REPORT OF EXAMINATION
OF THE
SEECHANGE HEALTH INSURANCE
COMPANY, INC.
AS OF
DECEMBER 31, 2012

Filed June 30, 2014

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Los Angeles, California
May 19, 2014

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

SEECHANGE HEALTH INSURANCE COMPANY, INC.

(hereinafter also referred to as the Company) at the Company's administrative office and primary location of books and records which was located at 10159 Wayzata Boulevard, Suite 200, Minneapolis, Minnesota 55305. The Company's domiciliary address and principal office was located at 12711 Ventura Boulevard, Suite 180, Studio City, California 91604.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2012. The examination was conducted in accordance with the National Association Insurance Commissioners Financial Condition Examiners Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed, including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans.

SUMMARY OF SIGNIFICANT FINDINGS

At year-end 2012, the Company's Risk-Based Capital (RBC) ratio coupled with negative trend triggered the Company Action Level Event, requiring the filing of a RBC plan pursuant to California Insurance Code Section 739.3(b). A revised RBC Plan was submitted to the CDI on May 22, 2013.

SUBSEQUENT EVENTS

Colorado Insurance Exchange

In September 2012, the Company received approval to begin writing business in the state of Colorado. The Company was approved to participate in the Colorado Insurance Exchange, effective January 1, 2014.

Receivable under Reinsurance Contract

The Company failed to reduce the reinsurance recoverable reported as of December 31, 2012 for the 2011 Contract Year that remained unpaid as of the date of this report and for the 2012 Contract Year claims that had been contested prior to the filing of the 2012 Annual Statement.

Surplus Contributions

As a result of the Company's significant net losses reported at year-end 2012 and the continued net losses reported through year end 2013, surplus contributions were required from the parent company to maintain the Company at statutory surplus levels. In order to provide the surplus contributions, the parent company raised additional capital through the issuance of preferred stock offerings, through a loan agreement, and line of credit obtained by an affiliate of the Company.

On May 22, 2013 the Company requested approval from the California Department of Insurance (CDI) to admit a $2.1 million receivable as gross paid-in and contributed surplus contribution by its parent company as of March 31, 2013 in accordance with Statement of Statutory Accounting Principles (SSAP) No. 72, paragraph 8. The CDI granted approval on June 28, 2013. The $2.1 million was received by the Company on May 15, 2013.

On November 27, 2013, the Company received a cash capital contribution of $13 milllion from its ultimate parent, SeeChange Health, LLC.

On February 21, 2014, the Company requested approval to admit a receivable of $4.8 million as gross paid-in and contributed surplus as of December 31, 2013 from SeeChange Health, LLC. On February 28, 2014 the CDI granted the Company's request to recognize the $2.8 million as an admitted asset receivable due from SeeChange Health, LLC and as gross paid-in and contributed surplus at December 31, 2013 pursuant SSAP No. 72, paragraph 8, and the remaining $2.0 million as an admitted asset receivable pursuant to an approved Permitted Accounting Practice. The $2.8 million was received by the Company on February 21, 2014. The $2.0 million was received by the Company on March 25, 2014.

Rate Increase

In an attempt to mitigate pricing errors noted since 2010, the Company obtained rate increases effective January 1, 2013; May 1, 2013; and November 1, 2013. An additional rate increase was filed with the CDI with an effective date of January 1, 2014.

Statutory Deposit

During June 2013, the statutory deposit held with the state of Ohio in the amount of $2 million was released. In July 2013, the $2 million was deposited with the California State Treasurer's Office as a statutory deposit held for the benefit of all policyholders.

Reinsurance Agreement

As of April 30, 2013, the Company's reinsurance program was non-renewed at the request of the reinsurer, Starline USA, LLC, Lloyd's Correspondent, on behalf of Lloyd's Underwriters (Starline) due to adverse claim experience. New contracts with Hannover Life Reassurance Company of America (Hannover) and XL Reinsurance America, Inc. (XL) were obtained with an effective date of May 1, 2013. The Hannover excess of loss contract indemnifies the Company for losses in excess of $300,000, per covered person, per contract period, up to a maximum $3.3 million liability. The XL contract covers the next three (3) layers up to a maximum liability limit of $10 million.

