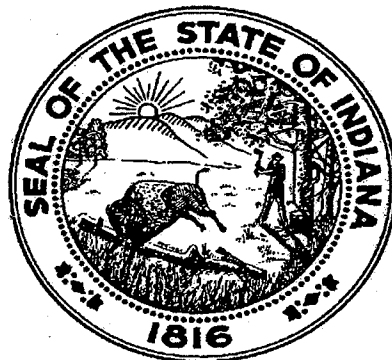


**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**  
**OF**

**PHP INSURANCE COMPANY OF INDIANA, INC.**  
NAIC Co. CODE 12331

As of

December 31, 2008



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# STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

# IDOI

**INDIANA DEPARTMENT OF INSURANCE**  
311 W. WASHINGTON STREET, SUITE 300  
INDIANAPOLIS, INDIANA 46204-2787  
TELEPHONE: (317) 232-2385  
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CAROL CUTTER, Commissioner

October 1, 2009

Honorable Alfred W. Gross  
Chair, NAIC Financial Condition (E) Committee  
Commissioner, Virginia Bureau of Insurance  
State Corporation Commission  
1300 East Main Street  
Richmond, Virginia 23219

Honorable Carol Cutter  
Commissioner, Indiana Department of Insurance  
311 W. Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioners:

Pursuant to the authority vested in Appointment Number 3600, an examination has been made of the affairs and financial condition of:

**PHP Insurance Company of Indiana, Inc.**  
**8101 West Jefferson Blvd.**  
**Fort Wayne, IN 46804**

an Indiana domiciled stock life insurance company hereinafter referred to as the "Company". The examination was conducted at the Company's corporate offices in Fort Wayne, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2008, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES  
(317) 232-2413

COMPANY COMPLIANCE  
(317) 233-0697

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## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (IDOI) as of the period ending December 31, 2005. The present examination was conducted by Noble Consulting Services, Inc. (Noble) and covered the period from January 1, 2006 through December 31, 2008 and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the examination, the IDOI, by its representatives, relied upon the independent audit report and opinion contained therein rendered by BKD, LLP for the year ended December 31, 2008 and by Ernst & Young, LLP for the years ended December 31, 2007 and 2006. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the Annual Statement.

Jeffrey Beckley, FSA, MAAA, of Actuarial Options, LLC, a consulting actuary appointed by the IDOI, conducted a review of the Company's statutory reserves as of December 31, 2008. There were no actuarial adjustments or recommendations resulting from the review.

Additionally, Noble conducted a review of information systems controls. Although no material findings were noted, a detailed report of specific recommendations was provided to management.

The examination was conducted in conjunction with the examination of Physicians Health Plan of Northern Indiana, Inc, the Company's parent, and in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition. Examination procedures included the verification and evaluation of assets, determinations of liabilities, review of income and disbursement items, minutes, corporate documents, and other records to the extent deemed necessary.

## HISTORY

The Company was incorporated as an Indiana domestic life insurance company on September 28, 2005 and commenced operations on May 1, 2006. The Company is a wholly-owned subsidiary of Physicians Health Plan of Northern Indiana, Inc. (PHPNI). The Company was created by PHPNI to establish a vehicle to market products which support and enhance the marketability of the products offered by PHPNI and its affiliates.

## CAPITAL AND SURPLUS

The Company is authorized to issue 20,000 shares of common stock with a par value of \$200 per share. At December 31, 2008 there were 5,000 shares of common stock outstanding. The Company paid no dividends during the examination period.

## TERRITORY AND PLAN OF OPERATION

The Company is licensed in Indiana and currently markets group dental reimbursement policies in northern Indiana. These products are intended to complement the selection of PHPNI coverage options in an effort to more fully serve its group membership. The Company's focus is to serve locally-owned small to medium sized employers with 10 to 250 employees as the only employer sponsored health insurance option, and it utilizes brokers almost exclusively. The Company has no immediate plans to market its

own life insurance or employer stop-loss products, and 100% of business is currently dental. Substantially all administrative functions of the Company are performed by PHPNI under a Management Services Agreement.

### GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company as reported during the examination period:

| <u>Year</u> | <u>Admitted Assets</u> | <u>Liabilities</u> | <u>Capital &amp; Surplus</u> | <u>Net Premium Income</u> | <u>Net Income</u> |
|-------------|------------------------|--------------------|------------------------------|---------------------------|-------------------|
| 2008        | \$2,037,853            | \$54,069           | \$1,983,784                  | \$247,194                 | \$58,159          |
| 2007        | 2,123,556              | 48,094             | 2,075,462                    | 105,025                   | 57,796            |
| 2006        | 2,062,140              | 44,474             | 2,017,666                    | 13,604                    | 33,851            |

Premium income more than doubled during 2008 from 2007 but net income rose only slightly. Expenses generally rose in correlation to higher premium volume with minor exceptions. Claim costs decreased slightly as a percentage of premiums.

