

**Sentara Health Insurance Company of North Carolina**

Virginia Beach, Virginia

**Report on Examination**

As of December 31, 2018

# TABLE OF CONTENTS

<b>SCOPE OF THE EXAMINATION</b> .....	<b>1</b>
<b>REPORT ABBREVIATIONS</b> .....	<b>2</b>
<b>SUMMARY OF SIGNIFICANT FINDINGS</b> .....	<b>2</b>
<b>COMPANY HISTORY</b> .....	<b>2</b>
Capital Stock .....	3
<b>MANAGEMENT AND CONTROL</b> .....	<b>3</b>
Corporate Governance.....	3
Code of Conduct and Conflict of Interest.....	4
Corporate Organization .....	4
Organization Chart .....	5
Statutory Deposits .....	5
Related Party Agreements .....	5
<b>TERRITORY AND PLAN OF OPERATION STATEMENTS</b> .....	<b>6</b>
<b>FINANCIAL STATEMENTS</b> .....	<b>6</b>
<b>COMMENTS ON FINANCIAL STATEMENTS</b> .....	<b>12</b>
<b>DISTRIBUTION OF REPORT ON EXAMINATION</b> .....	<b>13</b>
<b>CONCLUSION</b> .....	<b>14</b>

March 19, 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

### **Sentara Health Insurance Company of North Carolina**

(hereinafter referred to as the “Company”), at its main administrative and statutory home office located at 4417 Corporation Lane, Virginia Beach, Virginia.

## **SCOPE OF THE EXAMINATION**

We performed a full-scope statutory examination of the Company. This examination covers the period from April 30, 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 purpose of this examination is to review and evaluate the Company’s business processes and controls to assist in accessing and monitoring its current financial condition and prospective solvency. Pursuant to GS § 58-2-132, this Report on Examination comprises only facts appearing in the books, records, or other documents of the Company (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners 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 Handbook risk-focused surveillance process and the following key functional activity was identified:

### Investments

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.

This examination report includes significant findings of fact and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to the Company.

The Company's Annual Statements and 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 of assets, determination of liabilities, 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.

## REPORT ABBREVIATIONS

Board of Directors	"Board"
Financial Condition Examiners Handbook	"Handbook"
General Statutes of North Carolina	"GS"
Net Premiums to Surplus Ratio	"Ratio"
North Carolina Department of Insurance	"Department"
Sentara Health Insurance Company of North Carolina	"Company"
Sentara Healthcare	"SH"
Sentara Holdings, Inc.	"SHI"

## SUMMARY OF SIGNIFICANT FINDINGS

Conflict of interest forms were not executed annually by all officers and directors of the Company for the years 2014 and 2015. The Company is directed to execute conflict of interest forms annually pursuant to North Carolina Administrative Code Title 11 Chapter 11C.0117.

## COMPANY HISTORY

The Company filed articles of incorporation in North Carolina on April 30, 2014. Sentara Holdings, Inc. ("SHI"), the Company's parent, capitalized the Company with the purchase of 5,000 shares of the Company's common stock for \$200 per share for a total purchase price of \$1,000,000 in cash.

## CAPITAL STOCK

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

Description	Value
Number of authorized common capital shares	5,000
Number of shares issued and outstanding	5,000
Total common capital stock	\$1,000,000
Par value per share	\$200

As of December 31, 2018, all outstanding shares were owned by SHI, which is wholly owned by Sentara Healthcare ("SH"). Refer to the Organization Chart.

At December 31, 2018, the Company reported \$1,500,000 in gross paid in and contributed surplus and \$39,582 in unassigned funds.

## MANAGEMENT AND CONTROL

### CORPORATE GOVERNANCE

#### Board of Directors

The business and affairs of the Company are managed by the Board of Directors ("Board"). The bylaws specify that the number of directors shall not be less than three and no more than sixteen. Directors serve staggered three-year terms.

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

Name	Location	Principal Occupation
Dennis Matheis	Virginia Beach, VA	Chief Executive Officer
James Hilbert	Virginia Beach, VA	Chief Financial Officer
John DeGruttola	Virginia Beach, VA	Senior Vice President, Sales and Marketing

#### Officers

The bylaws provide that the shareholders will appoint the officers of the Company at its annual meeting. The officers of the Company will consist of a Chairman, a President, a Secretary and a Treasurer and such other officers as may be authorized and determined by the Board. Any person may hold more than one office, except for the offices of the President and the Secretary.