Florida Certificate of Authority

During October 2013, the Company voluntarily surrendered its Certificate of Authority with the state of Florida. The letter acknowledging the surrender was received from the Florida Office of Regulation dated November 6, 2013.

COMPANY HISTORY

The Company, formerly known as Central Benefits National Life Insurance Company, was incorporated under the laws of the state of Ohio on May 14, 1956, commencing business on November 16, 1956. Effective July 31, 2009, all outstanding shares of Central Benefits National Life Insurance Company were purchased by SeeChange Health, LLC (formerly known as Triveris, LLC), a Delaware limited liability company. Immediately after the acquisition, SeeChange Health, LLC contributed the stock of the Company to its wholly-owned subsidiary, SeeChange Health Management Company, Inc., a Delaware corporation. Subsequently on October 31, 2009, the Company's name was changed to its present title. The Company filed a redomestication application with the California Department of Insurance in 2012 pursuant to California Insurance Code Section (CICS) 709.5. An amended Certificate of Authority was issued on August 17, 2012, changing the Company's home office from Columbus, Ohio to San Francisco, California.

Capitalization

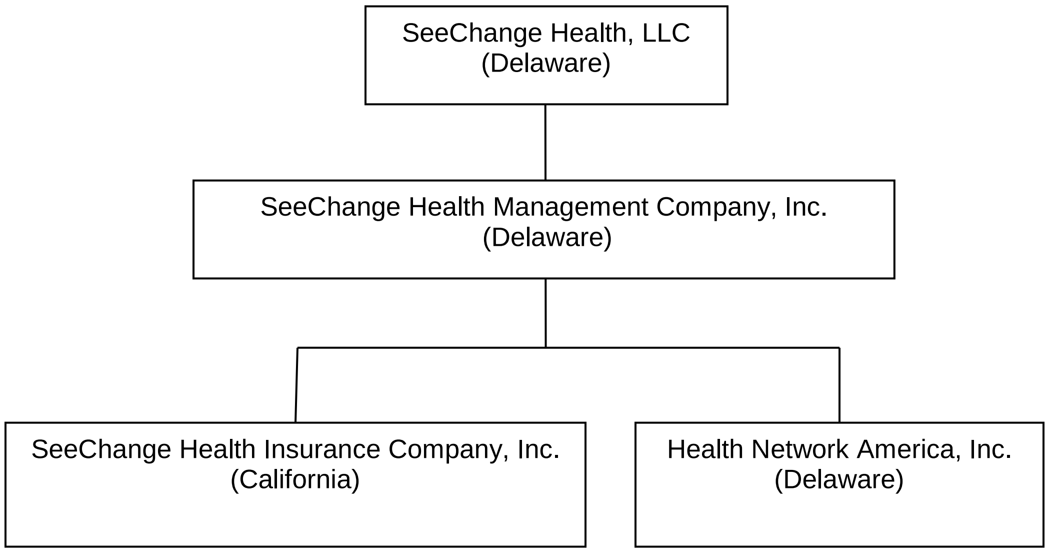
The Company is authorized to issue 1000 shares of common stock at a par value of $30,000 per share. As of December 31, 2012, there were 100 shares issued and outstanding. All issued and outstanding shares were owned by SeeChange Health Management Company, Inc.

On February 9, 2010, SeeChange Health, LLC issued a Written Consent of the Board of Directors (BOD) under which the BOD agreed to maintain the solvency of the Company at a minimum Risk-Based Capital (RBC) ratio. As a condition of redomesticating to the state of California, the BOD issued a Written Consent on May 30, 2012 whereby the BOD reaffirmed the resolutions adopted in the prior Written Consent of February 2010. Pursuant to this commitment, the following surplus adjustments were recorded during the examination period:

1. On December 31, 2010, the Company recorded a surplus contribution of $5.6 million; $3.3 million of which was received in cash with the remaining $2.3 million representing management fees waived.
2. On December 31, 2011, the Company recorded a surplus contribution of $6.1 millon; $0.3 million of which was received in cash with the remaining $5.8 million representing management fees waived.
3. On December 31, 2012, the Company recorded a surplus contribution of $19.3 million and an intercompany receivable in the amount of $5.5 million. $11.0 million of the surplus contribution represented a cash contribution of which $5.5 million had not been funded by year-end, with the remaining $8.4 million representing management fees waived. The surplus contribution at December 31, 2012, did not adequately meet the requirements stipulated in the Written Consent of maintaining the minimum RBC ratio. The RBC ratio reported at year-end 2012 was 208.2%.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of SeeChange Health Management Company, Inc., a Delaware corporation. The following organizational chart depicts the Company’s relationship within the holding company structure, as of December 31, 2012. (all ownership is 100% unless otherwise noted):



The six members of the Board of Directors, who are elected annually, manage the business and affairs of the Company. Following are members of the Board and the principal officers of the Company serving at December 31, 2012:

<u>Directors</u>

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Matthew W. Etheridge New York, New York	Investor
Eric J. Kim San Francisco, California	Investor Maverick Capital
Stephen M. Krupa New York, New York	Managing Member, Psilos Group Managers, LLC
Michael A. Stocker New York, New York	Investor, Chairman of the Board - NYC Hospitals
Martin Watson Belvedere, California	President SeeChange Health Insurance Company

Name and Location	Principal Business Affiliation
Albert S. Waxman Santa Fe, New Mexico	Chairman of the Board, Senior Managing Member and Chief Executive Officer, Psilos Group Managers, LLC

Principal Officers

Name	Title
Martin Watson	President
Donald Powers [a]	Senior Vice President and Treasurer
Daniel Boivin	Secretary and Chief Legal Officer

(a) Resigned effective June, 2013 and replaced by Jackie Macias, effective October, 2013.

Management Agreements

Managerial Services Agreement - Effective January 1, 2010, the Company entered into a Managerial Services Agreement with its immediate parent, SeeChange Health Management Company, Inc. The agreement was approved by the Ohio Insurance Department on March 8, 2010 prior to the Company's re-domestication. In accordance with the agreement, managerial services are provided with respect to health insurance plans with management and oversight performed by employees of SeeChange Health, LLC. A percentage of the salary, benefits and overhead of SeeChange Health, LLC., the ultimate parent, are allocated to the Company based upon the relative proportion of time spent on company-related activities. The Company incurred management fees totaling approximately $2.3 million; $5.8 million; and $8.4 million, for 2010, 2011, and 2012, respectively. In accordance with a Written Consent of the Board of Directors, management fees under this agreement are to be forgiven if the payment of the fees would result in the reduction of the surplus of the Company below the minimum requirement. For 2010, 2011, and 2012, the management fees incurred were forgiven as part of the surplus contributions received from the parent company. It is recommended the Company submit the Agreement to the CDI for review.

Federal Income Tax Sharing Agreement – Effective July 21, 2009, the Company entered into a Federal Income Tax Sharing Agreement with its immediate parent, SeeChange Health Management Company, Inc. and its affiliate, Health Network America, Inc. The method of allocation among the companies is subject to a written agreement, approved by the Board of Directors, whereby allocation is made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated return. The Federal Income Tax Sharing Agreement was approved by the Ohio Department of Insurance on November 3, 2011. It is recommended the Company submit the Agreement to the CDI for review.

Related Party Transactions

The Company failed to submit the $19.3 million contribution by the parent company on December 31, 2012 including the resulting $5.5 million receivable the parent had not funded at year-end in accordance with Statement of Statutory Accounting Principles (SSAP) No. 72, paragraph 8. On May 22, 2013, the Company requested approval to record the receivable in accordance with SSAP NO. 72, paragraph 8. The CDI approved the transaction on June 28, 2013. It is recommended that the Company implement procedures to ensure all related party transactions which require prior approval are submitted to the CDI in a timely manner.

