

# **APPLICATION FOR HEALTH MAINTENANCE ORGANIZATION (HMO) LICENSE**

## **Providers of Medicare Only Coverages**

### **ABOUT THE LICENSING PROCESS**

The North Carolina Department of Insurance (the “Department”) is the North Carolina agency responsible for the licensing and regulation of a Health Maintenance Organization (“HMO”) under Chapter 58, Article 67 of the North Carolina General Statutes (Health Maintenance Organization Act). Contact information for questions regarding the licensing process are to be directed to:

Scott Wicker (919) 807-6142 or [scott.wicker@ncdoi.gov](mailto:scott.wicker@ncdoi.gov)

#### **For U.S. Postal Service Delivery:**

North Carolina Department of Insurance  
Financial Analysis Division  
1203 Mail Service Center  
Raleigh, NC 27699-1203

#### **For Other Than U.S. Postal Service Delivery:**

North Carolina Department of Insurance  
Financial Analysis Division  
3200 Beechleaf Ct  
Raleigh, NC 27604

### **MINIMUM FINANCIAL REQUIREMENTS**

The minimum financial requirements for an HMO are outlined below.

|                        | <b>Full Service HMO</b> | <b>Single Service HMO</b> | <b>Statutory Reference</b> |
|------------------------|-------------------------|---------------------------|----------------------------|
| <b>Working Capital</b> | \$1,500,000             | \$100,000                 | NCGS § 58-67-20            |
| <b>Deposits</b>        | \$500,000               | \$25,000                  | NCGS § 58-67-25            |
| <b>Net Worth</b>       | \$1,000,000             | \$50,000                  | NCGS § 58-67-110           |

Determinations regarding appropriate levels of working capital, reserves, and deposits are made on a case by case basis and are dictated to a large degree by the financial feasibility study presented in the application.

### **INSTRUCTIONS FOR FILING AN APPLICATION FOR A NORTH CAROLINA HMO LICENSE (MEDICARE ONLY)**

In an effort to reduce the processing time for the issuance of an HMO license, the Department has prepared the following list, which may be used as a guide to assist the applicant in completing an application. The list references North Carolina statutes, which must be met by the applicant in order to receive an HMO license. Please be advised that this list is not all-inclusive, and it is recommended that the applicant refer to Chapter 58, Article 67 of the North Carolina General Statutes.

Pursuant to NCGS § 58-67-175, all applications, filings, and reports required under the Health Maintenance Organization Act shall be treated as public documents.

The application must include the following:

- Application fee of \$500.00 must accompany the application (per NCGS § 58-67-160).
  - The application may be filed electronically in Portable Document Format (PDF) or in hard copy format.
  - A cover letter must be submitted with the application.
  - A summary of the proposed corporate governance for the applicant that includes substantially all of the requirements for the Corporate Governance Annual Disclosure as outlined in NCGS § 58-10-755 through 58-10-790, which will be a required filing for the applicant after licensure.
  - The following is considered a necessary part of the HMO application (per NCGS § 58-67-10(c)):
    - A copy of the organizational documents, if any, of the applicant, such as the articles of incorporation, articles of association, partnership agreement, trust agreement, or other applicable documents, and all amendments.
    - A copy of the bylaws, rules and regulations, or similar documents, if any, regulating the conduct of the internal affairs of the applicant.
    - A list of the names, addresses, official positions, and biographical affidavits of the persons who are to be responsible for the conduct of the affairs of the applicant, including all members of the governing body, the principal officers in the case of a corporation, or the partners or members in the case of a partnership or association. The list shall be accompanied by a completed release of information for each of these individuals on forms acceptable to the Commissioner. The list of officers and board members should be consistent with the HMO's proposed bylaws, including number of board members and number and title of officers. The applicant must use the NAIC Biographical Affidavit – Form 11. All questions on the affidavit must be answered, and if the question is not applicable or the answer is none, please indicate as such.
- Throughout the application process, please provide the Department with updates as officers and board members change or are added, including applicable biographical affidavits.*
- Include a chart(s) showing the internal organizational structure of the applicant's management and administrative staff.
  - A disclosure identifying all affiliates, including a description of any management, service, or cost-sharing arrangement between an affiliate and the applicant. Include corporate organizational charts, which clearly identify the relationships between the applicant and any affiliates.

- Include draft copies of any management, administrative, or custodial agreements entered into pursuant to NCGS § 58-67-30, which must be submitted for review and approval prior to use. Such contracts should clearly outline the obligations of both parties, including the services to be provided to the HMO and the fee to be paid for these services. Services to be provided to the HMO should be outlined in terms of operational areas, support staff, etc.
- A detailed plan of operation. Include the following as well as any other pertinent information:
  - General background information on the applicant and/or parent.
  - Organizational charts for both internal and external relationships.
  - Location of office to be established in North Carolina.
  - The name of the counties the applicant wishes to do business in.
  - Description of proposed operations, including claims processing and payment, utilization management, quality management, enrollment and billing, customer service, provider relations, etc.
  - City and state where each operation will be performed.
  - Affiliates and/or intermediaries who will perform operations on behalf of the applicant, if known.
  - The type of HMO the applicant will operate (i.e. group, staff, IPA).
  - Products to be offered (i.e. triple option, point of service, vision, dental).
  - Management information systems to be employed and location of these systems.
  - Marketing strategies to be implemented.
  - Types of markets the applicant will concentrate on (i.e. large group, small group, individual).
- Financial statements showing the applicant's assets, liabilities, and sources of financial support. If the applicant's financial affairs are audited by independent certified public accountants, a copy of the applicant's most recent regular certified financial statement shall satisfy this requirement unless the Commissioner directs that additional or more recent financial information is required.
- A financial feasibility plan that includes:
  - Detailed enrollment projections.
  - The methodology for determining premium rates to be charged during the first 12 months of operations certified by an actuary or a recognized actuarial consultant.
  - A projection of balance sheets.
  - Cash flow statements that show any capital expenditures, purchases and sales of investments, and deposits with the State.
  - Anticipated income and anticipated expense statements covering the start of operations through the period in which the applicant is anticipated to have had net income for at least one year.
  - A statement as to the sources of working capital as well as any other sources of funding.

A template for the financial feasibility plan will be provided. In addition to the above information, also include the following:

- The medical loss ratio.
  - Listing of areas to be covered.
  - Detailed enrollment projections by county.
  - Documentation of all assumptions used in preparing the study.
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- A description of the procedures to be implemented to meet the protection against insolvency requirements of NCGS § 58-67-110. If a reinsurance agreement is to be used to satisfy the provisions of NCGS § 58-67-110, a draft of that agreement must be filed with the application. Reinsurance agreements require the prior approval of the Department before execution.
  - A plan for complying with the hold harmless requirements of NCGS § 58-67-115. If this will be addressed in provider contracts, include a copy of the contract template with the hold harmless language. Additionally, provide a summary of how emergency out of network claims will be handled.
  - The plan for handling an insolvency, as required by NCGS § 58-67-120, which allows for the continuation of benefits for the duration of the contract period for which premiums have been paid and continuation of benefits to enrollees who are confined in an inpatient facility until their discharge or expiration of benefits.
  - If not domiciled in this State, a power of attorney duly executed by the applicant appointing the Commissioner, the Commissioner's successors in office, and duly authorized deputies as the true and lawful attorney of the applicant in and for this State, upon whom all lawful process in any legal action or proceeding against the applicant on a cause of action arising in this State may be served.
  - Duly executed power of attorney allowing for the sale of securities on deposit to meet claim obligations.
  - Duly executed president's sworn statement.
  - The names and addresses of the applicant's qualified actuary and external auditors.

### **APPLICATION REVIEW PROCESS**

The application will be reviewed by the Financial Analysis Division and the Actuarial Services Division. Applicants are requested to respond within 10 days of receiving correspondence from the Department. If the response is not received within this time frame, the application may be put on hold or closed. The applicant may form a general business corporation through the Secretary of State's office before licensing, but the Articles of Incorporation cannot reflect the applicant as being an HMO until they have been approved by the Financial Analysis Division at the end of the licensing process.

An HMO license shall be issued upon satisfaction of the following:

- The applicant has complied with the application requirements of NCGS § 58-67-10.

- The applicant has minimum net worth equal to or greater than that required by NCGS § 58-67-110(b).
- The amounts provided as working capital are repayable only out of earned income in excess of amounts paid and payable for operating expenses and expenses of providing services and such reserve as the Department deems adequate.
- The amount of money actually available for working capital is sufficient to carry all acquisition costs and operating expenses for a reasonable period of time from the date of the issuance of the license and that the applicant is financially responsible and may reasonably be expected to meet its obligations to enrollees and prospective enrollees. Such working capital shall initially be a minimum of \$1,500,000 for full-service HMOs and \$100,000 for single service HMOs or a higher amount as the Commissioner shall determine to be adequate.

Pursuant to NCGS § 58-67-25, HMOs are required to make a deposit with the Commissioner for the protection of enrollees. The deposit requirement must be met by the applicant before a license will be issued by the Department.

## **ATTACHMENTS**

The following are attached for use by the applicant:

- Application Checklist
- Blank Power of Attorney Form naming the Commissioner as the applicant's attorney in North Carolina
- Blank Power of Attorney form for the sale of securities on deposit

## **APPLICATION CHECKLIST FOR LICENSE FOR HEALTH MAINTENANCE ORGANIZATIONS**

(Company Name)

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is herewith submitting the following in support of its application for a License to operate as a Health Maintenance Organization pursuant to Chapter 58, Article 67 of the North Carolina General Statutes:

- Cover letter
- Application fee
- A copy of the organizational documents, if any, of the applicant, such as the articles of incorporation, articles of association, partnership agreement, trust agreement, or other applicable documents, and all amendments.
- A copy of the bylaws, rules and regulations, or similar documents, if any, regulating the conduct of the internal affairs of the applicant.
- A summary of the proposed corporate governance.
- A list of the names, addresses, official positions, and biographical affidavits of the persons who are to be responsible for the conduct of the affairs of the applicant, including all members of the governing body, the principal officers in the case of a corporation, or the partners or members in the case of a partnership or association. The list shall be accompanied by a completed release of information for each of these individuals on forms acceptable to the Commissioner.
- A chart(s) showing the internal organizational structure of the applicant's management and administrative staff.
- A disclosure identifying all affiliates, including a description of any management, service, or cost-sharing arrangement between an affiliate and the applicant.
- Draft copies of management, administrative service, and custodial agreements.
- A detailed plan of operation.
- Financial statements showing the applicant's assets, liabilities, and sources of financial support. If the applicant's financial affairs are audited by independent certified public accountants, a copy of the applicant's most recent regular certified financial statement shall satisfy this requirement unless the Commissioner directs that additional or more recent financial information is required.
- A financial feasibility study that includes (i) detailed enrollment projections, (ii) the methodology for determining premium rates to be charged during the first 12 months of operations certified by an actuary or a recognized actuarial consultant, (iii) a projection of balance sheets, (iv) cash flow statements that show any capital expenditures, purchases and sales of investments, and deposits with the State, (v) anticipated income and anticipated expense statements covering the start of operations through the period in which the applicant is anticipated to have had net income for at least one year, and (vi) a statement as to the sources of working capital as well as any other sources of funding.
- A description of the procedures to be implemented to meet the protection against insolvency requirements of NCGS § 58-67-110.
- The plan for complying with the hold harmless requirements in NCGS § 58-67-115.
- The plan for handling an insolvency as required by NCGS § 58-67-120.
- Executed Power of Attorney Form naming the Commissioner as the applicant's attorney in North Carolina (if necessary).
- Executed Power of Attorney form for the sale of securities on deposit.

- The names and addresses of the applicant's qualified actuary and external auditors.

Signature of Preparer and Date:

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STATE OF NORTH CAROLINA

POWER OF ATTORNEY

COUNTY OF WAKE

Let it be known that \_\_\_\_\_ (“the Company”), as partial consideration for a license to do business in North Carolina, irrevocably appoints for itself, its heirs, assigns and successors, the Insurance Commissioner of the State of North Carolina (“the Commissioner”) as its true and lawful attorney in North Carolina, upon whom all processes of law against the Company in any action, cause, or legal proceeding of any sort whatsoever may be served, subject to and in accordance with the laws of North Carolina. The Company further agrees that all such lawful processes against it which are served upon the Commissioner shall be deemed valid personal service upon the Company and shall be of the same force and validity as if personally served upon the Company.

In Witness Whereof, \_\_\_\_\_ has hereto affixed its corporate seal, attested to by the official signatures of the President and Secretary thereof, at \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

County Of \_\_\_\_\_  
State Of \_\_\_\_\_

\_\_\_\_\_  
PRESIDENT

\_\_\_\_\_  
NOTARY PUBLIC

Commission Expires: \_\_\_\_\_  
(Seal)

County of \_\_\_\_\_  
State of \_\_\_\_\_

\_\_\_\_\_  
SECRETARY

\_\_\_\_\_  
NOTARY PUBLIC

Commission Expires: \_\_\_\_\_  
(Seal)



STATE OF NORTH CAROLINA

POWER OF ATTORNEY

COUNTY OF WAKE

Let it be known that \_\_\_\_\_ (“the Company”) hereby irrevocably appoints for itself, its heirs, assigns and successors, the Insurance Commissioner of the State of North Carolina (“the Commissioner”), in the name of and on behalf of said Company, its true and lawful attorney to sell and transfer any securities or assets currently on deposit or to be deposited in the future by said Company with the Commissioner, said sale or transfer being made by the Commissioner for any purpose which the Commissioner in his discretion deems necessary, including but not limited to the payment of any liability or liabilities of the Company.

In Witness Whereof, \_\_\_\_\_ has hereto affixed its corporate seal, attested to by the official signatures of the President and Secretary thereof, at \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

County of \_\_\_\_\_  
State of \_\_\_\_\_

\_\_\_\_\_  
PRESIDENT

\_\_\_\_\_  
NOTARY PUBLIC

Commission Expires: \_\_\_\_\_  
(Seal)

County of \_\_\_\_\_  
State of \_\_\_\_\_

\_\_\_\_\_  
SECRETARY

\_\_\_\_\_  
NOTARY PUBLIC

Commission Expires: \_\_\_\_\_  
(Seal)