



STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION
OF
SECURITYCARE OF TENNESSEE, INC.
(NAIC #15005)
(NAIC Group # 3498)
CHATTANOOGA, TENNESSEE

AS OF
DECEMBER 31, 2020

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Chattanooga, Tennessee
April 19, 2022

Honorable Carter Lawrence
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated (“Tenn. Code Ann.”) § 56-1-408, a full-scope financial examination, as of December 31, 2020, has been made of the conditions and affairs of:

SECURITYCARE OF TENNESSEE, INC.

NAIC # 15005
NAIC Group # 3498
1 Cameron Hill Circle
Chattanooga, Tennessee 37402

hereinafter referred to as the “Company” or “SCTN” and a report thereon is submitted as follows:

INTRODUCTION

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or “Department”). The examination was conducted by duly authorized representatives of the Department. This examination was called through the National Association of Insurance Commissioners (NAIC) Financial Examination Electronic Tracking System (FEETS).

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2015. This examination covers the period January 1, 2016, through December 31, 2020, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of examination. The Company is part of the BlueCross BlueShield of Tennessee (BCBST) Holding Company Group.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with practices and procedures promulgated by the NAIC in the *Financial Condition Examiners Handbook* (“Handbook”), as deemed appropriate. The examination sought to identify prospective risks by obtaining information about the Company, including its corporate governance, by identifying and assessing inherent risks within the Company, and by 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 and management’s compliance with statutory accounting principles and annual statement instructions.

All significant risks were considered when planning which key activities and accounts would be examined. The key activities included: Investments; Premium/Underwriting; Reserves/Claims; Related Party; and Capital and Surplus.

The Company’s 2020 annual statement was compared with or reconciled to the corresponding general ledger account balances.

BCBST maintains an Internal Audit (IA) Department, which is charged with performing the IA function for all companies within the holding company system. As part of its annual internal audit plan, IA performs Model Audit Rule (MAR) compliance testing. The scope of MAR testing includes the Company’s internal controls over financial reporting. The examination reviewed the processes tested and requested the workpapers for specific processes identified as significant to the key activities and sub-activities being examined. The workpapers were provided and were utilized, where appropriate.

Independent information technology specialist services, provided by Lewis & Ellis, Inc., were utilized in the examination review of the Company’s information technology general controls (ITGC).

The actuarial firm of Lewis & Ellis, Inc. was utilized in the examination review of the Company’s loss and claims reserves.

The Company’s Certified Public Accountant (CPA) workpapers were reviewed for the 2020 audit and incorporated into the examination, as deemed appropriate.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

There were no comments or recommendations noted in the prior examination report as of December 31, 2015.

COMPANY HISTORY

The Company is a wholly-owned subsidiary of Southern Diversified Business Services, Inc. (SDBS), which in turn is a wholly-owned subsidiary of BCBST. The Company was incorporated in the State of Tennessee for a perpetual period under the name of SecurityCare of Tennessee, on December 12, 2012, pursuant to the provisions of the Tennessee General Corporation Act. The Company's original Charter authorized the corporation to issue a maximum of one thousand (1,000) shares with a par value of \$100 per share.

MANAGEMENT AND CONTROL

MANAGEMENT

Shareholders

Notice of meetings shall be given in writing and delivered personally or by mail, telegram, facsimile, email, or similar means to each director. Such notices shall be given no less than ten (10) and no more than sixty (60) days prior to the meeting. The notice shall specify the date, time, and place of said meeting, and, in the case of a special meeting, the general nature of the business to be transacted. The annual meeting of the shareholders is held each year prior to the last day of April, for the purpose of electing directors and to conduct other business.

Special meetings of the shareholders may be called at any time by the Board of Directors ("Board"), the President, or at the written request of shareholders owning ten percent (10%) or more of the issued and outstanding capital stock of SCTN, that are entitled to vote at that special meeting. Any shareholders requesting a special meeting shall submit in writing to the Corporate Secretary the purposes of the proposed meeting.

A majority of the shareholders of record at any annual or special meeting, either in person or by proxy, constitutes a quorum for the transaction of business at such meeting.

Each shareholder of record entitled to vote, shall be entitled to one (1) vote for each share of stock held by that shareholder, upon each matter presented for action at that meeting.

Any action that may be taken at a meeting of the shareholders may be taken without a meeting, if all of the shareholders entitled to vote on the action consent, in writing, to taking that action without a meeting.

Role of the BlueCross BlueShield of Tennessee, Inc. Board

SCTN exists as part of the BCBST enterprise, which is comprised of BCBST and all its wholly-owned subsidiaries and affiliates (collectively, referred to as the “Enterprise”). As part of the Enterprise, the Board of BCBST and its standing committees have the oversight of the Enterprise, including SCTN.

Board of Directors

Except as otherwise provided by the Company’s Bylaws, all corporate powers not expressly reserved by the shareholders shall be exercised by or under the authority of the Board. The business and affairs of SCTN is conducted subject to the general direction and oversight of the Board, except as may be otherwise provided by applicable law, the Company’s Charter or Bylaws, or the BCBST Board.

The Company’s Board does not have the power or authority to: (a) elect, appoint, or remove directors; (b) set the compensation of directors; (c) approve a plan of merger, consolidation, conversion, or dissolution; (d) approve a sale, pledge, or assignment of all or substantially all of SCTN’s assets; or (e) take actions which would not be permitted by applicable law. Such powers are reserved for action by the shareholders.

The Company’s Bylaws state that the number of directors shall consist of not less than three (3) and no more than eleven (11) directors. Directors do not need to be Tennessee residents or shareholders of the Company to serve on the Board. Each director is elected by the shareholders. The BCBST Governance and Nominating Committee has the duty to recruit and nominate new directors to fill vacancies.

Each director shall hold his or her respective office for a term of one (1) year or until his or her earlier removal, resignation, retirement, or death. All directors shall have a mandatory retirement age of seventy-five (75). Upon reaching the age of seventy-five (75), a director may hold his or her respective office until the close of the annual meeting of the Board.

The Board shall meet no less than two (2) times annually, with one (1) such meeting being the annual Board meeting. Meetings of the Board are held at such place in or outside of the State of Tennessee as may be established by the Board or the Chairperson of the Board and stated in the notice of meeting. Notice of meetings shall be given in writing and delivered personally or by mail, telegram, facsimile, email, or similar means to each director. The notice shall specify the date, time, and place of said meeting, and, in the case of a special meeting, general nature of the business to be transacted.

The annual Board meeting is held following the annual shareholders' meeting or as soon as reasonably possible thereafter. No less than two (2) days' notice of the annual Board meeting is given to the directors.

Special meetings of the Board may be called at any time by the Chairperson, the President, or any two (2) or more directors acting jointly, by providing notice to all directors of said meeting.

Any or all of the directors may participate in meetings by means of video conference, telephone conference, or similar communication equipment.

A majority of the directors constitutes a quorum. The Bylaws allow any action that may be taken at a meeting of the Board to be taken without a meeting, if all of the directors consent, in writing, to taking that action without a meeting.

Directors who are not also corporate or administrative officers of SCTN may be compensated. The BCBST Compensation Committee shall consider what constitutes appropriate compensation and make a recommendation to the shareholders as to the amount and dates upon which directors shall be paid. In addition, the directors of the Company may receive payment for particular services actually rendered, such as legal counsel, medical service, accounting, or other required services, upon specific approval of the Board; provided, however, that no contract for equipment or supplies may be entered into between the Company and one (1) or more directors unless such contract is approved in accordance with the Company's Code of Conduct and applicable law.

The following persons were serving as directors of the Board, as of December 31, 2020:

| <u>Name</u> | <u>Principal Occupation</u> |
|-------------------------|------------------------------------|
| Jason David Hickey M.D. | President & CEO, BCBST |
| Scott Christian Pierce | Chief Operating Officer, BCBST |
| John Francis Giblin | Chief Financial Officer, BCBST |

Officers

The Bylaws provide that the officers of the corporation shall consist of a President, a Corporate Secretary, a Treasurer, and such other Corporate Officers as are elected by the Board. Any two (2) or more offices may be held by the same person, except the office of President and Corporate Secretary. The Corporate Secretary and Treasurer may be one (1) person. In addition, the Board may appoint one (1) or more assistant officers. Each Corporate Officer shall be elected by the Board at the annual Board meeting and shall hold office for one (1) year or until his or her earlier removal, resignation, retirement, or death. Vacancies may be filled at any time by appointment by the Board.

The following persons were serving as officers of the Company, as of December 31, 2020:

| <u>Name</u> | <u>Title</u> |
|----------------------|---------------------|
| George Henry Smith | President & CEO |
| Erbon Dennis Culver | Treasurer |
| Jill Anne Langston | Corporate Secretary |
| Mandy Holland Savage | Assistant Treasurer |
| Kristy Leanne White | Assistant Secretary |

Committees

In addition to the BCBST Board Committees, which have oversight of SCTN, the Board may create standing or special committees as the Board deems necessary, appropriate or convenient, and as is consistent with the Company's Bylaws.

The powers and responsibilities of each SCTN Board Committee is any or all of the powers of the Board that are delegated by the Board to such committees, and is consistent with the Company's Charter, Bylaws, and the shareholders through resolution, or applicable law.

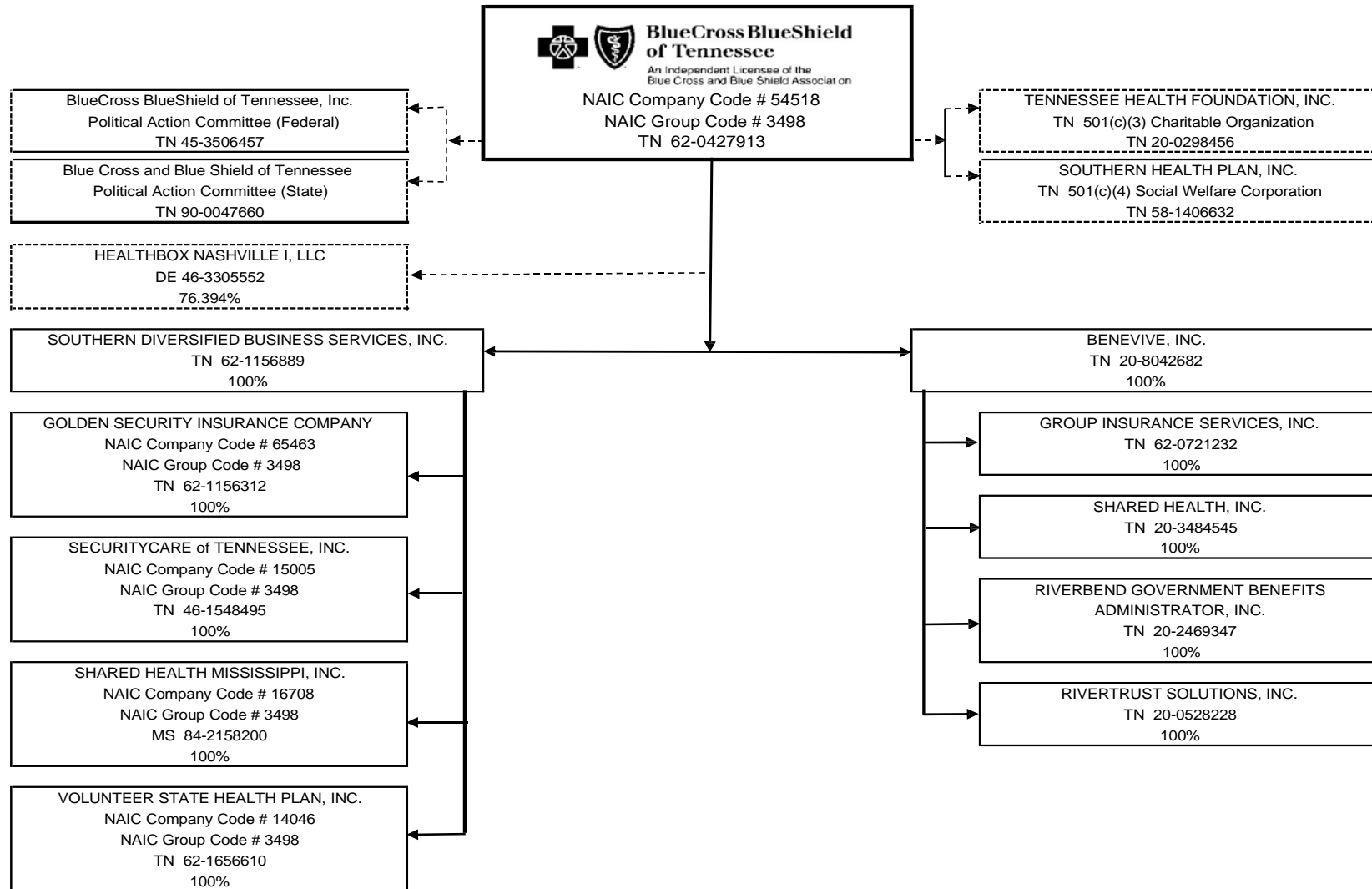
As of December 31, 2020, the Company did not have any appointed Committees.

CONTROL

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-101(b)(7), and as such, is subject to the Insurance Holding Company System Act of 1986, set forth in Tenn. Code Ann. §§ 56-11-101, *et seq.* All outstanding shares of the Company are owned by the holding company, SDDBS, a Tennessee for-profit corporation. The ultimate parent company is BCBST, which is domiciled in Tennessee.

ORGANIZATIONAL CHART

The following organizational chart shows all the insurance companies and their respective domiciliary states within the BCBST Holding Company Group:



CORPORATE RECORDS

The minutes of meetings of the Company's shareholders, Board, and BCBST committees (which serve the Company in lieu of separate, stand-alone committees) were reviewed for the period under examination. They were complete as to necessary detail and appear to adequately reflect the acts of the respective bodies. The review of the minutes indicates that all investment transactions were approved by the Board in accordance with Tenn. Code Ann. § 56-3-408(b)(1).

Charter

The Charter of the Company in effect as of December 31, 2020, is the Company's original charter. The Charter states the Corporation is for-profit, organized to conduct business as a health maintenance organization (HMO) under the laws of the State of Tennessee. The Company had no amendments to its Charter during the period of examination.

Bylaws

The Bylaws in effect as of December 31, 2020, are the Company's Amended and Restated Bylaws, which were adopted by the Board on September 28, 2017. The Company went through a revision process which amended and restated each section of its Bylaws. There were no other changes to the Bylaws during the period of examination.

The Bylaws are such as generally found in corporations of this type and contain no unusual provisions. The Bylaws provide for the regulation of the business and for the conduct of the affairs of the Company, the Board, and its shareholders.

AGREEMENTS WITH PARENT, SUBSIDIARIES, AND AFFILIATES

The Company had the following significant agreements with its affiliated companies in effect, as of December 31, 2020:

Management and Service Agreement

Effective February 15, 2013, the Company and BCBST entered into an Administrative Services Agreement whereby BCBST provides administrative services and duties including, but not limited to, those surrounding the provision of medical coverage, managed behavioral health coverage, and pharmacy benefits, plus liability insurance coverage, finance and strategic consulting, legal services, and consulting and information technology support. The Company pays BCBST the fully allocated cost of providing services pursuant to this agreement.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1) regarding transactions within a holding company system.

Tax Allocation Agreement

Effective January 27, 2020, BCBST and its subsidiaries amended and restated an existing Tax Allocation Agreement signed December 31, 2005. Under the agreement, BCBST will make payments on the consolidated tax liability for each taxable period, including the payment of estimated tax installments, and each subsidiary will pay its share of each payment within ninety (90) days of receiving notice. Each entity's portion of the tax liability is an amount equal to the tax liability of the group multiplied by a fraction, the numerator being the Company's separate tax return liability and the denominator being the sum of the separate return tax liabilities of all members within the BCBST Group.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1) regarding transactions within a holding company system.

TERRITORY AND PLAN OF OPERATION

TERRITORY

The Company is a stock for-profit HMO insurer licensed to transact business in the State of Tennessee. The Certificate of Authority granted by Tennessee was reviewed and found to be in force on December 31, 2020.

Premium tax records were reviewed for the Company, and no exceptions were noted.

Schedule T - Premiums

| <u>State</u> | <u>Licensed (Yes or No)</u> | <u>Medicare Title XVIII</u> | <u>Total Premiums</u> |
|---------------------|--|--|----------------------------------|
| TN | Yes | \$650,218 | \$650,218 |

PLAN OF OPERATION

The Company, doing business as BlueChoice Tennessee, is primarily engaged in offering Medicare Advantage HMO products within the State of Tennessee, as authorized by the Centers for Medicare and Medicaid Services (CMS). During 2018 and 2019, BCBST reevaluated its long-term strategy for participation in the Medicare Advantage program. Management made the strategic decision to not offer policies through the Company for the 2018 and 2019 benefit years. In 2020, the Company re-entered the Medicare marketplace, offering Chronic Condition Special Needs Plan (CSNP) policies.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to the examination, according to its annual statements, as filed with the TDCI:

| <u>Year</u> | <u>Admitted Assets</u> | <u>Liabilities</u> | <u>Capital and Surplus</u> | <u>Net Premium Income</u> |
|-------------|----------------------------|--------------------|--------------------------------|-----------------------------------|
| 2020 | \$7,504,276 | \$76,415 | \$7,427,861 | \$650,218 |
| 2019 | \$8,110,554 | \$525,791 | \$7,584,763 | \$246,464 |
| 2018 | \$7,883,826 | \$5,203 | \$7,878,623 | (\$16,550) |
| 2017 | \$9,123,754 | \$2,344,076 | \$6,779,678 | \$27,192,272 |
| 2016 | \$9,309,507 | \$2,489,848 | \$6,819,659 | \$21,744,255 |

LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements, the ratios of losses incurred to direct premiums earned, for the period subject to the examination were as follows:

| <u>Year</u> | <u>Medical Losses Incurred</u> | <u>Earned Premium</u> | <u>Loss Ratio</u> |
|-------------|------------------------------------|---------------------------|-----------------------|
| 2020 | \$754,326 | \$650,218 | 116.01% |
| 2019 | (\$97,432) | \$248,154 | (39.26)% |
| 2018 | (\$227,387) | (\$18,240) | 1,246.64% |
| 2017 | \$22,757,977 | \$27,192,272 | 83.69% |
| 2016 | \$19,632,872 | \$21,744,255 | 90.29% |

ACCOUNTS AND RECORDS

During the course of the examination, certain balances were tested, and amounts were traced from the Company's trial balance to the annual statement. Minor differences were noted in the Company's financial statements attributable to rounding. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed. These test checks and reviews revealed no material discrepancies.

The Company's books and records are located in Chattanooga, Tennessee.

SUBSEQUENT EVENTS

During the examination, a review of subsequent events was performed. No events were noted that required additional disclosure in the examination report. Management stated in its Letter of Representation that they were not aware of any events subsequent to December 31, 2020, that could have a material effect on the Company's financial condition. Our review confirmed the Company's disclosures in its 2020 Annual Statement and in its Letter of Representation.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the TDCI and present the financial condition of the Company for the period ending December 31, 2020. *(Note: Immaterial differences in totals are due to rounding.)*

ASSETS

| | <u>Assets</u> | <u>Non-Admitted Assets</u> | <u>Net Admitted Assets</u> |
|---|---------------------------|----------------------------|----------------------------|
| Bonds | \$1,026,400 | | \$1,026,400 |
| Cash, cash equivalents, and short-term investments | 6,378,536 | | 6,378,536 |
| Investment income due or accrued | 13,324 | | 13,324 |
| Premiums and considerations: | | | |
| Accrued retrospective premiums and contracts subject to redetermination | 312 | | 312 |
| Amounts receivable relating to uninsured plans | 24,420 | | 24,420 |
| Net deferred tax asset | 9,763 | | 9,763 |
| Receivables from parent, subsidiaries, and affiliates | 26,857 | | 26,857 |
| Health care and other amounts receivable | <u>80,646</u> | <u>\$55,982</u> | <u>24,664</u> |
| Totals | <u><u>\$7,560,258</u></u> | <u><u>\$55,982</u></u> | <u><u>\$7,504,276</u></u> |

LIABILITIES, CAPITAL, AND SURPLUS

| | |
|--|-------------------------------|
| Claims unpaid | \$74,036 |
| Unpaid claims adjustment expenses | 1,676 |
| Aggregate write-ins for other liabilities | <u>703</u> |
| Total Liabilities | 76,415 |
| Common capital stock | 10,000 |
| Gross paid in and contributed surplus | 9,490,000 |
| Unassigned funds (surplus) | <u>(2,072,139)</u> |
| Total Capital and Surplus | <u>7,427,861</u> |
| Total Liabilities, Capital, and Surplus | <u>\$7,504,276</u> |

STATEMENT OF REVENUE AND EXPENSES

| | | |
|---|------------------|---------------------------|
| Member Months | | <u>548</u> |
| Net premium income | <u>\$650,218</u> | |
| Total Revenues | | <u>\$650,218</u> |
| Hospital and Medical | | |
| Hospital/medical benefits | 617,512 | |
| Other professional services | 112,777 | |
| Emergency room and out-of-area | 8,439 | |
| Prescription drugs | <u>15,598</u> | |
| Total Hospital and Medical | 754,326 | |
| Claims adjustment expenses, including cost containment expenses | 161,087 | |
| General administrative expenses | <u>290,939</u> | |
| Total Underwriting Deductions | | <u>1,206,352</u> |
| Net underwriting gain or (loss) | | (556,134) |
| Net investment income earned | <u>22,160</u> | |
| Net investment gains (losses) | | <u>22,160</u> |
| Net income or (loss) after capital gains tax and before all other federal income taxes | | (533,974) |
| Federal and foreign income taxes incurred | | <u>110,504</u> |
| Net Income (loss) | | <u>(\$423,470)</u> |

SURPLUS ACCOUNT

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Capital and surplus, December 31, previous year | <u>\$7,584,763</u> | <u>\$7,878,623</u> | <u>\$6,779,678</u> | <u>\$6,819,659</u> | <u>\$3,707,469</u> |
| Net income or (loss) | (423,470) | (243,924) | 207,432 | 764,227 | (640,224) |
| Change in net deferred income tax | (69,996) | 16,917 | (248,511) | 112,887 | 133,399 |
| Change in non-admitted assets | 336,564 | (66,853) | 1,140,024 | (917,095) | (380,985) |
| Surplus adjustments: | | | | | |
| Paid in | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>4,000,000</u> |
| Net change in capital and surplus | <u>(156,902)</u> | <u>(293,860)</u> | <u>1,098,945</u> | <u>(39,981)</u> | <u>3,112,190</u> |
| Capital and surplus, December 31, current year | <u>\$7,427,861</u> | <u>\$7,584,763</u> | <u>\$7,878,623</u> | <u>\$6,779,678</u> | <u>\$6,819,659</u> |

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus

\$7,427,861

Total capital and surplus, as established by this examination, is the same as reported by the Company in its 2020 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2020.

COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

Comments

There were no comments noted during the completion of the examination.

Recommendations

There were no recommendations noted during the completion of the examination.

CONCLUSION

Rules and procedures as prescribed by the statutes of the State of Tennessee and guidance from the NAIC Handbook, as deemed appropriate, have been followed in connection with the verification and valuation of assets and the determination of liabilities of SecurityCare of Tennessee, Inc.

In such manner, it was found that as of December 31, 2020, the Company had admitted assets of \$7,504,276 and liabilities, exclusive of capital and surplus, of \$76,415. Thus, there existed for the protection of the policyholders, the amount of \$7,427,861 in the form of common capital stock, gross paid in and contributed surplus and unassigned funds. Tenn. Code Ann. § 56-32-112(a)(2) requires an insurer of this Company's type and premium volume to maintain a minimum net worth of \$1,500,000. For this examination, as of December 31, 2020, the Company maintains a net worth sufficient to satisfy those requirements.

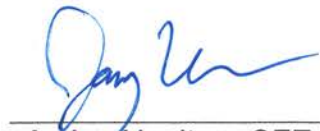
The courteous cooperation of the officers and employees of the Company, extended during the course of the examination, is hereby acknowledged.

In addition to the undersigned, Dustin Rice; Jody Fox; Rhonda Bowling-Black, CFE, ARe, MCM; Insurance Examiners from the State of Tennessee; Jessica Lynch, CFE, MCM; Lindsey Pittman, CFE, CISA, AES, CPA, MCM, and Mike Mayberry, FSA, MAAA, of the firm Lewis & Ellis, Inc., participated in the work of this examination.

Respectfully submitted,




Ryne Davison, CFE
Examiner-in-Charge
Lewis & Ellis, Inc.
Representing the State of Tennessee



A. Jay Uselton, CFE
Department Designee
Tennessee Department of Commerce and Insurance

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of SecurityCare of Tennessee, Inc. located in Chattanooga, Tennessee, dated April 19, 2022, and made as of December 31, 2020, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.


Ryne Davison, CFE
Examiner-in-Charge
Lewis & Ellis, Inc.
Representing the State of Tennessee

State Alabama

County Baldwin

Subscribed to and sworn before me

this 10 day of June, 2022

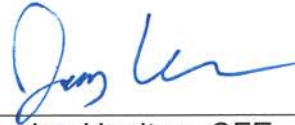

(NOTARY)

My Commission Expires: 8-7-2023



AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of SecurityCare of Tennessee, Inc. located in Chattanooga, Tennessee, dated April 19, 2022, and made as of December 31, 2020, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.



A. Jay Uselton, CFE
Department Designee
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 13th day of June, 2022

Linda Merriweather
(NOTARY)

My Commission Expires: March 15, 2025



EXHIBIT B



June 16, 2022

E. Joy Little
Director of Financial Examinations/Chief Examiner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243-1135

RE: Report of Examination – SecurityCare of Tennessee, Inc.

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for **SecurityCare of Tennessee, Inc.**, made as of December 31, 2020.

By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,



John Giblin
Executive Vice President & Chief Financial Officer