

# Best's Rating Report



Pittsburgh, Pennsylvania



A-

**Ultimate Parent:**  
**Highmark Health**

**HM LIFE INSURANCE COMPANY**

Mail: P.O. Box 535061, Pittsburgh, PA 15253-5061

Web: [www.hmig.com](http://www.hmig.com)

Tel: 800-328-5433

AMB#: 009063

Ultimate Parent#: 033398

Fax: 717-260-7261

NAIC#: 93440

FEIN#: 06-1041332

#### **BEST'S CREDIT RATING**

**Best's Financial Strength Rating:** A-

**Best's Financial Size Category:** IX

**Outlook:** Negative

#### **RATING RATIONALE**

**Rating Rationale:** The ratings of the HM Life Insurance operations have been extended to HM Life Insurance Company. HM Life Insurance Company is the primary operating entity for the HM Life Insurance

operations. The company provides stop loss insurance products on a national basis.

The following text is derived from A.M. Best's Credit Report on HM Life Insurance Group (AMB# 070359).

The ratings of HM Life Insurance Company (HM Life) and its sister company, HM Life Insurance Company of New York, reflect the consolidated long-term increase in risk-adjusted capital, stable favorable net operating performance, and its role as a strategic operating unit of its intermediate parent, Highmark Inc. (Highmark). Offsetting factors include product and business concentration risks.

The HM Life companies have increased risk-adjusted capital measures over the long term. Both HM Life and HM Life Insurance Company of New York's absolute capital and surplus levels have increased mainly driven by favorable operating results, which may abate over the near term due to a combination of pricing pressure and higher in-

# Best's Rating Report

cidence of large dollar claims in the medical stop loss line of business. Additionally, HM Life does not concede premium growth over margin; therefore, HM Life will remain focused on profitable measured growth strategies in preferred market segments. The HM Life companies have been able to leverage Highmark's recognition in markets outside the Pennsylvania region in order to grow premiums through affiliations with other insurers, including a large number of Blue Cross Blue Shield (Blue) plans and an expanding footprint in the medical stop loss market. Additionally, HM Life continues to be a key operating unit within the Highmark organization providing ancillary products for the organization as well as other business partners and Blue plans. HM Life derives a significant portion of its premiums from business relationships with other Blue plans nationwide. These relationships are reflective of HM Life's stable long-term operating results, which are mainly driven by its core stop loss business and progressively improving vision line of business. A.M. Best expects Highmark to use its HM Life product offerings to further deepen its relationships with both Pennsylvania business and business outside of its core market through its distribution partners and operations spanning all 50 states.

The strength of HM Life's earnings is derived from the medical stop loss business. The HM Life companies compete with other Blue plans in each respective market in addition to other national carriers for stop loss coverage. HM Life's business is highly concentrated in medical stop loss products, which comprise approximately three-quarters of the group's premiums, predominantly written in conjunction with other Blue plans. Furthermore, its Blue business partnerships generate approximately three-fifths of new sales. The product concentration is mitigated by the geographic disbursement of business written in over 30 different Blue brand markets, which are outside of HM Life's primary Pennsylvania market, where it writes a large share of its business.

Positive rating movement may occur if HM Life Insurance companies report a substantial increase in premiums, sustain a favorable operating earnings trend and strengthen risk-based capitalization. Negative rating movement could occur if HM Life has a material deterioration in operating results in its core medical stop loss business or risk-adjusted capitalization substantially declines or is adversely affected by the strategic business diversification of its parent company.

## KEY FINANCIAL INDICATORS (\$000)

Year	Assets	Total Capital				
		Capital Surplus Funds	Asset Valuation Reserve	Net Premiums Written	Net Invest Income	Net Income
2011	471,645	219,498	4,396	568,779	10,565	27,666
2012	491,292	249,981	4,917	588,774	10,464	25,352
2013	557,905	284,572	5,320	634,015	10,258	35,481
2014	574,506	309,209	5,691	647,916	10,419	24,125
2015	620,825	348,591	5,439	640,331	10,276	37,286

(\*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

## BUSINESS PROFILE

The following text is derived from A.M. Best's Credit Report on HM Life Insurance Group (AMB# 070359).