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

<b>Name</b>	<b>Title</b>
Howard Kern	Chairman/Secretary & Treasurer
Dennis Matheis	President, Chief Executive Officer
Robert Broermann	Assistant Treasurer
Sharon Dajon	Assistant Secretary
Thomas Lundquist	Senior Vice President, Chief Medical Officer
John DeGruttola	Senior Vice President, Sales and Marketing
James Hilbert	Senior Vice President, Chief Financial Officer

## **CODE OF CONDUCT AND CONFLICT OF INTEREST**

SH has a Disclosure of Conflict of Interest Policy which requires employees to disclose situations or circumstances regarding a potential conflict of interest to their next level manager prior to consummating the transaction. Upon employment, and thereafter as part of the annual year-end performance review process, management level employees and employees involved in contract negotiation or purchase of goods and services, or others, at the discretion of their manager, are required to complete a conflict of interest questionnaire. A review of the signed conflict of interest statements for the examination period revealed that the Company was not in compliance with its policy and procedures for disclosure of conflicts of interest. (Refer to the Summary of Significant Findings.)

## **CORPORATE RECORDS**

The Company has not held a Board meeting for the period under examination due to no business written.

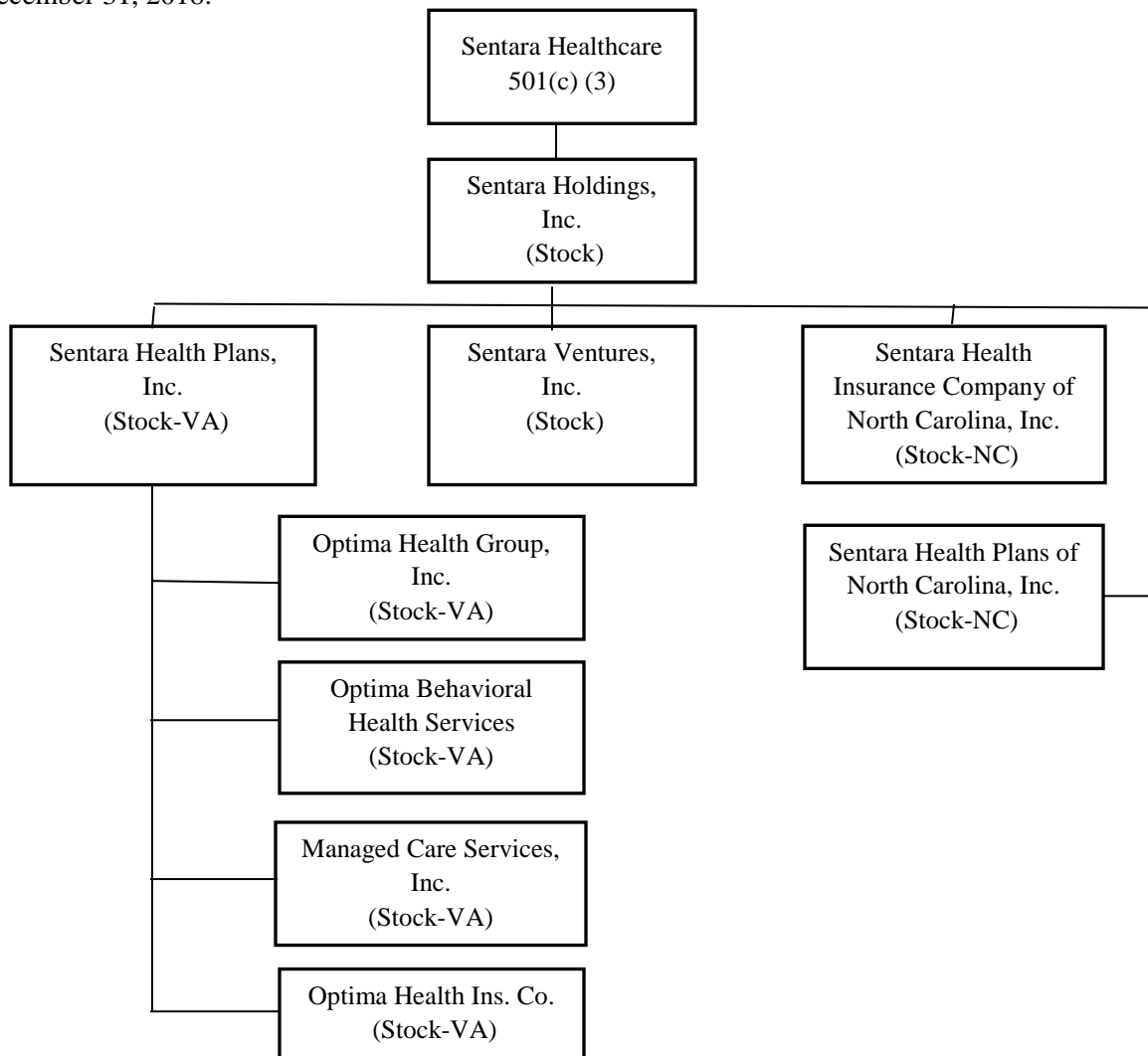
The Company's bylaws were reviewed for any changes during the period under examination. Based on the review, it appears that no changes were made to bylaws during the period under examination.

