

**REPORT ON EXAMINATION**  
**OF THE**  
**HEALTHCARE DELAWARE Inc.**  
**AS OF**  
**DECEMBER 31, 2011**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2011 of the

**HEALTHCARE DELAWARE, INC.**

is a true and correct copy of the document filed with this department.

Attest By:

*Brenda Biddle*

Date: March 13, 2013



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 13<sup>th</sup> day of March, 2013.



Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
HEALTHCARE DELAWARE, INC.  
AS OF  
DECEMBER 31, 2011

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 13<sup>th</sup> day of March, 2013

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## **SALUTATION**

November 16, 2012

Honorable Karen Weldin Stewart, CIR-ML  
Insurance Commissioner  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Blvd.  
Dover, Delaware 19904

Dear Commissioner,

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 11.035 dated May 9, 2012, an examination has been made of the affairs, financial condition and management of the

### **HEALTHCARE DELAWARE, INC**

hereinafter referred to as the “Company” or “HCD” and incorporated under the laws of the state of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, DE 19801. The examination was conducted at the administrative offices of the Company, located at 1901 Market Street, Philadelphia, PA 19103. A coordinating examination of the Company was conducted concurrently with that of its affiliates, Independence Insurance Inc., and AmeriHealth Casualty Insurance Company. Separate reports of examination were filed for each company. The report of examination thereon is respectfully submitted.

### **SCOPE OF EXAMINATION**

The last examination was completed as of December 31, 2006. This examination covered the period of January 1, 2007 through December 31, 2011, and encompasses a general review of transactions during the period, the Company’s business policies and practices, as well

as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2011. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook)* and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify 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. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues reviewed during the examination process.

In addition to items noted in this report, the topics below were reviewed without material exception and are included in the work papers of this examination:

- Corporate Records
- Statutory Deposits
- Loss Experience
- Reinsurance
- Accounts and Records

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings, adjustments to the financial statements, or specific recommendations as a result of this examination.

### **SUBSEQUENT EVENTS**

No significant subsequent issues noted. The company remained inactive during the examination period.

### **COMPANY HISTORY**

The Company was incorporated under the laws of the State of Delaware as a for profit stock health maintenance organization on August 1, 1986 and received its Certificate of Authority on October 25, 1986. The Company was originally owned and operated by St. Francis Health Services. On August 26, 1991, all of HCD's outstanding common stock was sold to Q.C.C., Inc, a wholly-owned subsidiary of Independence Blue Cross, of Philadelphia, PA (IBC). In 1995 the name of Q.C.C. Inc. was changed to AmeriHealth Inc. There were no changes in the Company's ownership structure during the period under examination.

### **MANAGEMENT AND CONTROL**

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction of, its Board of Directors (Board). The Board shall consist of at least two members and is subject to a maximum of seven members.

The control and management of the Company is vested in the Board. The persons elected and serving as Directors of the Company at December 31, 2011 were:

<u>Director</u>	<u>Principal Business Affiliation</u>
Daniel J. Hilferty	President and CEO, IBC
Alan Krigstein	EVP, CFO & Treasurer, IBC

As indicated, all of the Company's directors are executives of HCD's ultimate parent, IBC.

The Officers of HCD are elected by the Board of Directors annually. Those persons serving as of December 31, 2011 were:

<u>Name</u>	<u>Title</u>
John Christopher Cashman, III	Chairman, President & CEO
Alan Krigstein	Executive Vice President, Treasurer & CFO
Lilton R. Taliaferro Jr.	Secretary
Richard Levens, Esq.	Assistant Secretary

The Company does not meet in person, however, the election of directors, election of officers, approval of the investment functions and other business is done by unanimous consent of directors. The minutes of the meetings of the Stockholder, which were held during the period of examination, were read and noted. Signatories of those meetings, election of directors and officers and approval of investment transactions were also noted.

Inspection of Company files indicated that ethics statement/conflict of interest affidavits were distributed, completed and returned by all employees at the Assistant Secretary level or above for the examination period.

During our review for compliance with 18 Del. C. §4919, it was noted that the Company properly reported changes in directors and principal officers.

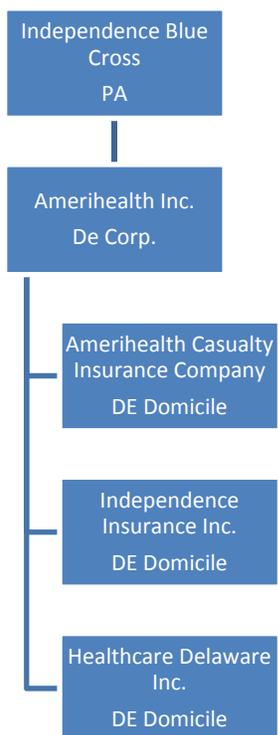
#### Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in 18 Del. C. §5001 (4) "Insurance Holding Company System". The Company's Holding Company Registration Statements were properly filed with the Delaware Insurance Department for the

Healthcare Delaware Inc.

years under examination. The Company is a direct wholly-owned subsidiary of Independence Blue Cross (the “Parent”).

The following is an abbreviated organization chart:



At December 31, 2011, IBC reported the following:

Assets	\$2,505,375,021
Unassigned Funds	\$1,912,976,045
Underwriting Income for 2011	\$ (42,057,117)
Net Income	\$ 116,952,738

Intercompany Management and Service Agreements

The Company had the following intercompany agreements in effect as of December 31, 2011.

### Administrative Services Agreement with IBC

The Company entered into an Administrative Services Agreement with IBC effective January 1, 1999 wherein IBC provides executive administration, legal, data processing services, treasury, including cash management and investment portfolio management services. Fees for these services are allocated on a cost basis and are settled monthly between the parties.

### Tax Sharing Agreement

Effective February 21, 2001 the Company entered into a consolidated tax sharing agreement between and among IBC and its qualifying subsidiaries. The agreement was approved by the Company's Board and states that the total consolidated federal income tax for all entities is allocated to each entity based upon separate return calculations with current credit for net losses. Intercompany tax balances are settled monthly.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed as a health maintenance organization in the State of Delaware only. HCD ceased actively marketing products in 1995. Thereafter, the Company had only one renewing group, the New Castle County Chamber of Commerce. In 1999, management of IBC decided to move the coverage of the Company's remaining membership to an affiliate, AmeriHealth HMO. As of June 30, 1999 the Company had no member lives insured. IBC management indicated to the examination that there were no plans to activate HCD.

## **GROWTH OF THE COMPANY**

The following information was obtained from the Company's filed Annual Statements and covers the five preceding years since its last examination (December 31, 2006).

<u>Year</u>	<u>Assets</u>	<u>Surplus</u>	<u>Written</u>	<u>Net Income</u>
2006	\$ 1,805,495	\$ 1,761,346	\$ -	\$ 53,231
2007	\$ 1,856,537	\$ 1,814,460	\$ -	\$ 53,114
2008	\$ 1,883,083	\$ 1,843,328	\$ -	\$ 28,868
2009	\$ 1,879,661	\$ 1,840,322	\$ -	\$ (3,006)
2010	\$ 1,875,660	\$ 1,861,950	\$ -	\$ 21,628
2011	\$ 1,860,731	\$ 1,860,488	\$ -	\$ (1,462)

Since December 31, 2006, the Company's financial results were as follows:

- 3.06 % increase in admitted assets
- 5.63 % increase in capital and surplus
- 102.75 % decrease in net income

As stated above, the Company is inactive. The Company's total assets remained relatively unchanged which consisted primarily of cash and cash equivalents. There were insignificant changes in capital and surplus and net income due to the result of operating losses relating to investment income and administrative expenses. The Company is sufficiently capitalized and maintains a liquid investment portfolio to meet current and future cash requirements needed for future business operations.

### **FINANCIAL STATEMENTS**

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2011, as determined by this examination, along with supporting exhibits as detailed below:

Analysis of Assets, December 31, 2011  
Statement of Liabilities, Surplus and Other Funds, December 31, 2011  
Underwriting and Investment Exhibit, Statement of Income, December 31, 2011  
Reconciliation of Surplus Since last Examination  
Schedule of Examination Adjustments

**Analysis of Assets**

**As of December 31, 2011**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Cash and short-term investments	\$ 1,860,731		1,860,731	1
Total Assets	<u>\$ 1,860,731</u>	<u>\$ -</u>	<u>\$ 1,860,731</u>	

**Statement of Liabilities, Surplus and Other Funds**

**As of December 31, 2011**

<u>Liabilities, Surplus and Other Funds</u>		<u>Notes</u>
Payable to parent, subsidiaries and affiliates	\$ 243	
Total Liabilities	<u>\$ 243</u>	
Common capital stock	\$ 300,000	2
Gross paid in and contributed surplus	10,500,000	
Unassigned funds (surplus)	(8,939,512)	
Surplus as regards policyholders	<u>\$ 1,860,488</u>	
Total Liabilities, Capital and Surplus	<u>\$ 1,860,731</u>	

**Underwriting and Investment Exhibit - Statement of Income**

**As of December 31, 2011**

**UNDERWRITING INCOME**

Net Premium Income	\$	-
		-

**DEDUCTIONS**

General administrative expense	\$	2,589
		2,589

Total underwriting deductions	\$	2,589
		2,589

Net underwriting gain or (loss)	\$	(2,589)
		(2,589)

**INVESTMENT INCOME**

Net investment income earned	\$	1,127
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Net realized capital gains or (losses)		-
		-

Net investment gain or (loss)	\$	1,127
		1,127

**OTHER INCOME**

Net income or (loss) after capital gains tax and before all other federal income tax	\$	(1,462)
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Federal and foreign income taxes incurred		-
		-

Net income	\$	(1,462)
		(1,462)

**Reconciliation of Surplus from Prior Exam**

Capital and surplus, December 31, 2006	\$	1,761,346
Net Income		99,142
Change in capital and surplus, December 31, 2011		<u>99,142</u>
Capital and surplus, December 31, 2011	\$	<u>1,860,488</u>

**SCHEDULE OF EXAMINATION ADJUSTMENTS**

The examination will propose no financial adjustments.

**NOTES TO FINANCIAL STATEMENTS**

Note 1 – Cash and Cash Equivalents \$1,860,731

Cash and Cash Equivalents consisted primarily of Class 1 money market mutual funds.

Note 2  
Capitalization \$300,000

At December 31, 2011, the Company has 500,000 shares authorized and 300,000 shares were issued and outstanding with a par value of \$1.

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The following recommendation was noted:

1. It is recommended the Company comply with 18 Del. C. §1304 by having the Board of Directors approve investment transactions.

*The Company has complied*

**SUMMARY OF RECOMMENDATIONS**

The examination did not warrant any recommendations.

**CONCLUSION**

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2006</u>	<u>December 31, 2011</u>	<u>Increase (Decrease)</u>
Assets	\$ 1,805,495	\$ 1,860,731	\$ 55,236
Liabilities	\$ 44,149	\$ 243	\$ (43,906)
Common Capital Stock	300,000	300,000	-
Gross Paid In and Contributed Surplus	10,500,000	10,500,000	-
Unassigned Funds (Surplus)	(9,038,654)	(8,939,512)	99,142
Total Surplus as Regards Policyholders	\$ 1,761,346	\$ 1,860,488	\$ 99,142
Totals	\$ 1,805,495	\$ 1,860,731	\$ 55,236

In addition to the undersigned, Anthony Cardone CFE, CPA (Examination Supervisor) participated in the examination.

Respectfully submitted,

*Albert M. Piccoli, Sr.*

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Albert M. Piccoli, Sr., CFE  
Examiner-In-Charge  
State of Delaware