HM Life Insurance Company (HM Life) and HM Life Insurance Company of New York (HM Life of New York) are direct subsidiaries of HM Insurance Group, Inc. (the Group) which in turn is a wholly owned subsidiary of Highmark Inc., a diversified health care focused organization and the fourth largest Blue Cross and Blue Shield company. Highmark Casualty Insurance Company, HM Benefits Administrators, Inc., and HM Casualty Insurance Company are other members of HM Insurance Group. The mission of the Group is to be a leader in insurance solutions providing group benefits that protect businesses and employees by reducing gaps in health coverage. Strategically, the Group's objectives are to provide value to its parent company through financial returns and by supporting relationships with Blue partners nationwide and to develop strong customer relationships.

**Scope of Operations:** HM Life's primary product line is employer medical stop loss and medical excess coverage. HM Life also sells provider excess reinsurance in certain states, but it is excluded in New York.

Vision coverage is offered on HM Life and HM Life of New York paper through Davis Vision, Highmark Inc.'s national non-Blue branded vision subsidiary. The companies serve as the insurance carriers for the vision products marketed by Davis Vision.

HM Life focuses its distribution to employers with 100 to 5,000 employees through multiple distribution channels and partnering arrangements with commercial and not-for-profit insurance carriers. Employer stop loss coverage is written on a national basis for

# Best's Rating Report

groups with more than 150 employees. The Group operates a network of 20 strategically located field offices through the continental U.S., and works with more than 1,000 active producers. The Group's distribution channels include a mix of third-party administrators (TPAs), and employee benefits brokers and consultants, Highmark Inc. sales staff, a partnership with Highmark Inc.'s vision company, Davis Vision, and partnership arrangements with other not-for-profit Blue Cross Blue Shield plans and their affiliates with a focus on multi-line sales to leverage package pricing and administration by one carrier. HM Life continues to emphasize cross-selling with Highmark Inc. and its subsidiary companies in order to increase the number of products sold by Highmark Inc. and its subsidiaries to existing groups. More than half of new sales and half of its active in-force book of business is derived from its Blue partners.

**Territory:** The company is licensed in the District of Columbia, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WV, WI and WY.

**Business Trends:** The Group's core product is employer stop loss which accounts for approximately eighty percent of gross premiums, of which over one-half is derived from the Group's Blue Plans relationships. Stop loss has been a consistent driver of premium growth for HM Life over the last five years. In 2014, HM Life of New York's limited benefit product was in run-out; however the company continues to offer stop loss insurance, vision, and managed care reinsurance in the New York market.

**Market Share/Market Presence:** HM Life is licensed to operate in 49 states and the District of Columbia. HM Life of New York is licensed in New York, Rhode Island, and the District of Columbia. The Group has strategic business relationships and formal partnerships with more than 30 Blue Plans and/or Blue affiliates throughout the country.

## OPERATING PERFORMANCE

The following text is derived from A.M. Best's Credit Report on HM Life Insurance Group (AMB# 070359).

**Operating Results:** HM Life Insurance Company (HM Life) and its sister company, HM Life Insurance Company of New York (HM Life of NY), on a combined basis continue to report strong revenue mainly driven by its stop loss line of business. Stop loss continues to represent the majority of net premiums written for the consolidated HM Life and

HM Life of NY companies and nearly all the earnings in are attributed from this product line. HM Life's vision product line also favorably contributed to net operating gains in 2015.

**Underwriting Results:** HM Life underwriting gains are primarily driven by its stop loss product line favorable operating results, which comprises a large percentage of the consolidated company's results. The favorable underwriting gains were offset by losses from the Company's managed care reinsurance and provider excess reinsurance product lines in 2015. Earnings grew favorably in 2015, which was mainly driven by the stop loss business line earnings. Earnings may be pressured in 2016 due to increased competition in the stop loss market and pricing pressure on the company to maintain operating margins. The product mix for HM Life Insurance Company of New York (HM Life of NY) is similar to that of HM Life where underwriting earnings are primarily generated by stop loss product earnings. The near term consolidated underwriting results were driven by HM Life results and stronger near term HM Life of NY net gains. HM Life's results were reflective of a significant improvement in the combined ratio attributed to favorable claim experience in the stop loss line of business offset by an increase in claims experience in the managed care reinsurance line of business. Operational cost savings continues to be a focus for the organization while making strategic investments in systems that produce cost-effective process improvements.

