized as following:

Management Services Agreement

Under this agreement, effective January 1, 1994, CHC provides management services to the Company for a fixed monthly fee on a per-member, per-month basis. The service fees charged are based on the Company’s plan participants as a percentage of total applicable participants of the Company and its affiliates. CHC charged the Company \$15,903,192 and \$18,528,887 in administrative service fees for 2018 and 2017, respectively.

Line of Credit Agreement

Under this agreement dated October 1, 2005, CHC can provide short-term funds to the Company to ensure that the Company will be able to meet its operational cash obligations. There was no liability associated with this agreement as of December 31, 2018 and December 31, 2017.

Network Access Agreement

Under this agreement dated March 14, 2013, the Company allows Connecticut General Life Insurance Company, CIGNA Health and Life Insurance Company and the affiliated HMOs to access the Company’s provider networks. There were no charges incurred under this agreement in 2018 and 2017.

Mental Health Service Agreement

Under this agreement, effective January 1, 1999, Cigna Behavioral Health, Inc. (“CBH”), on behalf of its subsidiaries and affiliates, provides mental health and substance use services to the enrollees of the Company and other affiliated HMOs. The expense incurred under this agreement was \$486,349 in 2018 and \$521,965 in 2017.

Disease Management Service Agreement

Under this agreement, dated January 1, 1999, CBH provides disease management and other services to the Company in conjunction with the administration of the Company’s plan. There were no charges incurred under this agreement in 2018 and 2017.

Intercompany Service Agreement

Under this agreement, dated January 1, 2011, Cigna Health Management, Inc. (“CHM”) provides utilization management, case management, disease management, care management and other services to the enrollees of the Company and the affiliated HMOs. The expenses incurred under this agreement was \$186,432 in 2018 and \$263,809 in 2017.

Mail Order Pharmacy Agreement

Under this agreement dated January 1, 2005, Tel-Drug, Inc. and Tel-Drug of Pennsylvania, LLC provide mail-order pharmacy services to the enrollees of the Company and the affiliated HMOs. There were no charges incurred under this agreement in 2018 and 2017.

Dental Consultation Agreement

Under this agreement dated October 1, 2000, Cigna Dental Health, Inc. provides dental consultations to the Company and its affiliated HMOs on selected dental cases relative to services provided under the members’ HMO contracts. There were no charges incurred under this agreement in 2018 and 2017.

Premium Billing Authorization Agreement

Under this agreement dated June 1, 1996, the Company and its affiliated HMOs are able to provide a single premium bill for their respective Cigna Health Access customers. There were no charges incurred under this agreement in 2018 and 2017.

Investment Advisory Agreement

Under this agreement, dated August 20, 2009, Cigna Investments, Inc. provides investment advisory service to the Company. The expense incurred under this agreement was \$75,405 in 2018 and \$77,286 in 2017.

Fee Sharing Agreement

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, 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.

Management Agreement

Under this agreement dated January 1, 2004, NewQuest Management of Alabama, LLC, an indirect subsidiary of Cigna Corporation, provides managerial, financial and administrative support for the Medicare Advantage business for the Company. The Company paid \$9,447,532 and \$8,871,975 in 2018 and 2017, respectively, for these services.

TERRITORY AND PLAN OF OPERATION

The Company is a Health Maintenance Organization licensed to write health care insurance in all counties in the state of North Carolina and provides 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	\$82,936,452	\$36,992,666	\$168,625,576	\$167,029,363	\$15,576,988
2017	\$95,204,526	\$21,486,685	\$156,005,467	\$154,121,188	\$7,815,499
2016	\$27,237,533	\$13,489,151	\$88,327,710	\$88,274,243	(\$4,155,311)
2015	\$18,183,205	\$7,673,288	\$75,091,419	\$74,905,022	\$641,043
2014	\$14,020,800	\$5,741,438	\$23,168,629	\$22,978,493	(\$4,488,944)

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 claims unpaid and unpaid claims adjustment expense reserve. According to the actuarial opinions, the Company's reserve on the claims unpaid, unpaid 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 claims unpaid and claims unpaid expense obligations of the Company.

REINSURANCE PROGRAM OVERVIEW

REINSURANCE CEDED

Reinsurance is ceded primarily to limit losses from large exposures and to permit recovery of a portion of direct losses. Reinsurance does not relieve the originating insurer of liability.