The economic environment of 2008 adversely impacted the investment portfolio by creating unrealized investment losses and decreasing investment income in 2008 from 2007.

### MANAGEMENT AND CONTROL

#### Directors

The Company's Bylaws state that the Directors are elected at the annual meeting of the shareholders. The following is a listing of persons serving as Directors at December 31, 2008:

| <u>Name and Residence</u>           | <u>Principal Occupation</u>   |
|-------------------------------------|---|
| Jay M. Gilbert<br>Fort Wayne, IN    | President and Chief Executive Officer<br>Physicians Health Plan of Northern Indiana, Inc. |
| Phillip C. Wright<br>Fort Wayne, IN | Medical Director<br>Physicians Health Plan of Northern Indiana, Inc.                      |
| Gail M. Doran<br>Fort Wayne, IN     | Vice President of Operations<br>Physicians Health Plan of Northern Indiana, Inc.          |

### Officers

The Company's Bylaws state that the officers shall be elected by the Board of Directors. The following is a list of key officers and their respective titles as of December 31, 2008:

| <u>Name</u>       | <u>Office</u>                           |
|-------------------|---|
| Jay M. Gilbert    | President                               |
| Gail M. Doran     | Vice President of Operations, Secretary |
| Phillip C. Wright | Medical Director                        |

### CONFLICT OF INTEREST

The Company requires officers and Directors to review and sign conflict of interest statements annually. Conflict of interest statements were completed by Directors, officers, and staff at the time they joined the Company; however, annual updates had not been obtained until 2009.

### OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every Director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. Each Director signed an "Oath of Office" upon being elected in 2005.

### CORPORATE RECORDS

#### Articles of Incorporation and Bylaws

The Articles of Incorporation and Bylaws were not amended during the examination period.

#### Minutes

No Board of Director meetings were held during the examination period. Please see the "Other Significant Issues" section of this Report of Examination for further commentary.

### AFFILIATED COMPANIES

#### Organizational Structure

An organization chart depicting the Company's relationship with its parent and other insurance affiliates, as of December 31, 2008 is presented as follows:

|   |    |
|---|----|
| Physicians Health Plan of Northern Indiana, Inc. (NAIC 95436) | IN |
| PHP Holding Company   | IN |
| PHP Management Systems, Inc.                                  | IN |
| PHP Insurance Company of Indiana, Inc. (NAIC 12331)           | IN |

### Affiliated Agreement

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed and not disapproved with the IDOI as required, in accordance with IC 27-1-23-4.

### Management Services Agreement

The Company has a Management Services Agreement with PHPNI. This agreement states that PHPNI shall provide to the Company comprehensive managerial services necessary for day-to-day operations. These services include, but are not limited to, access to PHPNI's information systems, accounting and financial analysis services, medical management services, utilization review services, provider contracting services, claims administrative services, and other general administrative services.

PHPNI is reimbursed for all allocable costs incurred for managerial services to support the Company's business. PHPNI may add a reasonable margin for such costs. In no circumstance may the total charges exceed the greater of (a) allocable costs plus fifteen percent (15%) of (b) fair market value of the services provided. The Company paid \$47,503 for services received under this agreement in 2008.

### Tax Allocation Agreement

PHP Holding Company has a tax allocation agreement with PHP Management Systems, Inc. and the Company. The agreement is effective as of January 1, 2007. The Parent pays to each subsidiary the amount of its subsidiary generated benefit in either cash or securities (market value) within 30 days of required tax return filing date. The Parent pays each entity within 5 business days any money refunded from the IRS. Each subsidiary pays the Parent its estimated tax made with respect to such consolidated return year 5 business days prior to the date on which any corresponding payment is or may be due by the Parent to the IRS. The Company owed \$18,196 under this agreement at December 31, 2008.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company's parent, PHPNI, protects itself and its subsidiaries against loss from any fraudulent or dishonest acts by employees through a fidelity bond issued by Federal Insurance Company. The bond provides coverage with a \$2,000,000 limit and a retention amount of \$50,000. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2008 including, but not limited to, directors and officer's liability, errors and omissions liability, workers' compensation, umbrella liability, property and general liability, and crime related policies.

## **STATUTORY AND SPECIAL DEPOSITS**

The Company reported a statutory deposit for the State of Indiana with a book value of \$99,750 and a fair value of \$106,531 at December 31, 2008.

## REINSURANCE

The Company has no reinsurance assumed or ceded during the examination period.

## RESERVES

David A. Pepler, Consulting Actuary, a member of the American Academy of Actuaries, was retained by the Company to review the loss reserves, actuarial liabilities, and related items included in the Annual Statement of the Company as prepared for filing with state regulatory officials as of December 31, 2008.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining loss reserves, actuarial liabilities, and related items, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials. In forming the opinion, listings and summaries of policies and contracts and other liabilities in force prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used and such tests of the calculations as considered necessary.

The 2008 opinion stated that the balances or reserves and related actuarial values 1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly state, in accordance with sound actuarial principles; 2) are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method and are in accordance with all other contract provisions; 3) meet the requirements of Indiana insurance law and regulations and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed; 4) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year end; 5) include provision for all actuarial reserves and related actuarial items which ought to be established; and 6) make good and sufficient provision for all unpaid claims and other actuarial liabilities of the Company under the terms of its policies.

During the examination, it was determined that the material actuarial items in the Annual Statement of the Company are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the Commissioner of Insurance of the State of Indiana.

## ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2008 and 2007 were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2006 through December 31, 2008 were agreed to each year's independent audit report without exception.



**PHP INSURANCE COMPANY OF INDIANA, INC.**

**FINANCIAL STATEMENTS**

Assets

|  | As of December 31, 2008 |                            |                     | December 31,<br>Prior Year |
|--|-------------------------|----------------------------|---------------------|----------------------------|
|  | Per Annual<br>Statement | Examination<br>Adjustments | Per Examination     |                            |
| <b>Assets:</b>   |                         |                            |                     |                            |
| Bonds  | \$ 1,499,883            | \$ -                       | \$ 1,499,883        | \$ 1,101,424               |
| Stocks:  |                         |                            |                     |                            |
| Common Stocks  | 260,094                 | -                          | 260,094             | -                          |
| Cash, cash equivalents and short-term<br>investments                       | 257,251                 | -                          | 257,251             | 996,069                    |
| Subtotals, cash and invested assets  | \$ 2,017,228            | \$ -                       | \$ 2,017,228        | \$ 2,097,493               |
| Investment income due and accrued  | 18,763                  | -                          | 18,763              | 16,751                     |
| Uncollected premiums and agents' balances<br>in the course of collection   | 979                     | -                          | 979                 | 3,136                      |
| Current federal and foreign income tax<br>recoverable and interest thereon | -                       | -                          | -                   | 5,020                      |
| Net deferred tax asset   | 883                     | -                          | 883                 | -                          |
| Aggregate write-ins for other than invested<br>assets                      | -                       | -                          | -                   | 1,156                      |
| <b>Total assets</b>  | <b>\$ 2,037,853</b>     | <b>\$ -</b>                | <b>\$ 2,037,853</b> | <b>\$ 2,123,556</b>        |

**PHP INSURANCE COMPANY OF INDIANA, INC.**

**FINANCIAL STATEMENTS**

**Liabilities, Capital and Surplus**

|  | As of December 31, 2008         |                                    |                        | December 31,        |
|--|---------------------------------|------------------------------------|------------------------|---------------------|
|  | <u>Per Annual<br/>Statement</u> | <u>Examination<br/>Adjustments</u> | <u>Per Examination</u> | <u>Prior Year</u>   |
| <b>Liabilities:</b>  |                                 |                                    |                        |                     |
| Claims unpaid  | \$ 21,896                       | \$ -                               | \$ 21,896              | \$ 16,315           |
| Premiums received in advance   | 5,528                           | -                                  | 5,528                  | 5,477               |
| General expenses due or accrued  | 13,201                          | -                                  | 13,201                 | 11,101              |
| Current federal and foreign income tax<br>payable and interest thereon | 12,020                          | -                                  | 12,020                 | -                   |
| Amounts due to parent, subsidiaries and affiliates                     | 1,424                           | -                                  | 1,424                  | 15,201              |
| <b>Total liabilities</b>   | <b>\$ 54,069</b>                | <b>\$ -</b>                        | <b>\$ 54,069</b>       | <b>\$ 48,094</b>    |
| <br>   |                                 |                                    |                        |                     |
| Common capital stock   | \$ 1,000,000                    | \$ -                               | \$ 1,000,000           | \$ 1,000,000        |
| Gross paid in and contributed surplus                                  | 1,000,000                       | -                                  | 1,000,000              | 1,000,000           |
| Unassigned funds (surplus)   | (16,216)                        | -                                  | (16,216)               | 75,462              |
| <b>Total capital and surplus</b>                                       | <b>\$ 1,983,784</b>             | <b>\$ -</b>                        | <b>\$ 1,983,784</b>    | <b>\$ 2,075,462</b> |
| <b>Total liabilities, capital and surplus</b>                          | <b>\$ 2,037,853</b>             | <b>\$ -</b>                        | <b>\$ 2,037,853</b>    | <b>\$ 2,123,556</b> |

**PHP INSURANCE COMPANY OF INDIANA, INC.**

**FINANCIAL STATEMENTS**

**Statement of Revenue and Expenses**

|   | As of December 31, 2008 |                            |                     | December 31,<br>Prior Year |
|---|-------------------------|----------------------------|---------------------|----------------------------|
|   | Per Annual<br>Statement | Examination<br>Adjustments | Per Examination     |                            |
| Member Months   | 12,391                  | -                          | 12,391              | 5,291                      |
| Net premium income  | \$ 247,194              | \$ -                       | \$ 247,194          | \$ 105,025                 |
| <b>Total revenues</b>   | <b>\$ 247,194</b>       | <b>\$ -</b>                | <b>\$ 247,194</b>   | <b>\$ 105,025</b>          |
| <b>Hospitals and Medical:</b>   |                         |                            |                     |                            |
| Other professional services   | \$ 229,028              | \$ -                       | \$ 229,028          | \$ 100,284                 |
| <b>Total hospital and medical</b>   | <b>\$ 229,028</b>       | <b>\$ -</b>                | <b>\$ 229,028</b>   | <b>\$ 100,284</b>          |
| General administrative expenses   | 69,310                  | -                          | 69,310              | 46,770                     |
| Total underwriting deductions   | \$ 298,338              | \$ -                       | \$ 298,338          | \$ 147,054                 |
| <b>Net underwriting gain or (loss)</b>  | <b>\$ (51,144)</b>      | <b>\$ -</b>                | <b>\$ (51,144)</b>  | <b>\$ (42,029)</b>         |
| Net investment income earned  | \$ 73,002               | \$ -                       | \$ 73,002           | \$ 107,927                 |
| Net realized capital gains (losses)   | 36,120                  | -                          | 36,120              | -                          |
| <b>Net investment gains</b>   | <b>\$ 109,122</b>       | <b>\$ -</b>                | <b>\$ 109,122</b>   | <b>\$ 107,927</b>          |
| Aggregate write-ins for other income or expenses  | \$ (685)                | \$ -                       | \$ (685)            | \$ (3,567)                 |
| Net income or (loss) after capital gains tax and<br>before all other federal income taxes | \$ 57,293               | \$ -                       | \$ 57,293           | \$ 62,331                  |
| Federal and foreign income taxes incurred   | (866)                   | -                          | (866)               | 4,535                      |
| <b>Net income</b>   | <b>\$ 58,159</b>        | <b>\$ -</b>                | <b>\$ 58,159</b>    | <b>\$ 57,796</b>           |
| <b>Capital and Surplus Account:</b>   |                         |                            |                     |                            |
| Capital and surplus prior-reporting year  | \$ 2,075,462            | \$ -                       | \$ 2,075,462        | \$ 2,017,666               |
| Net income  | 58,159                  | -                          | 58,159              | 57,796                     |
| Change in net unrealized capital gains (losses)   | (144,099)               | -                          | (144,099)           | -                          |
| Change in nonadmitted assets  | (5,738)                 | -                          | (5,738)             | -                          |
| <b>Net change in capital and surplus</b>  | <b>\$ (91,678)</b>      | <b>\$ -</b>                | <b>\$ (91,678)</b>  | <b>\$ 57,796</b>           |
| <b>Capital and surplus end of reporting year</b>  | <b>\$ 1,983,784</b>     | <b>\$ -</b>                | <b>\$ 1,983,784</b> | <b>\$ 2,075,462</b>        |

## COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2008 based on the results of this examination.

## OTHER SIGNIFICANT ISSUES

No Board of Director meetings were held during the examination period. Going forward, the Company intends to hold a Company shareholder meeting each year on the third Thursday of April in conjunction with the PHPNI annual meeting.

## SUBSEQUENT EVENTS

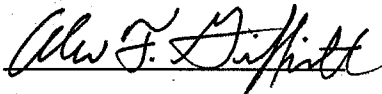
There were no significant subsequent events noted after year end December 31, 2008.

## MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a completed management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.

## CONCLUSION

The preceding report of examination of **PHP Insurance Company of Indiana, Inc.** as of December 31, 2008 reflects its financial condition in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and any and all prescribed and permitted accounting practices of the Indiana Department of Insurance. An Affidavit of the Examiner-in-Charge, James Kattman, CFE, is on file with the Indiana Department of Insurance and attests that the examination was performed in a manner consistent with the standards and procedures required by the Indiana Department of Insurance and the National Association of Insurance Commissioners Financial Condition Examiners Handbook. Based on my review, to the best of my knowledge, the examination was performed in a manner consistent with those standards and procedures and properly reflects the financial condition of **PHP Insurance Company of Indiana, Inc.**



**Alan T. Griffith, CFE**  
**Examinations Manager**  
**Indiana Department of Insurance**