

STATE OF INDIANA )  
 ) SS:  
COUNTY OF MARION ) BEFORE THE INDIANA  
 COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
 )  
PHP Insurance Company of Indiana, Inc. )  
8101 West Jefferson Boulevard )  
Fort Wayne, Indiana 46804 )

Examination of **PHP Insurance Company of Indiana, Inc.**

**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of **PHP Insurance Company of Indiana, Inc.**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of **PHP Insurance Company of Indiana, Inc.** shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

March 20, 2013  
Date

Cynthia D. Donovan  
Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0012 9577 32**

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IN THE MATTER OF: )  
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PHP Insurance Company of Indiana, Inc. )  
8101 West Jefferson Boulevard )  
Fort Wayne, Indiana 46804 )

Examination of **PHP Insurance Company of Indiana, Inc.**

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **PHP Insurance Company of Indiana, Inc.** (hereinafter "Company") for the time period January 1, 2009 through December 31, 2011.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on January 11, 2013.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on February 19, 2013 and was received by the Company on February 22, 2013.

On February 27, 2013, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

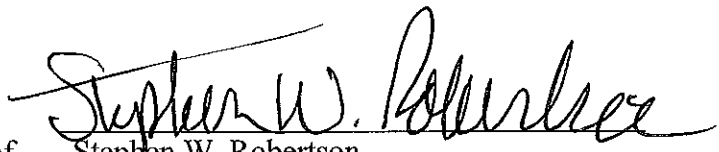
1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2011.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

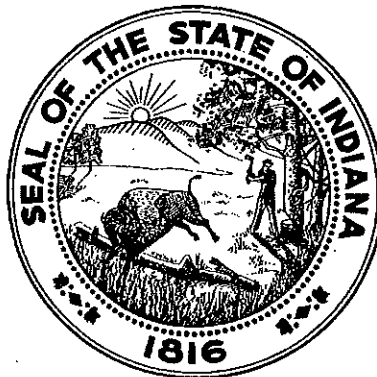
Signed and Sealed this 20<sup>th</sup> day of  
March, 2013.

  
Stephen W. Robertson  
Insurance Commissioner

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

**PHP INSURANCE COMPANY OF INDIANA, INC.**  
NAIC Co. CODE 12331  
NAIC GROUP CODE 3828

As of  
December 31, 2011



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# STATE OF INDIANA

MICHAEL R. PENCE, Governor

# IDOI

**INDIANA DEPARTMENT OF INSURANCE**  
311 W. WASHINGTON STREET, SUITE 300  
INDIANAPOLIS, INDIANA 46204-2787  
TELEPHONE: (317) 232-2385  
FAX: (317) 232-5251

Stephen W. Robertson, Commissioner

January 11, 2013

Honorable Stephen W. Robertson, Commissioner  
Indiana Department of Insurance  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3726, an examination has been made of the affairs and financial condition of:

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

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

The Report of Examination, reflecting the status of PHPIC as of December 31, 2011, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES  
(317) 232-2413

COMPANY COMPLIANCE  
(317) 233-0697

CONSUMER SERVICES  
(317) 232-2395  
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES  
(317) 232-2390

MEDICAL MALPRACTICE  
(317) 232-2402

SECURITIES / COMPANY RECORDS  
(317) 232-1991

## **SCOPE OF EXAMINATION**

PHPIC was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2008. The present risk-focused examination was conducted by Noble Consulting Services, Inc. (Noble) and covered the period from January 1, 2009 through December 31, 2011.

Jeffrey A. Beckley, FSA, MAAA, of Actuarial Options, LLC, was appointed by the INDOI and conducted a review of PHPIC's statutory reserves as of December 31, 2011. There were no actuarial adjustments or recommendations resulting from the review performed by Actuarial Options, LLC.

Noble conducted the risk-focused examination pursuant to and in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of PHPIC by obtaining information about PHPIC including corporate governance, identifying and assessing inherent risks within PHPIC, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, and management's compliance with Statutory Accounting Principles, and Annual Statement instructions, when applicable to domestic state regulations.

All accounts and activities of PHPIC were considered in accordance with the risk-focused examination process.

## **HISTORY**

PHPIC was incorporated as an Indiana domestic life insurance company on September 28, 2005, and commenced business on May 1, 2006. PHPIC is an indirectly held wholly-owned subsidiary of Physicians Health Plan of Northern Indiana, Inc. (PHPNI), and holds Class 1A and Class 1B life and health licenses to conduct business throughout Indiana.

## **CAPITAL AND SURPLUS**

PHPIC is authorized to issue 20,000 shares of common stock with a par value of \$200 per share. As of December 31, 2011, there were 5,000 shares of common stock outstanding. PHPIC paid no dividends during the examination period.

## **TERRITORY AND PLAN OF OPERATION**

PHPIC markets and sells its products in certain portions of the forty (40) county service area of PHPNI. PHPIC 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. The marketing focus is on employer groups with 10 to 250 employees in areas where dental networks are not maintained by PHPNI. The business is marketed through brokers almost exclusively.

PHPIC has no immediate plans to market its own life insurance products. Currently, 100% of the business is dental insurance. All administrative functions of PHPIC are being performed by PHPNI under a Management Service Agreement.

### GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of PHPIC during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Total Revenues</u>	<u>Net Income</u>
2011	\$ 2,342,592	\$ 154,104	\$ 2,188,488	\$ 746,576	\$ 64,790
2010	2,294,193	143,874	2,150,319	648,048	36,009
2009	2,182,698	117,973	2,064,725	309,622	(120,917)

PHPIC reported positive net income and underwriting results in 2011. The increase in revenues during the examination period was driven by the addition of a large employer group in late 2009. The increase in net income for 2011 is attributed to the positive underwriting results and an increase in investment income. Increases in liabilities throughout the examination period have followed the increase in revenues.

### MANAGEMENT AND CONTROL

#### Directors

The Articles of Incorporation provide that the Board of Directors shall be composed of not be less than five (5) nor more than nine (9) members. The directors shall hold office from annual meeting to annual meeting. The following is a listing of persons serving as directors as of December 31, 2011, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
James A. Brunnemer Fort Wayne, Indiana	Chief Financial Officer Physicians Health Plan of Northern Indiana, Inc.
Phillip C. Wright, MD Fort Wayne, Indiana	Medical Director Physicians Health Plan of Northern Indiana, Inc.
Teresa R. Bair Fort Wayne, Indiana	Director of Sales and Marketing Physicians Health Plan of Northern Indiana, Inc.
Gail M. Doran Fort Wayne, Indiana	Chief Operating Officer Physicians Health Plan of Northern Indiana, Inc.
Dustin W. Crider Fort Wayne, Indiana	Corporate Controller Physicians Health Plan of Northern Indiana, Inc.



## Officers

The Bylaws state that the officers of the Company shall consist of a President, one (1) or more Vice Presidents, a Secretary, a Treasurer, and such other Assistant Vice Presidents, Assistant Secretaries and Assistant Treasurers, or other officers, as from time to time, may appear to the Board of Directors necessary or desirable for the conduct of the affairs of the Company. The following is a list of the officers and their respective titles as of December 31, 2011:

<u>Name</u>	<u>Office</u>
David W. Stein, MD	Interim President and Chief Executive Officer
Gail M. Doran	Chief Operating Officer, Secretary
Phillip C. Wright, MD	Medical Director, Vice President
James A. Brunner	Chief Financial Officer, Treasurer

## CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2011.

## OATH OF OFFICE

Indiana Code (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 Company and will not knowingly violate any of the laws applicable to such Company. Each director signed an Oath of Office upon being elected.

## CORPORATE RECORDS

### Articles of Incorporation

There were no amendments to the Articles of Incorporation during the examination period.

### Bylaws

The Bylaws were amended and restated May 9, 2011. The restatement was brought about primarily to provide flexibility of scheduling around the annual meeting date. The prior wording was more rigid as to the meeting date and there were some difficulties with scheduling that arose as a result. The restatement was intended to eliminate this scheduling issue in the future.

### Minutes

The minutes from the Board of Directors meetings were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. The meetings of the Board were held in accordance with PHPIC's Bylaws.

## **AFFILIATED COMPANIES**

### Organizational Structure

An organizational chart depicting PHPIC's relationship with other members of the holding company, as of December 31, 2011, is presented below.

Physicians Health Plan of Northern Indiana, Inc. (NAIC #95436)	IN
PHP Holding Company	IN
PHP Management Systems, Inc.	IN
<b>PHP Insurance Company of Indiana, Inc. (NAIC #12331)</b>	<b>IN</b>

### Affiliated Agreements:

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI as required, in accordance with IC 27-1-23-4.

#### Management Services Agreement

Effective October 4, 2005, PHPIC entered into a Management Services Agreement with PHPNI. The agreement states that PHPNI shall provide PHPIC comprehensive services necessary for PHPIC's day-to-day operations. Such services include, but are not limited to; access to PHPNI information services, accounting and financial analysis services, actuarial services, underwriting services, medical management services, utilization review services, provider contracting services, claims administrative services, and other general and administrative services.

PHPIC shall reimburse PHPNI for all allocable costs incurred by PHPNI for managerial services provided to support PHPIC's business. PHPNI may also add a reasonable margin to such costs. In no circumstances may the total charges exceed the greater of allocable costs plus 15% or fair market value of the services provided. The amount paid to PHPNI for 2011 was \$47,842.

#### Tax Allocation Agreement

Effective January 1, 2007, PHPIC entered into a Tax Allocation Agreement with PHP Management Systems, Inc. and PHP Holding Company (Parent). The Parent pays to each subsidiary the amount of its subsidiary generated benefit in either cash or securities (market value) within thirty (30) days of the required tax return filing date. The Parent pays each entity, within five (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 five (5) business days prior to the date on which any corresponding payment is or may be due by the Parent. PHPIC owed \$25,791 under this agreement at December 31, 2011.

## **FIDELITY BOND AND OTHER INSURANCE**

PHPIC protects itself against loss from fraudulent or dishonest acts by its employees through a fidelity bond issued by Federal Insurance Company. The bond provides coverage of \$2,000,000 with a retention amount of \$50,000. The bond amount meets the prescribed minimum coverage specified by the NAIC.

PHPIC had additional types of coverage in-force at December 31, 2011, including, but not limited to, executive liability, entity liability, employment practice liability, and third-party liability coverage.

### **STATUTORY DEPOSITS**

PHPIC reported a statutory deposit as of December 31, 2011, for all policyholders, with a book value of \$125,612 and a fair value of \$127,467.

### **REINSURANCE**

PHPIC had no reinsurance assumed or ceded during the examination period.

### **ACCOUNTS AND RECORDS**

PHPIC's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from PHPIC's general ledger for the years ended December 31, 2010 and December 31, 2011, were agreed to the respective Annual Statements with no material exceptions noted. The Annual Statements for the years ended December 31, 2009 through December 31, 2011, were agreed to each year's independent audit report with no material exceptions noted.

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

**FINANCIAL STATEMENTS**

Assets

	As of December 31, 2011			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
<b>Assets:</b>				
Bonds	\$ 1,533,069	\$ -	\$ 1,533,069	\$ 1,450,533
Stocks				
Common stocks	354,915	-	354,915	382,070
Cash, cash equivalents and short-term investments	401,607	-	401,607	400,137
<b>Subtotals, cash and invested assets</b>	<b>2,289,591</b>	<b>-</b>	<b>2,289,591</b>	<b>2,232,740</b>
Investment income due and accrued	16,006	-	16,006	16,604
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	739	-	739	1,365
Net deferred tax asset	3,787	-	3,787	3,707
Receivables from parent, subsidiaries and affiliates	32,469	-	32,469	39,777
<b>Total assets</b>	<b>\$ 2,342,592</b>	<b>\$ -</b>	<b>\$ 2,342,592</b>	<b>\$ 2,294,193</b>

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

**FINANCIAL STATEMENTS**

**Liabilities, Capital and Surplus**

	As of December 31, 2011			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
<b>Liabilities:</b>				
Claims unpaid	\$ 51,765	\$ -	\$ 51,765	\$ 63,691
Premiums received in advance	53,728	-	53,728	52,682
General expenses due or accrued	22,820	-	22,820	20,601
Current federal and foreign income tax payable and interest thereon on realized capital gains	25,791	-	25,791	6,900
<b>Total liabilities</b>	<u>154,104</u>	<u>-</u>	<u>154,104</u>	<u>143,874</u>
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)	188,488	-	188,488	150,319
<b>Total capital and surplus</b>	<u>2,188,488</u>	<u>-</u>	<u>2,188,488</u>	<u>2,150,319</u>
<b>Total liabilities, capital and surplus</b>	<u>\$ 2,342,592</u>	<u>\$ -</u>	<u>\$ 2,342,592</u>	<u>\$ 2,294,193</u>

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

**FINANCIAL STATEMENTS**

**Statement of Revenue and Expenses**

	As of December 31, 2011			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
Member Months	26,406	-	26,406	25,854
Net premium income	\$ 746,576	\$ -	\$ 746,576	\$ 648,048
<b>Total revenues</b>	<b>746,576</b>	<b>-</b>	<b>746,576</b>	<b>648,048</b>
<b>Hospital and Medical:</b>				
Other professional services	603,005	-	603,005	555,464
<b>Subtotal</b>	<b>603,005</b>	<b>-</b>	<b>603,005</b>	<b>555,464</b>
<b>Total hospital and medical</b>	<b>603,005</b>	<b>-</b>	<b>603,005</b>	<b>555,464</b>
General administrative expenses	119,030	-	119,030	117,480
<b>Total underwriting deductions</b>	<b>722,035</b>	<b>-</b>	<b>722,035</b>	<b>672,944</b>
<b>Net underwriting gain or (loss)</b>	<b>24,541</b>	<b>-</b>	<b>24,541</b>	<b>(24,896)</b>
Net investment income earned	54,395	-	54,395	68,211
Net realized capital gains (losses) less capital gains tax	4,418	-	4,418	-
<b>Net investment gains (losses)</b>	<b>58,813</b>	<b>-</b>	<b>58,813</b>	<b>68,211</b>
Aggregate write-ins for other income or expenses	(5,188)	-	(5,188)	-
Net income or (loss) after capital gains tax and before all other federal income taxes	78,166	-	78,166	43,315
Federal and foreign income taxes incurred	13,376	-	13,376	7,306
<b>Net income (loss)</b>	<b>\$ 64,790</b>	<b>\$ -</b>	<b>\$ 64,790</b>	<b>\$ 36,009</b>

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

**FINANCIAL STATEMENTS**

**Reconciliation of Capital and Surplus**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Capital and Surplus Account:</b>			
Capital and surplus prior reporting year	\$ 2,150,319	\$ 2,064,725	\$ 1,983,784
Net income or (loss)	64,790	36,009	(120,917)
Change in net unrealized capital gains (losses) less capital gains tax	(27,155)	47,739	252,569
Change in net deferred income tax	7,604	(13,366)	(30,372)
Change in nonadmitted assets	(7,070)	15,212	(20,339)
<b>Net change in capital and surplus</b>	<u>38,169</u>	<u>85,594</u>	<u>80,941</u>
<b>Capital and surplus end of reporting year</b>	<u>\$ 2,188,488</u>	<u>\$ 2,150,319</u>	<u>\$ 2,064,725</u>

### **COMMENTS ON THE FINANCIAL STATEMENTS**

There were no recommended adjustments to surplus as of December 31, 2011, based on the results of this examination.

### **SUBSEQUENT EVENTS**

There were no events subsequent to the examination date and prior to the completion of fieldwork that were considered material events requiring disclosure in this Report of Examination.



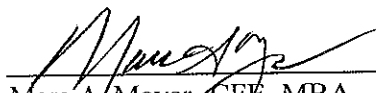
**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc. and actuarial assistance from Actuarial Options, LLC performed an examination of **PHP Insurance Company of Indiana, Inc.** as of December 31, 2011.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiner's Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of **PHP Insurance Company of Indiana, Inc.** as of December 31, 2011, as determined by the undersigned.

  
\_\_\_\_\_  
Marc A. Moyer, CFE, MBA  
Noble Consulting Services, Inc.

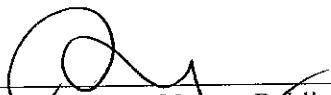
State of:  
County of:

On this 23<sup>rd</sup> day of January, 2013, before me personally appeared, Marc A. Moyer, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commiss



  
\_\_\_\_\_  
Notary Public