VERMONT

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October 31, 2014

Mr. Alfred Gobeille, Chair
Green Mountain Care Board
89 Main Street, Third Floor, City Center
Montpelier, Vermont 05620

Re: Solvency Impact of "1Q and 2Q 2015 Grandfathered Small Group New Product Rate Filing (SERFF # MVPH-129710583)" of MVP Health Insurance Company

Dear Mr. Gobeille:

This letter is to fulfill the Department of Financial Regulation's ("DFR") responsibility under 8 V.S.A. § 4062(a)(2)(B) regarding MVP Health Insurance Company, Inc. ("MVPHIC") and its recent "1Q and 2Q 2015 Grandfathered Small Group New Product Rate Filing". Under 8 V.S.A. § 4062, DFR must provide to the Green Mountain Care Board ("GMCB") an analysis and opinion on the impact of the filing as proposed on the solvency of MVPHIC. MVPHIC is one of two insurers operating in Vermont that are members of the MVP Health Care, Inc. holding company system ("MVP Holding Company"). The solvency of MVPHIC as an entity and how a particular filing or rate may affect that solvency are two separate questions. This letter first analyzes and provides DFR's opinion on the solvency of MVPHIC, and considers the combined financial results of all insurers in MVP Holding Company. It then provides DFR's opinion and recommendation on the impact the filing could have on the solvency of MVPHIC.

Summary of Opinion

DFR is of the opinion that the rate as proposed will not have a material impact on the solvency and surplus of MVPHIC or MVP Holding Company.

Background

Vermont law requires DFR to protect consumers by supervising insurance companies in a manner that assures the solvency, liquidity, stability, and efficiency of all such companies.[1] DFR has more specific responsibilities to ensure the solvency of companies based in Vermont, as it is the primary regulator for those companies. Similarly, every other state has primary responsibility to ensure the solvency of each company domiciled in its state. As a result, regulators in an insurer's domicile have many powerful tools at their disposal to monitor and ensure the solvency

[1] 8 V.S.A. § 10.

of their domestic companies, and other states in which that insurer does business rely heavily on the domicile state regulators to perform that function.

Approximately 1,000 insurance companies have a license to do business in Vermont and are domiciled in other states. For each of these companies, DFR generally relies on the regulators in the state where the company is domiciled for solvency oversight. However, in addition to this reliance DFR requires foreign companies to meet certain solvency-based criteria to procure and maintain a license to do business in Vermont. DFR uses many tools to ensure foreign companies meet these criteria, including various analytic measures, review of financial statements, and frequent communication with the regulators in a company's domicile state.

Analysis of Solvency

DFR considers the solvency of insurers to be the most fundamental aspect of consumer protection. Whether an insurer is solvent is more complex than simply determining whether at any given moment the insurer has more assets than liabilities. Rather, it is an intricate analysis of many factors to discern how close or far away from insolvency the insurer is, and in what direction it will move in the future. As noted above, the primary responsibility for assessing the solvency of an insurer lies with the regulator in the insurer's domicile state. DFR supplements this home-state regulation by ensuring foreign companies meet certain solvency-based licensing criteria necessary to continue to operate in Vermont.

MVPHIC Solvency Opinion

DFR is not the primary regulator of MVPHIC. DFR does require MVPHIC to meet Vermont's foreign insurer licensing requirements. Currently, MVPHIC meets these licensing requirements. Further, MVPHIC's primary regulators in New York have not expressed any concerns to DFR about MVPHIC's solvency. Finally, in 2013, all of MVP Holding Company's operations in Vermont accounted for approximately 5.3 percent of its total premiums earned. Thus, DFR has determined that MVPHIC's Vermont operations pose very little risk to its solvency, or to the solvency of MVP Holding Company. Nonetheless, adequacy of rates and contribution to surplus are necessary for all health insurers in order to maintain strength of capital that keeps pace with claims trends.

Impact of the Filing on Solvency

The "1Q and 2Q 2015 Grandfathered Small Group New Product Rate Filing" represents proposed rates for grandfathered small groups that will be available for enrollment in the first and second quarters of 2015. Based on the entity-wide assessment above, and contingent upon GMCB actuary's finding that the proposed rate is not inadequate, DFR's opinion is that the proposed rate will likely have no impact on MVPHIC's solvency.

Sincerely,

/s/ Susan L. Donegan

Susan L. Donegan
Commissioner, Department of Financial Regulation