## **CORPORATE ORGANIZATION**

The Company is part of an insurance holding company system as defined in GS § 58-19. The Company is a wholly owned subsidiary of SHI, a Virginia stock corporation. The ultimate controlling entity is SH, which is a non-stock, non-profit, 501(c)(3) tax-exempt Virginia corporation.

## ORGANIZATION CHART

The following is a summarized organizational chart of the Company within the holding company group as of December 31, 2018:



## 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 description and listing of the Company's statutory deposit. The Company maintains the statutory deposit in North Carolina only.

## RELATED PARTY AGREEMENTS

The Company has the following related party agreements in place as of December 31, 2018:

The Company is included in a consolidated income tax return in accordance with a tax allocation agreement between SHI, Optima Health Group, Inc., Sentara Health Plans, Inc., Optima Health Insurance Company, Optima Behavioral Health Services, Inc., Sentara Ventures, Inc., Sentara Obici Professional Center, Sentara Strategic Solutions, Inc., Sentara Health Plans of North Carolina, Inc., and Sentara Health Plans of Ohio, Inc. (collectively “Subsidiary”), effective January 1, 2009. The agreement sets forth the parties’ obligations in connection with their filing as a consolidated tax filing group. Each Subsidiary shall remit to SHI any amount determined to be due in accordance with the agreement within ten days of receiving notice of such payment from the SHI. In the case of a refund, SHI shall make payment to each Subsidiary for its share of the refund within ten days after the refund is received by SHI.

The Company has an Administrative Services and Marketing Agreement with SHP, effective September 30, 2016, whereby SHI provides the Company services including, but not limited to, administrative, underwriting, claims, information systems and marketing. Under this agreement, the Company did not incur fees in 2018 and 2017.

## **TERRITORY AND PLAN OF OPERATION STATEMENTS**

The Company became a licensed stock life insurance company on November 21, 2014, with the authority to write cancellable accident and health insurance in North Carolina only. The Company has not written business since becoming licensed. The Company’s license is currently restricted to no new business.

## **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 statement information related to the prior year is unexamined and is presented for comparative purposes only.



**Sentara Health Insurance Company of North Carolina**  
**Statutory Statement of Admitted Assets**  
**December 31, 2018**

	<b>2018</b>	<b>Prior Year</b> <i>(unexamined)</i>
Cash and short-term investments	\$2,553,111	\$2,521,692
<b>Total cash and invested assets</b>	<b>2,553,111</b>	<b>2,521,692</b>
Investment income due and accrued		744
<b>Total admitted assets</b>	<b>\$2,553,111</b>	<b>\$2,522,436</b>

**Sentara Health Insurance Company of North Carolina**  
**Statutory Statement of Liabilities Capital and Surplus**  
**December 31, 2018**