**Investment Results:** Total return on investment securities have steadily declined since 2011. The regressive trend is due to the low interest rate environment and the maturing of higher yielding fixed income securities, however there was some improvement in the net yield in 2015 from a slight improvement in bond yield trend. The total portfolio of invested assets continues to grow over the medium term driven by its steady returns from its high quality fixed income investments along with its allocation of higher yielding below investment grade holdings. Net investment income in 2015 remained favorable and contributed to the consolidated company's favorable underwriting results.

## BALANCE SHEET STRENGTH

The following text is derived from A.M. Best's Credit Report on HM Life Insurance Group (AMB# 070359).

**Capitalization:** HM Life Insurance Company (HM Life) and HM Life Insurance Company of New York's (HM Life of NY) are adequately

# Best's Rating Report

capitalized in support of their insurance and investment risks. HM Life's, the lead company, risk-adjusted capitalization growth trend is favorable and continued to increase to the highest level in the last five years. HM Life of NY's near term trend of risk-adjusted capital level growth is favorable; however the improvement is reflective of a decline of premium and lower surplus strain.

HM Life's premium leverage strengthened in 2015. Furthermore, the five year compounded average growth rate (CAGR) of total capital continues to outpace the CAGR for net premiums. This divergence in balance sheet and income statement growth is a factor of the increased level of risk-based capital for HM Life.

The following text is derived from A.M. Best's Credit Report on HM Life Insurance Group (AMB# 070359).

**Liquidity:** The overall liquidity measures improved over the near-term for HM Life, which has remained relatively stable over the last three years and was considered good. HM Life's net operating cash flows increased in 2015 and is reflective of the decrease in claims experience in its stop loss product line of business.

The following text is derived from A.M. Best's Credit Report on HM Life Insurance Group (AMB# 070359).

**Investments:** The combined portfolio of HM Life Insurance Company (HM Life) and HM Life Insurance Company of New York (HM Life of NY) is comprised of bonds, equity funds, cash and short-term investments and a small amount of Schedule BA assets. The large majority of HM Life's bonds are held in investment grade securities with bond average duration of approximately five years. The equity funds are invested in the following asset classes: an S&P 500 index fund, a small/mid cap fund and an emerging markets debt fund. The investment strategy for HM Life includes a percentage of bonds held in below investment grade where investment yields are higher. HM Life of NY's fixed income portfolio is comprised of all investment grade securities. Generally, fixed instruments were held in mostly corporate bonds, U.S. Government, state and special revenue and foreign obligation. Common stock is held in publicly traded, professionally managed equity funds.

## MANAGEMENT

**Officers:** Chief Executive Officer, Frederick G. Merkel; President and Chief Operating Officer, Matthew J. Rhenish; Senior Vice President and Treasurer, Chief Financial Officer, Daniel J. Wright(Subsidiary Business);

Senior Vice Presidents, Elizabeth A. Midtlein, Domenic Palmieri, Matthew P. Piroch, Gregory A. Wilden; Secretary and General Counsel, Edward A. Bittner, Jr.(Corporate, Deputy).

**Directors:** John Robert Baum, PhD, Anthony Nicholas Benevento, William Dennis Cronin, Denise Ann Doyle, David Michael Matter, Frederick G. Merkel, Donald Peter Napier, William John Stallkamp.

### Balance Sheet Assets (\$000)

	YE 2015
Total bonds .....	\$363,325
Total common stocks.....	22,806
Cash & short-term invest .....	146,376
Securities-colltrl assets .....	34,080
Amounts recov reins .....	12,881
Premis and consids due .....	22,744
Accrued invest income.....	3,425
Other assets .....	15,189

Assets .....	\$620,825
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### Liabilities (\$000)

Net policy reserves.....	\$ 5,859
Policy claims .....	162,735
Interest maint reserve .....	5,226
Comm taxes expenses.....	40,019
Asset val reserve .....	5,439
Payable to affiliate .....	10,173
Payable for securities lending .....	34,080
Other liabilities .....	8,703

Total Liabilities .....	\$272,235
Common stock.....	3,000
Surplus notes .....	20,000
Paid in & contrib surpl .....	154,338
Unassigned surplus .....	168,673
Other surplus .....	2,580

Total .....	\$620,825
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# Best's Rating Report

## Why is this *Best's® Rating Report* important to you?

A Best's Rating Report from the A.M. Best Company showcases the **opinion** from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders, as well as its relative credit risk.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of the insurance companies since 1899.

A Best's Financial Strength Rating is an **independent opinion** of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations.

The Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. The rating is **not a recommendation**

to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information.

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