Bonus Plan

In accordance with the employment agreements with the ultimate parent, SeeChange Health, LLC, an annual performance bonus plan was in place for the senior officers of the Company. The determination for the payment of the bonuses was based on the achievement of performance goals approved annually by the Board. For the years ending December 31, 2011 and 2012, performance bonuses were paid in the amounts of $885,000 and $710,000, respectively. These bonuses were based on the operating results of Health Network America, Inc. (HNA). It was determined that the bonuses were allocated both to the Company and HNA based on calculations indicative of where the employee spent much of their time and efforts in the previous year. The Company's portion of the allocation calculation was charged to the Company through its Management Services Agreement with SeeChange Health Management Company, Inc. The terms of the agreement do not provide for allocations for services performed for HNA. It is recommended that the Company implement procedures to ensure that no allocations are made to the Company for bonuses that are not representative of performance goals of the Company.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2012, the Company was licensed to transact life, accident, and health insurance in the following states:

Arkansas	Indiana	Missouri	Tennessee
Arizona	Iowa	Nebraska	Virginia
California	Kansas	Nevada	West Virginia
Colorado	Kentucky	North Dakota	Wisconsin
Florida	Maryland	Ohio	
Idaho	Michigan	Oklahoma	
Illinois	Mississippi	South Dakota	

Although the Company is licensed in 25 states, it writes business in only 2 states, with 98.9% of the business written in California and the remaining 1.1% written in Colorado. Direct written premium as of December 31, 2012 totaled $41.2 million, compared to $2.6 million written in 2011. All business is generated through independent brokers and general agents.

The Company provides value-based commercial group and individual health coverage primarily to small employer groups (2-50 subscribers) and the lower end of the middle market (less than 5,000 subscribers). As part of the value-based benefit design, each member is encouraged to participate in an annual health maintenance routine that is personalized, based on age, ethnicity and gender-appropriate clinical guidelines for well care and condition management. Members are encouraged to take accountability for their health in order to realize enhanced benefits and lower costs. Member completing the compliance criteria enjoy lower out-of-pocket costs than offered through the base plan, providing employers the ability to create compliance-based health programs with significant financial incentives.

Through an agreement with United Heritage Life Insurance Company (UHLIC), the Company provides group life insurance plans to its employer groups in the states of California and Colorado, underwritten by UHLIC.

GROWTH OF THE COMPANY

Since the Company was acquired in 2009, they have reported a net loss. The net loss reported as of December 31, 2012 of $19.3 million was much higher than the projected loss of $4.7 million for the same period. This downward trend is due to rapid growth in the group A&H business (an increase from $2.3 million in premium written in 2011 to $37.9 million written in 2012) and due to a pricing error related to the Company's January 1, 2012 filed rates.

LOSS EXPERIENCE

A review of the Company's loss experience data during the examination period, disclosed a historical trend of net underwriting losses and net losses as follows:

Year	2013	2012	2011	2010	2009	2008
Net underwriting (Loss)	(31,734,972)	(19,385,202)	(6,158,870)	(5,357,077)	(1,033,857)	284,019
Net Income or (Loss)	(31,635,794)	(19,345,256)	(6,090,538)	(5,313,211)	(972,447)	387,549
Capital and Surplus	15,880,863	6,000,000	6,000,000	6,000,049	5,770,108	6,750,214

The Company's net income has been trending downward since 2008, and net losses have been reported in the past four out of the past six years. This is primarily due to the increase in total benefits and expenses outpacing the increase in net premiums. As noted in the Subsequent Events section, the Company has filed for rate increases to address the deteriorating results. The Company's parent has made multiple surplus contributions as a result of continued poor operating results.

REINSURANCE

Assumed

The Company had no reinsurance assumed.

Ceded

The Company purchased reinsurance on a specific-case basis for the years 2011 and 2012, through a reinsurance intermediary, in order to reduce its liability on individual risks. The reinsurance agreements were excess of loss contracts, which indemnified the Company for losses in excess of $200,000, per covered person, up to a maximum per covered person, per contract period, of $5 million. Reinsurance fees of approximately $3.3 million were recorded as a reduction of premium during 2012.

Claims incurred in excess of the retention limits during 2012 were reported at approximately $2.3 million. As of December 31, 2012, the Company reported reinsurance receivables in the amount of approximately $0.9 million.

STATUTORY DEPOSITS

As of December 31, 2012, the Company failed to report statutory deposits held with the State of Ohio appropriately. Schedule E, Part 3 of the filed 2012 Annual Statement reflected the statutory deposit held with the state of Ohio in the amount of $500,000 par value when the total securities on deposit should have been reported at a par value of $2 million. It is recommended that the Company report all deposits held for the benefit of policyholders in accordance with the National Association of Insurance Commissioners Annual Statement Instructions.

ACCOUNTS AND RECORDS

The Company utilized the services of a third party administrator for the administration and processing of claims. Effective June 1, 2011, the Company's immediate parent, SeeChange Health Management Company, Inc. entered into an agreement with The Loomis Company for administrative and management services on the health plans offered through their subsidiary. As a result of a coding error on the identification cards provided to subscribers, claims submitted for dependent coverage during a portion of 2012 were denied in error, resulting in an understatement of claims reported. The coding error was subsequently corrected and the dependent claims, previously denied, were re-submitted for payment. Upon further review, it was noted that the Company did not have direct access to the claims system utilized by The Loomis Company. Reliance had been placed on the reporting provided by The Loomis Company, resulting in the delay in recognizing the coding error noted above. The Company now has real time access to the claims system utilized by The Loomis Company in order to gain better control over the claims administration and reporting process.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2012

Summary of Operations and Capital and Surplus Account for the Year Ended December 31, 2012

Reconciliation of Capital and Surplus from December 31, 2007 through December 31, 2012

Statement of Financial Condition
as of December 31, 2012

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 495,071	$	$ 495,071	(1)
Cash and short-term investments	14,928,179		14,928,179	(1)
Investment income due and accrued	1,823		1,823	
Premiums and agents' balances in course of collection	257,998		257,998	
Other amounts receivable under reinsurance contracts	915,572		915,572	
Receivables from parent, subsidiaries and affiliates	5,540,296		5,540,296	
Health care and other amounts receivable	162,533		162,533	
Aggregate write-ins for other than invested assets	12,895	12,895	0	
Total assets	$ 22,314,367	$ 12,895	$ 22,301,472	

Liabilities, Capital and Surplus			Notes
Contract claims: Accident and health		12,831,876	(2)
Premiums received in advance		1,530,060	
Commissions to agents due or accrued		484,651	
General expenses due or accrued		552,698	
Taxes, licenses and fees due or accrued		900,274	
Asset valuation reserve		1,913	
Total liabilities		16,301,472	
Common capital stock	$ 3,000,000		
Gross paid-in and contributed surplus	55,757,015		
Unassigned funds	(52,757,015)		
Capital and Surplus		6,000,000	
Total liabilities, capital and surplus		$ 22,301,472	

Summary of Operations and Capital and Surplus Account for the Year Ended December 31, 2012

Summary of Operations

Premiums and annuity considerations for life and A & H contracts	$ 37,903,810	
Net investment income	39,946	
Amortization of interest maintenance reserve (IMR)	4,160	
Totals		$ 37,947,916
Death benefits	$ 42,424,720	
Commissions on premiums and on annuity considerations	3,968,786	
General insurance expenses	9,394,176	
Insurance taxes, licenses and fees, excluding federal income taxes	1,505,490	
Totals		$ 57,293,172
Net loss from operations before federal income taxes		$ (19,345,256)
Federal income taxes incurred		0
Net loss from operations after federal income		$ (19,345,256)
Net loss		$ (19,345,256)

Capital and Surplus Account

Capital and surplus, December 31, 2011		$ 6,000,001
Net loss	$ (19,345,256)	
Change in nonadmitted assets and related items	(4,160)	
Change in asset valuation reserve	(208)	
Surplus adjustments: Paid-in	19,349,623	
Net change in capital and surplus for the year		(1)
Capital and surplus, December 31, 2012		$ 6,000,000

Reconciliation of Capital and Surplus
from December 31, 2007 through December 31, 2012

	Gain in Surplus	Loss in Surplus	
Capital and Surplus, December 31, 2007 per Examination			$ 6,454,544
Net loss	$	$ 31,444,920	
Change in nonadmitted assets		9,517	
Change asset valuation reserve	6,771		
Capital changes: Paid-in	30,993,122		
Total gains and losses	$ 30,999,893	$ 31,454,437	
Net change in capital and surplus			(454,544)
Capital and Surplus, December 31, 2012, per Examination			$ 6,000,000

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds
Cash and Short-Term Investments

The custodial agreement provided during the examination was between Bank One Trust Company and Central Benefits Life Insurance Company dated April 9, 2004, prior to the name change to the Company's current title and prior to the merger between Bank One Trust Company and JP Morgan Chase. The custodial agreement was written to be in compliance with the laws of the State of Ohio. No evidence of amendment had been provided during the examination to reflect the name change to SeeChange Health Insurance Company or to reflect the Company's redomestication to California during 2012. It was recommended during the examination that the Company submit a revised Custodial Agreement to the California Department of Insurance (CDI) for approval pursuant to California Insurance Code Section (CICS) 1104.9. The Company terminated the custodial agreement with Bank One Trust Company during the examination.

It was determined that effective January 1, 2012, the Company entered into a Safekeeping Agency Agreement with Wells Fargo Securities, LLC. As of the date of this examination report, the Company failed to submit this Safekeeping Agency Agreement with Wells Fargo Securities, LLC to the CDI for approval. It is recommended that the Company submit the Safekeeping Agency Agreement with Wells Fargo Securities, LLC to the CDI for approval pursuant to CICS 1104.9.

(2) Contract Claims: Accident and Health

A Health Actuary from the California Department of Insurance (CDI) performed an actuarial evaluation of the Company's claims reserves as of December 31, 2012. Based on the review and analysis performed by the CDI Health Actuary, the Company's claim reserves were deemed reasonable.

The Accident and Health (A&H) claim reserves, as reflected in the table below, were reported at $12.8 million at year-end 2012, an increase from the $0.8 million reported in the prior year. The one-year development reflected on Schedule H of the 2012 Annual Statement shows a slight redundancy.

The information depicted in the below table was obtained from the Annual Statements filed for the period under examination:

A&H Claim Reserves	2012	2011	2010	2009	2008
Contract Claims: A&H	12,831,876	813,008	8,822	-0-	-0-
Total Claim Reserves	12,831,876	813,008	8,822	-0-	-0-
Total Capital and Surplus	6,000,000	6,000,001	6,000,049	5,770,108	6,750,214
A&H Claim Reserves to Surplus	213.86%	13.55%	0.15%	-0-	-0-

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Management Agreements – Managerial Services Agreement (Page 8): It is recommended the Company submit the Agreement to the California Department of Insurance (CDI) for review.

Management and Control – Management Agreements – Federal Income Tax Sharing Agreement (Page 8): It is recommended the Company submit the Agreement to the CDI for review.

Management and Control – Related Party Transactions (Page 9): It is recommended that the Company implement procedures to ensure all related party transactions which require prior approval are submitted to the CDI in a timely manner.

Management and Control – Bonus Plan (Page 9): It is recommended that the Company implement procedures to ensure that no allocations are made to the Company for bonuses that are not representative of performance goals of the Company.

Statutory Deposits (Page 12): It is recommended that the Company report all deposits held for the benefit of policyholders, in accordance with the NAIC Annual Statement Instructions.

Comments on Financial Statement Items – Bonds, Cash and Short-Term Investments (Page 18): It is recommended that the Company submit the Safekeeping Agency Agreement with Wells Fargo Securities, LLC to the CDI for approval pursuant to CICS 1104.9.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

______/S/________________________

Laura Clements, CFE
Supervising Insurance Examiner
Department of Insurance
State of California