	<b>2018</b>	<b>Prior Year (unexamined)</b>
Payable to parent, subsidiaries and affiliates	\$13,528	\$5,645
<b>Total Liabilities</b>	<b>13,528</b>	<b>5,645</b>
Common capital stock	1,000,000	1,000,000
Gross paid in and contributed surplus	1,500,000	1,500,000
Unassigned funds	39,582	16,791
<b>Total capital and surplus</b>	<b>2,539,582</b>	<b>2,516,791</b>
<b>Total Liabilities, Capital and Surplus</b>	<b>\$2,553,109</b>	<b>\$2,522,436</b>

**Sentara Health Insurance Company of North Carolina**  
**Statutory Statement of Operations**  
**December 31, 2018**

	<b>2018</b>	<b>Prior Year</b> <i>(unexamined)</i>
<b>Deductions</b>		
General administrative expenses	\$1,565	\$825
Total underwriting deductions	1,565	825
Net underwriting (loss)	(1,565)	(825)
<b>Investment Income</b>		
Net investment income earned	29,988	19,959
Net investment gains	29,988	19,959
<b>Other Income</b>		
Net income after capital gains tax and before all other federal income taxes	28,423	19,134
Federal and foreign income taxes incurred	5,632	4,820
<b>Net Income</b>	<b>\$22,791</b>	<b>\$14,314</b>

**Sentara Health Insurance Company of North Carolina**  
**Statutory Statement of Capital and Surplus**  
**December 31, 2018**

	<b>2018</b>	<b>Prior Year (unexamined)</b>
Capital and surplus, beginning of year	\$2,516,791	\$2,502,477
Capital and surplus increases (decreases):		
Net Income	22,791	14,314
Change in capital and surplus as regards policyholders for the year	22,791	14,314
<b>Capital and surplus, end of year</b>	<b>\$2,539,582</b>	<b>\$2,516,791</b>

**Sentara Health Insurance Company of North Carolina**  
**Statutory Statement of Cash Flow**  
**December 31, 2018**

	<b>2018</b>	<b>Prior Year (unexamined)</b>
<b>Cash From Operations</b>		
Net investment income	\$30,732	\$19,369
Total	30,732	19,369
Commissions, expenses paid and aggregate write-ins	1,565	825
Federal income taxes paid	5,632	4,820
Total	7,197	5,645
<b>Net cash from operations</b>	<b>23,535</b>	<b>13,724</b>
<b>Cash From Financing and Miscellaneous Sources</b>		
Other cash provided	7,883	3,824
<b>Net cash from financing and miscellaneous sources</b>	<b>7,883</b>	<b>3,824</b>
<b>Reconciliation of Cash and Short-Term Investments</b>		
Net change in cash and short-term investments	31,417	17,548
Cash and short-term investments, beginning of year	2,521,691	2,504,143
Cash and short-term investments, end of year	\$2,553,108	\$2,521,691

## 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:

**Short-term investments:** Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

### **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 December 31, 2014:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Capital and surplus, beginning of year	\$2,501,924	\$2,500,000	\$-
Capital and surplus increases:			
Initial capital contribution			2,500,000
Net income	553	1,924	
Change in surplus as regards policyholders for the year		1,924	2,500,000
<b>Capital and surplus, end of year</b>	<b>\$2,502,477</b>	<b>\$2,501,924</b>	<b>\$2,500,000</b>

**Sentara Health Insurance Company of North Carolina**  
**DISTRIBUTION OF REPORT ON EXAMINATION**  
**December 31, 2018**

Jeff Snyder  
Vice President of Finance & Controller  
4417 Corporation Lane  
Virginia Beach, Virginia 23462

## 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 § 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is \$500,000.

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

Respectfully submitted,



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

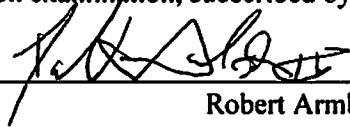
March 19, 2020



STATE OF NORTH CAROLINA

COUNTY OF WAKE

Robert Armbruster, 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:  Date: 3/19/2020  
Robert Armbruster

Sworn and subscribed before me this 19 day of March, 2020.

Notary Public Signature: Djidael B. Muhavi Notary Public Seal:

