



OFFICE OF  
INSURANCE COMMISSIONER

In the Matter of	)	No. 09-41
	)	
The Financial Examination of	)	FINDINGS, CONCLUSIONS,
<b>LIFEWISE HEALTH PLAN OF</b>	)	AND ORDER ADOPTING REPORT
<b>ARIZONA, INC.</b>	)	OF FINANCIAL EXAMINATION
	)	
A Domestic Insurer.	)	

**BACKGROUND**

An examination of the financial condition of **LIFEWISE HEALTH PLAN OF ARIZONA, INC.** (the Company) as of December 31, 2007, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Company for its comments on March 6, 2009. The Company's response to the report is attached to this order only for the purpose of a more convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and the submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

**FINDINGS**

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 11 of the report.



## CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **LIFEWISE HEALTH PLAN OF ARIZONA, INC.**, and to order the Company to take the actions described in the Instructions section of the report. The Commissioner acknowledges that the Company may have implemented some of the Instructions prior to the date of this order. The Instructions in the report are appropriate responses to the matters found in the examination.

## ORDER

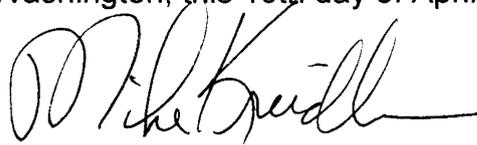
The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions contained in the examination report on pages 1-2.

1. The Company is ordered to comply with RCW 48.05.250 by filing its financial statements in the general form and context approved by the NAIC and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 1, Examination Report, page 2.
2. The Company is ordered to document approval by the BOD for all investments purchased. Under RCW 48.13.350(1), a permanent written record of investment transactions must be kept and authorized by an officer or by the chairman of the committee authorizing the investment. Instruction 2, Examination Report, page 2.
3. The Company is ordered to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions and affairs and to follow the NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2). The Company is also ordered to execute a revised or amended custodial agreement that complies with the FCEH. Instruction 3, Examination Report, page 2.
4. The Company is ordered to adequately account for unpaid claims adjustment expenses using past experience adjusted for current trends, pursuant to SSAP No. 55, paragraph 8, and comply with RCW 48.05.250 by filing a true annual statement and to follow the NAIC Annual Statement Instructions and the AP&P as required by WAC 284-07-050(2). Instruction 4, Examination Report, page 2.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Olympia, Washington, this 10th day of April, 2009.

A handwritten signature in black ink, appearing to read "Mike Kreidler". The signature is fluid and cursive, with a long horizontal stroke at the end.

MIKE KREIDLER  
Insurance Commissioner

RECEIVED

MAR 25 2009

INSURANCE COMMISSIONER  
COMPANY SUPERVISION



March 23, 2009

James T. Odiorne, CPA, JD  
Deputy Insurance Commissioner  
Company Supervision Division  
P.O. Box 10255  
Olympia, WA 98504-0255

Re: LifeWise Health Plan of Arizona, Inc. Financial Examination –  
Company's Response to Draft Examination Report

Dear Deputy Insurance Commissioner Odiorne:

The purpose of this letter is to furnish you with comments on the Draft Financial Examination Report ("Draft Report") for LifeWise Health Plan of Arizona, Inc. ("LWAZ" or the "Company"). Exhibit A to this letter provides the Company's responses to each of the Instructions and Comments and Recommendations contained in the Draft Report. For ease of reference, the letter contains the exact verbiage of each finding in italics. Exhibit A also identifies typographical errors and factual inaccuracies in other sections of the Draft Report. This letter is organized to track the order of the sections contained in the Draft Report. In the event that a section is not referenced in the letter, it means that the Company had no comments for that section.

In closing, we appreciate the opportunity to provide you these comments, and we respectfully ask that the Draft Report be modified in accordance with the information provided herein before it is adopted and made public. If you have any questions, I would be happy to discuss them with you.

Sincerely,

A handwritten signature in black ink that reads "Sharilyn Campbell".

Sharilyn Campbell  
Vice President, Finance, & Treasurer

Enclosure

cc: Majd El-Azma, President & CEO  
Kitti Cramer, Deputy General Counsel  
Vernon E. Stoner, Chief Deputy Insurance Commissioner  
Patrick H. McNaughton, Chief Examiner

EXHIBIT A  
LIFEWISE HEALTH PLAN OF ARIZONA, INC. RESPONSE TO  
DRAFT FINANCIAL EXAMINATION REPORT

*The Company is instructed to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions and affairs and to follow the NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2). The Company is also instructed to execute a revised or amended custodial agreement that complies with the FCEH.*

LWAZ Response: After completion of the exit conference, the Company continued to work with the OIC regarding this finding. Based on that analysis, the Company believes that its custodial agreement contained two provisions that were not consistent with the FCEH 2007 requirements, and the example provided was not one of the two provisions. The Company respectfully requests that the OIC remove that example from this finding. Following the exam period, a new statute was enacted, RCW 48.23.480, that specifically outlines the required terms and conditions for custodial agreements. That statute became effective on June 12, 2008. The Company agrees to amend our existing custodial agreement to comply with that law.

**4. Unpaid Claim Adjustment Expenses**

*The claim adjustment expenses for paid claims in 2007 were 9.9% of the paid claims. In estimating its claim adjustment expenses for unpaid claims, LWAZ used the parent company's experience percentage of 3%. Per SSAP No. 55, paragraph 8, claim adjustment expenses on unpaid claims should be calculated using past experience adjusted for current trends. Because the estimate for unpaid claims was overstated, the combined provision for unpaid claims and unpaid claim adjustment expenses was sufficient.*

*The Company is instructed to adequately account for unpaid claims adjustment expenses using past experience adjusted for current trends, pursuant to SSAP No. 55, paragraph 8, and comply with RCW 48.05.250 by filing a true annual statement and to follow the NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2).*

LWAZ Response: The Company does not disagree with the finding and agrees to use past experience adjusted for current trends in future filings.

**COMPANY PROFILE**

**Company History.** Please modify the first sentence as MSCL principally provided health stop-loss covered for self-insured groups administered by its parent company, either "Medical Services Corporation of Eastern Washington or later Premera Blue Cross (PBC)." Also, the effective date of the Company's name change from MSC Life Insurance Company to LWAZ was March 17, 2003.

**Growth of Company.** The amount listed as Investment Income for 2003 should be \$386,558," not \$386,838.

**AFFILIATED COMPANIES**

On the organization chart, Ucentris Insured Solutions should be listed as "Ucentris Insured Solutions, Inc." Also, the Company believes LifeWise Assurance Company should be removed from the chart in this Draft Report.

EXHIBIT A  
LIFEWISE HEALTH PLAN OF ARIZONA, INC. RESPONSE TO  
DRAFT FINANCIAL EXAMINATION REPORT

**INSTRUCTIONS**

**1. Annual Statement Errors**

*The results of the examination disclosed several instances in which the Company's filing of the 2007 NAIC Annual Statement did not conform to the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions. While the Company needs to correct these practices, none of the following items in the instruction was material to the financial statements and no examination adjustments were necessary.*

a. **Schedule S – Part 3 – Section 2** - *The Company has a Medical Excess of Loss Reinsurance Contract with BCS Insurance Company (NAIC No. 38245). The Company is reporting a contract with BCS Life Insurance Company on its Annual Statement (NAIC No. 80985).*

b. **General Interrogatories** - *The Company did not answer General Interrogatory #23.1 correctly. If securities are loaned to others, they are considered not in exclusive control of the Company and the Company should answer yes to No. 23.1. The amount loaned should be reported on line 23.21.*

***The Company is instructed to comply with RCW 48.05.250 by filing its financial statements in the general form and context approved by the NAIC and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.***

LWAZ Response: The Company has complied with these findings for its 2008 Annual Statement, and will continue to do so in the future.

**2. Approval of Investment Transactions.**

*RCW 48.13.340 requires all investments, loans, sales or exchanges to be approved or authorized by the Board of Directors (BOD) or by a committee charged by the BOD with the duty of making said investment, loan, sale or exchange, and the minutes of any said committee shall be recorded and reports thereof shall be submitted to the BOD for approval or disapproval. Investments were not documented as approved in the Board of Directors' meeting minutes for the third and fourth quarter of 2006.*

***The Company is instructed to document approval by the BOD for all investments purchased. Under RCW 48.13.350(1), a permanent written record of investment transactions must be kept and authorized by an officer or by the chairman of the committee authorizing the investment.***

LWAZ Response: The Company does not disagree with the finding.

**3. Custodial Agreement Deficiencies**

*The Company responded in its 2007 NAIC Annual Statement General Interrogatories 26.01 that its custodial agreement with the Bank of New York complied with the FCEH. However, it did not contain several provisions required by the FCEH. For example, the custodial agreement does not require indemnification to the company for loss due to custodial negligence in regards to foreign securities and securities that are not in the custodian's possession. RCW 48.05.250 requires a company to file a true statement of its financial condition, transactions, and affairs.*

EXHIBIT A  
LIFEWISE HEALTH PLAN OF ARIZONA, INC. RESPONSE TO  
DRAFT FINANCIAL EXAMINATION REPORT

**MANAGEMENT AND CONTROL**

**Board of Directors (BOD).** Brian E. Ancell was a Director, not a Vice Chairman.

**CORPORATE RECORDS**

There were several inaccuracies on the dates in this section. The initial Articles of Incorporation were filed on June 1, 1992, not April 30<sup>th</sup>. The amendment changing Article 8 of the Articles of Incorporation was filed on January 9, 2003, not December 16, 2002. The Articles of Amendment were again amended on March 17, 2003, not February 20, 2003.

**MORTALITY AND LOSS**

The Company does not sell Medicare Supplement policies nor does it participate in the Medicare Part D program.

**ACCOUNTING RECORDS AND INFORMATION SYSTEMS**

The Company believes that the second sentence should be amended to read, "For the years 2006 and 2007, the Company was audited annually by the certified public accounting firm of KMPG, LLP. For the years, 2003 through 2005, the Company the Company was audited annually by the certified public accounting firm of Ernst & Young."

**SUBSEQUENT EVENTS**

The Company believes that a significant subsequent event was omitted from the Draft Report. Majd F. El-Azma became President and Chief Executive Officer of the Company in June 2008.

**FINANCIAL STATEMENTS**

On page 11, the "Change in surplus as regards policyholders for the year" for 2005 should be \$16,744,644, instead of \$16,744,645.