Effective January 1, 2013, the Company entered into a Reinsurance Stop Loss Agreement with Cigna Health and Life Company. The Agreement is administered by the Company's parent, CHC. Under the terms of the Agreement, the Company pays a monthly premium based on an established rate per commercial and Medicare health plan members. In return for premiums paid, the Company is reimbursed a percentage of costs in excess of a deductible for hospital related services provided to individual commercial and Medicare health plan members. The required deductible per individual commercial and Medicare health plan member per calendar year was \$150,000 for the years ended December 31, 2018 and 2017. Covered charges over the deductible are reimbursed by the reinsurer at 80% for the years ended December 31, 2018 and 2017. In 2018 and 2017, the Company ceded premiums totaling \$1,596,213 and \$1,184,279, respectively, under this 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 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 Healthcare of North Carolina, Inc.
Statutory Statement of Admitted Assets
December 31, 2018

	2018	2017 <i>(unexamined)</i>
Bonds	\$68,872,577	\$9,870,963
Cash and short-term investments	6,132,358	71,795,813
Total cash and invested assets	75,004,935	81,666,776
Investment income due and accrued	639,384	92,053
Premiums and agents' balances in course of collection	5,365,808	2,180,033
Reinsurance recoverable	178,599	47,674
Amounts receivable relating to uninsured plans	-	8,773,838
Net deferred tax asset	40,184	99,424
Receivable from parent, subsidiaries and affiliates	781,321	1,422,478
Healthcare and other amounts receivable	900,292	842,058
BorgWarner/Mohawk Account Receivable	25,929	47,112
Miscellaneous receivables	-	33,080
Total admitted assets	\$82,936,452	\$95,204,526

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

	2018	2017 <i>(unexamined)</i>
Claims unpaid	\$13,719,216	\$13,336,061
Accrued medical incentive pool and bonus amounts	188,244	470,641
Unpaid claims adjustment expenses	98,410	202,495
Aggregate health policy reserves	22,880,902	35,216,811
Premiums received in advance	217,900	752,574
General expenses due and accrued	9,720	3,288
Current federal and foreign income taxes	2,621,929	4,688,268
Ceded reinsurance premiums payable	118,071	140,873
Amounts withheld or retained for the account of others	332	279
Remittances and items not allocated	147,266	-
Amounts payable to parent, subsidiaries and affiliates	5,773,638	741,099
Liability for amounts held under uninsured plans	-	15,678,239
Premium tax payable	162,644	2,448,432
Escheat reserve	2,035	-
Patient centered outcomes research institute liability	2,026	1,643
Credit balances due to policy holders	1,453	21,931
Commissions to agents due or accrued	-	15,207
Total Liabilities	45,943,786	73,717,841
Surplus appropriated for CY ACA Section 9010 Fee	-	3,225,271
Common capital stock	10	10
Gross paid in and contributed surplus	19,725,000	19,725,000
Unassigned funds (surplus)	17,267,656	(1,463,596)
Total capital and surplus	36,992,666	21,486,685
Total Liabilities, Capital and Surplus	\$82,936,452	\$95,204,526

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

	2018	2017 <i>(unexamined)</i>
Underwriting Income		
Total Revenues	\$170,684,278	\$149,889,667
Hospital and Medical:		
Hospital/medical benefits	91,190,621	85,357,477
Other professional services	2,345,627	(276,205)
Outside referrals	782	-
Emergency room and out-of-area	6,582,480	6,534,860
Prescription Drugs	15,916,843	14,887,140
Incentive pool, withhold adjustments and bonus amounts	341,972	346,476
Subtotal	116,378,325	106,849,748
Less:		
Net reinsurance recoveries	517,985	394,964
Total hospital and medical	115,860,340	106,454,784
Claims adjustment expenses	7,225,724	6,600,949
General administrative expenses	28,637,956	28,480,142
Increase in reserves for life and accident and health contracts	8,190	(1,946,160)
Total underwriting deductions	151,732,210	139,589,715
Net underwriting gain	18,952,068	10,299,952
Investment Income:		
Net investment income earned	2,470,703	648,498
Net realized capital losses	(304,733)	(34)
Net investment gain	2,165,970	648,464
Other Income		
Net loss from agents' or premium balances charged off	(360,620)	(385,520)
Net income after capital gains tax and before federal income tax	20,757,418	10,562,896
Federal and foreign income taxes incurred	5,180,430	2,747,397
Net Income (Loss)	\$15,576,988	\$ 7,815,499

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

	2018	2017 <i>(unexamined)</i>
Capital and surplus, beginning of year	\$21,486,685	\$13,489,151
Net Income	15,576,988	7,815,499
Change in net deferred income tax	(59,240)	99,424
Change in non-admitted assets	(11,767)	82,611
Net change in capital and surplus	15,505,981	7,997,534
Capital and surplus, end of year	\$36,992,666	\$21,486,685

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

	2018	2017 <i>(unexamined)</i>
Cash From (Used By) Operations		
Premiums collected net of reinsurance	\$154,581,228	\$184,264,258
Net investment income	1,816,819	608,771
Total	156,398,047	184,873,029
Benefit and loss related payments	115,944,808	100,010,183
Commissions, expenses paid and aggregate write-ins	43,226,354	27,870,036
Federal income taxes paid	7,246,769	(2,371,343)
Total	166,417,931	125,508,876
Net cash (used by) from operations	(10,019,884)	59,364,153
Cash (Used By) Investments		
Proceeds from investments sold, matured, or repaid	29,461,950	976,503
Cost of Investments acquired	88,661,742	2,599,845
Net cash (used by) investments	(59,199,792)	(1,623,342)
Cash From (Used By) Financing and Miscellaneous Sources		
Other cash provided	3,556,221	7,156,153
Net cash from financing and miscellaneous sources	3,556,221	7,156,153
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	(65,663,455)	64,896,964
Cash and short-term investments, beginning of year	71,795,813	6,898,849
Cash and short-term investments, end of year	\$6,132,358	\$71,795,813

COMMENTS ON FINANCIAL STATEMENTS

There were no changes to the Company's financial statements and there were no proposed adjustments to surplus as a result of this examination.

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, net of premiums ceded to reinsurers, 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. Premiums are earned on a pro rata basis.

Non-admitted Assets: Certain assets, such as premiums over 90 days past due 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 \$39,188 as non-admitted at December 31, 2018.

Reinsurance Activity:

The Company has a reinsurance contract to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company.

Direct and ceded premiums earned are as follows:

	2018	2017
Direct written earned	\$165,433,150	\$152,236,909
Ceded earned	1,596,213	1,884,279
Net earned	\$167,029,363	\$154,121,188

The types of contract and retention limit is described under the Reinsurance Program Overview section.

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	\$ 14,009,197	\$9,532,354
Add:		
Provision for losses and loss adjustment expenses, current year	125,090,381	115,773,720
Change in estimated losses and loss adjustment expenses, prior years	(2,004,317)	(2,717,987)
Total incurred	123,086,064	113,055,733
Deduct:		
Losses and loss adjustment expenses paid, current year	112,097,062	103,046,776
Losses and loss adjustment expenses paid, prior year	10,992,329	5,532,114
Total paid	123,089,391	108,578,890
Reserve for losses and loss adjustment expenses, end of year	14,005,870	14,009,197
Increase in reserve for losses and loss adjustment expenses	(\$3,327)	\$4,476,843

Reserves for unpaid claims and unpaid claim adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contract. At December 31, 2018, the liability for claims unpaid and unpaid claims adjustment expenses was reduced by \$0 for amounts to be recovered from reinsurers. There were no amounts recoverable for unpaid claims and unpaid claims adjustment expenses recorded at December 31, 2018 and December 31, 2017.

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, 2013:

	2016	2015	2014
Capital and surplus, beginning of year	\$7,673,288	\$5,741,438	\$9,682,287
Capital and surplus increases (decreases):			
Net income(loss)	(4,155,311)	641,043	(4,488,944)
Change in net deferred income tax	(435,114)	(457,055)	847,474
Change in non-admitted assets	(93,712)	(2,138)	582
Change in miscellaneous surplus	-		(299,961)
Surplus adjustments to paid-in capital	10,500,000	1,750,000	-
Change in surplus as regards policyholders for the year	5,815,863	1,931,850	(3,940,849)
Capital and surplus, end of year	\$13,489,151	\$7,673,288	\$5,741,438

SUBSEQUENT EVENTS

Effective July 1, 2019, the Company entered into a pharmacy benefits service agreement with Express Scripts, Inc. ("ESI"), an affiliate, under which ESI provides pharmacy benefit management services to the Company for its commercial members including manufacturer revenue services, formulary development, pharmacy network contracting, claims processing, care management, and clinical services.

Effective September 6, 2019, the Company entered into a pharmacy benefits service agreement with ESI, under which ESI provides pharmacy benefit management services to the Company for its Medicare Advantage members including manufacturer revenue services, formulary development, pharmacy network contracting, claims processing, care management, and clinical services.

Effective January 7, 2020, the Company entered into a health services agreement with eviCore Healthcare MSI, LLC. ("eviCore"), under which eviCore provides a panel of represented providers for the provision of covered services to enrollees of the Company.

The following individuals no longer serve as officers of the Company after December 31, 2018:

- Anna Krishtul - Secretary
- Andrew Reeves - Vice President
- Sheffield Young – Vice President

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.

Cigna HealthCare 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 \$1,000,000.

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:

