

**NEW JERSEY DEPARTMENT OF BANKING AND INSURANCE  
OFFICE OF LIFE AND HEALTH  
VALUATION BUREAU  
POST OFFICE BOX 325  
20 WEST STATE STREET  
TRENTON, NEW JERSEY 08625**

**HEALTH MAINTENANCE ORGANIZATION (“HMO”) APPLICATION FOR A NEW  
CERTIFICATE OF AUTHORITY**

**MEDICARE ONLY**

**INTRODUCTION**

The information requested in this application is based upon the New Jersey Health Maintenance Organization Act (N.J.S.A. 26-2J-1, et seq.), regulations (N.J.A.C. 11:24-1, et seq.) and bulletins.

The applicant is expected to demonstrate that each licensing requirement is met. The Commissioner’s decision whether to grant a Certificate of Authority (“COA”) is based upon the analysis of the documents submitted. The application shall be deemed complete when all the required information is filed on forms and in the format prescribed by use, pursuant to the procedures described below.

## INSTRUCTIONS

1. Four copies of the application must be submitted to:

NEW JERSEY DEPARTMENT OF BANKING AND INSURANCE  
OFFICE OF LIFE AND HEALTH  
VALUATION BUREAU

If Regular USPS Mail use

P.O. BOX 325  
TRENTON, NEW JERSEY 08625-0325

If Overnight Service use

20 WEST STATE ST.  
TRENTON, NEW JERSEY 08608-1206

2. A check or money order for \$100 payable to “State of New Jersey- General Treasury” is to accompany the application.
3. Complete the application Cover Sheet and provide all narratives and documents as described in the ensuing sections. The Cover Sheet must include an original signature by the President/CEO or other responsible officer of the HMO.
4. Number each narrative and document according to the number to which it corresponds, (e.g. II. Organization/Legal). Number each page consecutively in the upper right hand corner, throughout the filing. Tabs should be inserted indicating each of the six major sections of the application. All exhibits, charts, etc. should be in the appropriate section and placed in three-ring binders with the identifying information on the front and the spine.

**HEALTH MAINTENANCE ORGANIZATION  
APPLICATION FOR A NEW CERTIFICATE OF AUTHORITY**

**COVER SHEET**

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Name of Health Maintenance Organization

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NAIC Number

FEIN Number

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Address

---

City

County

State

Zip Code

---

Chief Executive Officer

---

Telephone Number

Fax Number

---

Email Address

---

Application Administrative Contact

---

Telephone Number

Fax Number

---

Email Address

---

Application Financial Contact

---

Telephone Number

Fax Number

---

Email Address

Plan offered or applied for: (check all that apply):

HMO Start up \_\_\_\_\_

For-Profit \_\_\_\_\_

Not-For- Profit \_\_\_\_\_

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Anticipated date of operation in New Jersey.

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Proposed service area. List Counties.

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Parent Company Name

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Parent Contact Person

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Parent Telephone Number

Fax Number

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Parent Email Address

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Guarantor (If different from Parent)

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Guarantor Contact Person

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Guarantor Telephone Number

Fax Number

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Guarantor Email Address

I CERTIFY that all information and statements made in this application are true, complete and current to the best of my knowledge and belief.

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Name and Title\*

Original Signature

Date

\*Must be President/CEO or other responsible senior officer.

## **I. General Description**

1. Describe the HMO's origin and structure. Include a discussion of the parent and all affiliates and their current activities. Include a discussion of guarantor if other than parent or affiliate.
2. Initial applicants must provide a history of financial results over the last five years of the Capital and Surplus guarantor (GAAP audited Balance Sheet and Revenue and Expense Statement or 10K filing acceptable).
3. Include a mission statement and summary of a three year business plan.

## **II. Organizational/Legal**

1. Provide a copy of the organizational documents. (articles of incorporation, partnership agreements, articles of association, management agreements or other documents governing the operations applicable to the form of business of the HMO)
2. If not a New Jersey corporation, submit a copy of the HMO's certificate from the Department of Treasury certifying the HMO is registered to do business in New Jersey. Submit copies of all changes to the Article of Incorporation, or similar, filed leading to the HMO's current name.
3. Provide a copy of the bylaws, rules or similar documents relating the conduct of the internal affairs of the applicant.
4. Provide a list of owners of the HMO:
  - a. Include all owners with a 10% or greater ownership share;
  - b. List all non-owner investors, their level of investment and describe the structure of the investment.
5. Provide a list of the names, addresses, official positions and biographical affidavits (use NAIC Form 11, [Biographical Affidavit](#)) of persons responsible for the conduct of the affairs of the HMO, including but not limited to the board of directors, executive committee, or members of other governing board or committee; the principal officers or partners; shareholders owning or having the right to acquire 10% or more interest in the HMO; and the New Jersey Medical Director. Provide a statement of any criminal convictions and civil, regulatory or enforcement actions, including actions related to professional licensing, taken or pending.
6. Please depict the following charts:

- a. All contractual arrangements of the health care delivery system;
  - b. Internal management and administrative staff of the HMO;
  - c. Identify relationships between and among the applicant and all affiliates.
7. Provide a list of in-force insurance covering the HMO, including where applicable:
    - a. A cover-note or declaration page for stop loss insurance;
    - b. A complete fully executed policy for insolvency coverage to include at a minimum:
      - a) Continuation of coverage to end of premium paying period;
      - b) Continuation of in-patient coverage to date of discharge;
    - c. A cover note or declaration page for malpractice for the HMO and employed providers.
  8. Provide a copy of the approval from the Attorney General's office in the case of purchase and/or conversion from non-profit to for-profit status. Provide a detailed description of any charitable trust or similar organization established in relation to a conversion to for-profit status.
  9. For an initial COA application, provide a copy of the Power of Attorney (attached) duly executed by the applicant, if not domiciled in this State, appointing the Commissioner and his or her successors in office, and duly authorized designees, 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 HMO on a cause of action arising in this State may be served.
  10. Provide a copy of all contracts between the HMO and services being subcontracted including contracts with: Organized Delivery Systems, Pharmacy Benefit Managers, PPO and other entities providing health services to HMO members. If the contracting party is a licensed or certified ODS and has already filed the forms with the Department, please submit a list of contracts submitted to the Department by the ODS including the form number and date of approval.
  11. Provide copies of any contracts made or to be made between any persons listed in numbers 4 and 5 (above) and the HMO.
  12. Provide copies of any contract made or to be made with an insurer, a medical or health service corporation, Third Party Administrator ("TPA") or other entity and the HMO for the provision of administrative, claims or management services.
  13. Provide a description of the mechanism by which members and providers will be afforded the opportunity to participate in matters of policy and operation.
  14. Provide a statement from an officer of the HMO attesting that it and all affiliated entities have been in compliance with all applicable State and Federal laws for the last 12 months.

15. Certify as to whether or not the applicant or any affiliates have ever been penalized by any State or Federal agency and/or have ever been under special financial supervision by a State or Federal agency. If penalized or otherwise sanctioned, please provide the details of such actions against the plan.

### III. **Health Care Services**

1. Summary description of the health care delivery systems.

### IV. **Information System**

1. Provide a description of the methods used to verify and improve data quality. Include descriptions of procedures used to monitor data element accuracy and reliability, to oversee data input, storage, and retrieval, and to access the completeness of data.
2. Provide a description of data security and confidentiality procedures.

### V. **Claims Systems**

1. Provide an explanation of the system used to monitor the quality, accuracy, and timeliness of claim and capitation payments.
2. Describe the HMO's Open and Unreported (O&U) claim tracking system, Coordination of Benefits (COB) and reinsurance recouping systems.
3. If claims are being processed by a third party, submit the contract establishing the responsibilities of all parties. Is the party a licensed or registered TPA as required by N.J.S.A. 17B:27B-1, et seq.?
4. Provide a summary of your claims policies, procedures and guidelines.
5. Describe your Claims Department proposed interaction with the Actuarial Department and the Underwriting Department.
6. Provide the process for the ongoing identification of new and emerging risks related to the claims activities.
7. Provide the process for the management of claim risks.
8. Based on your previous experience in managing risk, identify the risks that historically have been the most significant and how they were managed.
9. Describe the process by which the Claims Departments will report to the Board of Directors and the Audit Committee.

10. Identify the key members within the Company who will be responsible for risk management.

## VI. Marketing

1. Provide a description of significant service area demographics by county (overall population figures, age/sex mix, social/demographic factors, etc.) which will affect enrollment.
2. Comment on the effect of competition among the two or three largest HMO's in the proposed counties and this HMO in terms of benefits, rates, and market penetration.
3. Provide a breakdown of the HMO's marketing budget as follows:
  - Salaries \$ \_\_\_\_\_
  - Administration/other \$ \_\_\_\_\_
  - Advertising/PR \$ \_\_\_\_\_
  - Commissions \$ \_\_\_\_\_
  - Total marketing Budget \$ \_\_\_\_\_
  - Total Administrative Budget \$ \_\_\_\_\_
4. Provide enrollment projections by county on a monthly basis for the first year of operation. These projections must be accompanied by realistic, specific assumptions. The projections shall be broken out by male/female.

## VII. Financial

1. Provide the most recently audited financial statements of the HMO (statutory basis, GAAP basis is acceptable if no statutory audit) and parent (or affiliate if it is to be the Capital and Surplus Guarantor) with the internal control letter prepared by the independent CPA. (N.J.A.C. 11:24-11.6(b)3).
2. Provide the most recent unaudited financial statements of the HMO and parent (or affiliate).
3. Provide quarterly projections for the HMO up to the year following "break even" but not less than three years in total. The projections shall include:
  - Proforma Balance Sheet, Income Statement, Statement of Cash Flows, and enrollment data.
  - Calculation of the Medical Loss Ratio (MLR), Administrative Expense Ratio (AER) and IBNR.
  - Calculation of the Minimum Net Worth required pursuant to (N.J.A.C. 11:24-11.1(b)) and Risk Based Capital (RBC) required pursuant to (N.J.A.C. 11:2-



- 39), with a demonstration that the HMO will meet the greater of the Minimum Net Worth requirement and the RBC requirement. Please note that the RBC requirement effectively eliminates the phase in provision found at N.J.A.C. 11:24-11.1(b) 4. (not required for foreign HMOs).
- Cost of a financial condition examination performed every three to five years. The Department defers to the State of domicile for foreign HMOs.
  - The proposed financial terms and conditions for all anticipated subcontracting arrangements (see Addendum, item 14).
  - Expansion applications: the projections must include “with expansion” and “without expansion” projections.
  - Assumptions explaining every line item of the projections, i.e., MLR, AER, IBNR etc.
  - Foreign HMOs: provide New Jersey counties.
4. The source of the initial capital to support the plan to “breakeven” must be identified. (N.J.A.C. 11:24-11.1(b)4.)
  5. Provide the investment strategy in sufficient detail to demonstrate compliance with the 60% liquidity requirement set forth at N.J.A.C. 11:24-11.1(c) (not required for foreign HMOs).
  6. All investments must be in accordance with the investment requirements set forth at N.J.S.A. 17B:20-1, et seq.
  7. Provide a signed copy of the attached Capital and Surplus Guaranty with the accompanying Board of Directors resolution. A guarantor must meet the requirements of N.J.A.C. 11:24-11.1(d).
  8. Demonstrate that the HMO shall meet the minimum solvency requirements for administrative expenses (20% of minimum net worth requirement between \$300K and \$1,000K adjusted annually by CPI) (N.J.A.C. 11:24-11.4 a, b.) As of June 30, 2011 the minimum is \$528K and the maximum is \$1,759K. (Please check with the Department as these requirements are subject to change.)
  9. Demonstrate that the HMO shall meet the insolvency deposit for claims per N.J.A.C. 11:24-11.4(d). The calculation is 50 percent of the highest calendar quarterly premium for the preceding calendar year. (Note the two year phase in for HMOs.) Foreign HMOs: based on New Jersey premiums only.
  10. Describe in a one page summary the HMOs Financial Management Information System.
  11. Provide a plan for continuation of services upon the declaration of insolvency (N.J.A.C. 11:24-11.5.)

## ADDENDUM

Upon approval of the application and issuance of the Certificate of Authority, the policy forms and rate filings must be filed with the Department. Please refer to [Bulletin No. 09-05](#) for the policy forms and rates filing procedures.

The following is a list of requirements for all licensed HMO's.

1. New Jersey domestic HMOs are subject to the NJ Corporate Business Tax. The Department defers to the State of domicile for foreign HMOs.
2. HMOs must submit a business plan if their minimum net worth calculation is less than 125% of the minimum requirement (N.J.A.C. 11:24-11.6(f)) or between 150% and 200% of the RBC requirement (N.J.A.C. 11:2-39) or between 200% and 300% and the Combined Ratio is .105% per the NAIC Model Act.
3. HMOs must file quarterly actuarial certifications. (not applicable to foreign HMOs)
4. HMOs must file a plan for continuation of services upon the declaration of insolvency. (N.J.A.C. 11:24-11.5)
5. HMOs must file in accordance with the Holding Company Act. (N.J.S.A. 17:27A). (note 1/3 Board Of Directors rule and 100% independent committee)
6. HMOs are required to have a financial condition examination performed every three to five years with the cost borne by the HMO. (N.J.S.A. 26:2J-18.1) Include in the projections and footnote. The Department defers to the State of domicile for foreign HMOs.
7. HMOs must file quarterly the NAIC Health Blank on a SAP basis in accordance with the NAIC Accounting Practices and Procedures Manual. (N.J.A.C. 11:24-11.6)
8. HMOs must file Annual Financial Statements by March 1<sup>st</sup> of each year pursuant to N.J.S.A. 26:2J-9.
9. File an Annual Supplement as required by N.J.A.C. 11:24-3.8(a) 2.
10. Provide the most current Financial Condition Examination and Market Conduct Examination performed by a Regulatory Agency.
11. Provide the proposed financial terms and conditions for all anticipated subcontracting arrangements, i.e. Reinsurance, Stop Loss, Insolvency Protection, Pharmaceutical, Vision, Dental, Behavioral Health, Cardiovascular, etc. Include in the projections and footnote.

**Appointment of Attorney for the State of New Jersey**

KNOW ALL MEN BY THESE PRESENTS: That the \_\_\_\_\_ (the “COMPANY”) of the County of \_\_\_\_\_ in the State of \_\_\_\_\_, desiring to do business in the State of New Jersey in conformity with the laws thereof, hereby, constitutes and appoints the Commissioner of Banking and Insurance of New Jersey, and his or her successor in office, to be its true and lawful Attorney, upon whom all original process in any action or legal proceeding against said COMPANY may be served. And the said COMPANY hereby stipulates and agrees that any original process against it, which is served upon said Attorney, shall be of the same legal force and validity as if served upon said COMPANY, and that the authority of said Attorney shall continue in force irrevocable so long as any liability of said COMPANY remains outstanding in New Jersey.

IN WITNESS WHEREOF, the said COMPANY has caused these presents to be subscribed by its President, and attested by its Secretary, and its corporate seal to be hereunto affixed, this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_\_.

(Corporate Seal--if applicable)

\_\_\_\_\_  
President (or authorized representative)

\_\_\_\_\_  
(Print or Type Name)

Attest:

\_\_\_\_\_  
Secretary (or authorized representative)

\_\_\_\_\_  
(Print or Type Name)

STATE OF NEW JERSEY  
DEPARTMENT OF BANKING AND INSURANCE

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CAPITAL AND SURPLUS GUARANTY

This Guaranty is made on this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_, by \_\_\_\_\_(hereafter “Guarantor”) a corporation formed under the laws of (name of domiciliary jurisdiction) \_\_\_\_\_.

Whereas, Guarantor is or will be in control of \_\_\_\_\_(hereafter “Licensee”) as that term is defined at N.J.S.A.17:27A-1c,

Whereas, on the date of this Guaranty, Licensee has an existing Certificate of Authority with the Commissioner of Banking and Insurance, of the State of New Jersey, to do the business of a Health Maintenance Organization in the State of New Jersey;

Whereas, Guarantor desires that the Commissioner of Banking and Insurance, of the State of New Jersey, exercise his/her discretion to and continue to grant a Certificate of Authority to Licensee to do the business of a Health Maintenance Organization in the State of New Jersey, and makes this resolution as a condition of maintaining approval for the Certificate of Authority; and

Whereas, Guarantor desires to give legal assurances to the Commissioner of Banking and Insurance, of the State of New Jersey, that at all times its control of the Licensee will be or will have been exercised so that Licensee’s general surplus meets or exceeds the requirements of the State of New Jersey, as amended at any time.

Wherefore, Guarantor absolutely and unconditionally guarantees as follows:

1. Licensee shall have and maintain general surplus at least in the minimum amount as required by law, and such additional surplus as the Commissioner of Banking and Insurance, of the State of New Jersey, requires so that its surplus as regards enrollees is reasonable in relation to Licensee’s outstanding liabilities and financial needs as to all of its obligations including its obligations to New Jersey enrollees.
2. Licensee shall have and maintain this general surplus in funds and investments which are admitted assets under the investment laws governing Health Maintenance Organizations in the State of New Jersey.
3. Licensee shall have and maintain adequate general surplus as herein contemplated so long as Licensee has any Health Maintenance Organization obligations to enrollees in the State of New Jersey.

4. This Guaranty shall continue until such time as the Commissioner of Banking and Insurance, of the State of New Jersey, may release Guarantor in writing.
5. This Guaranty is made in addition to all other requirements and obligations imposed on Guarantor and Licensee by New Jersey law.
6. The Commissioner of Banking and Insurance of the State of New Jersey may enforce this Guaranty as an alternative to or, in addition to any other remedies provided by New Jersey law, by making a written demand upon Guarantor to deposit funds into the account of Licensee currently held pursuant to N.J.A.C. 11:24-11.4(d)1.
7. The Commissioner of Banking and Insurance of the State of New Jersey may enforce this Guaranty in his/her capacity as Commissioner of Banking and Insurance or in any other capacity provided by law whether as Supervisor, Rehabilitator, Liquidator, Ancillary Receiver, Conservator, or any other capacity.
8. Guarantor consents to the exclusive jurisdiction of the Superior Court of New Jersey, Mercer County for enforcement of this Guaranty and all other purposes related to this Guaranty.
9. Guarantor waives all defenses related to the capacity of and authority of any person concerning the making of this Guaranty, whether the defense is based on the law of New Jersey, or any other jurisdiction.
10. This Guaranty may be amended only in writing signed by the Commissioner of Banking and Insurance of the State of New Jersey and Guarantor.
11. Except as herein stated, this Guaranty cannot be enforced by any third party.
12. Guarantor warrants that it has the capacity to and is authorized to make this Guaranty. Attached hereto and made a part hereof is a Certified Resolution of the Board of Directors of Guarantor authorizing the making of this Guaranty.
13. Guarantor authorizes the Commissioner of Banking and Insurance of the State of New Jersey to hold this Guaranty in the records of the New Jersey Department of Banking and Insurance as a public document not subject to any requirement, now or hereafter pertaining, that it is or should be treated as confidential.
14. Guarantor agrees that within 15 days following receipt of a written demand of the Commissioner of Banking and Insurance of the State of New Jersey, because the general surplus has dropped below 125% of the minimum requirement established by law or because the Commissioner has otherwise reasonably determined that the surplus of the licensee is insufficient in respect to its outstanding liabilities and financial needs as to all of its obligations, including its obligations to New Jersey enrollees, Guarantor will deliver to a depository or custodian located in New Jersey sufficient funds or other assets satisfactory to the Commissioner of Banking and Insurance of the State

of New Jersey to meet its obligations under this Guaranty. Further, Guarantor shall notify any issuer or maker of any such assets, which are investment securities, that it has so-delivered such assets under this Guaranty.

Guarantor's contract with any such depository or custodian shall refer to this Guaranty and shall permit withdrawal of such funds or other assets only upon prior written approval or prior written demand of the Commissioner of Banking and Insurance of the State of New Jersey and any such withdrawal shall be made only for purposes of meeting the obligations of this Guaranty or for such other purpose as the Commissioner of Banking and Insurance may permit in writing.

Guarantor agrees that the delivery of such funds or other assets to a depository or custodian under this Guaranty constitutes, for all purposes of law, possession of such funds or other assets by the Commissioner of Banking and Insurance, of the State of New Jersey, whether title to such funds or other assets remains in Guarantor or otherwise as required by the Commissioner of Banking and Insurance of the State of New Jersey.

15. Demand and notice of obligations under this Guaranty are hereby waived by Guarantor, and Guarantor acknowledges that Guarantor's liability is absolute and unconditional and not dependent on the pursuit of any other remedies or on the exercise of any authority against the Licensee or any other person.

16. Other than the obligations stated in this Guaranty, there are no oral or written prior or contemporaneous agreements between Guarantor and the Commissioner of Banking and Insurance of the State of New Jersey, or between the Licensee and the Commissioner of Banking and Insurance, of the State of New Jersey.

Signed at \_\_\_\_\_ on the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

Guarantor: \_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

Attachment Required: Board Resolution, see paragraph 12