

Report on Examination
of
Coventry Health Plan of Florida, Inc.

f/k/a Vista Healthplan of South Florida, Inc.

Sunrise, Florida

as of

December 31, 2010

By The
Florida Office of Insurance Regulation

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 E. Gaines Street
Tallahassee, Florida 32399-0305

Dear Sir:

In accordance with Section 641.27, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Coventry Health Plan of Florida, Inc. as of December 31, 2010. Our report on the examination follows.

Florida Office of Insurance Regulation
March 13, 2012

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2010 of Coventry Health Plan of Florida, Inc. (the "Company"), a single-state Florida health maintenance organization (HMO). The last limited-scope and full-scope financial condition examinations of the Company by the Florida Office of Insurance Regulation (the "Office") were as of September 30, 2005 and December 31, 2003, respectively.

This examination covered the period of January 1, 2008 through December 31, 2010. We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating 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 the Company were considered in accordance with the risk-focused examination process.

The examination was conducted primarily in the Company's Sunrise, Florida office.

SUMMARY OF SIGNIFICANT FINDINGS

We found that the Company understated its expenses and overstated its net income by \$5.3 million in its 2010 annual statement, as discussed on page 9. All examination findings are summarized on page 15.

COMPANY HISTORY

The Company was incorporated in Florida on September 10, 1993 and licensed by the Office as an HMO on February 28, 1995. Formerly known as Vista Healthplan of South Florida, Inc., the Company became a wholly owned subsidiary of Florida Health Plan Administrators, LLC (FHPA) in July of 2006. Prior to then, it was owned by Florida Health Plan Holdings II, LLC, which later merged into FHPA. On September 10, 2007, Coventry Health Care, Inc. (CHCI) acquired FHPA, and on February 25, 2010, the Company's name was changed from Vista Healthplan of South Florida, Inc. to Coventry Health Plan of Florida, Inc.

The Company was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.). It was also licensed by the State of Florida as a third party administrator pursuant to Part VII of Chapter 626, F.S.

Dividends and Capital Contributions

No dividends were distributed and no capital contributions were received by the Company during the period examined.

CORPORATE RECORDS

The minutes of the meetings of the Company's board of directors were reviewed for the period examined. The minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., including the authorization of investments as required by Section 641.35(7), F.S.

MANAGEMENT AND CONTROL

The Company was wholly owned by FHPA which, in turn, was owned by CHCI. It was affiliated with numerous entities through common ownership. CHCI is a national managed health care company with headquarters in Bethesda, Maryland; its capital stock traded on the New York Stock Exchange. The Company's senior officers and directors were as shown below.

Senior Officers

Name	Title
Christopher A. Ciano	President and Chief Executive Officer
Richard B. Weiss	Vice President and Chief Financial Officer
Shirley R. Smith	Secretary
John J. Ruhlmann	Treasurer and Controller
Robert J. Finkelman	Actuary

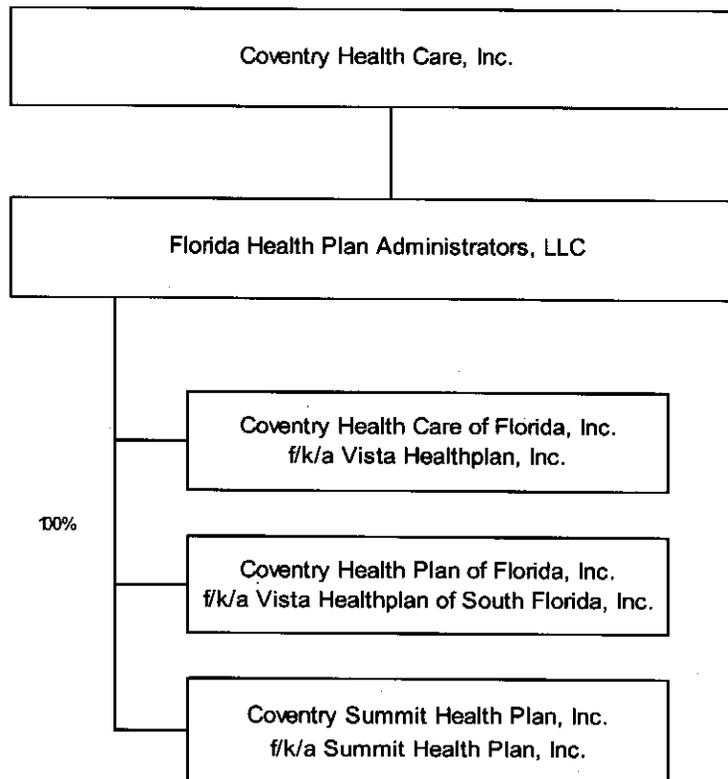
Board of Directors

Name	Location
Christopher A. Ciano	Ft. Lauderdale, Florida
John J. Ruhlmann	Bethesda, Maryland
Shirley R. Smith	Rockville, Maryland
Richard B. Weiss	Weston, Florida

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(3), Florida Administrative Code (F.A.C.). Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 690-143.046, F.A.C., on March 31, 2011.

An abbreviated organizational chart reflecting the holding company system is shown below.

**Coventry Health Plan of Florida, Inc.
Abbreviated Organizational Chart
December 31, 2010**



The following agreements were in effect with affiliates:

Management Agreement

Pursuant to a 2004 agreement, FHPA provided executive management and consulting, marketing, accounting, claims processing, utilization management, and provider and member relations services to the Company.

Administrative Services Agreement

Coventry Health Care of Florida, Inc. provided services to the Company related to the collection and transfer of premium payments pursuant to a 2010 agreement.

Tax Allocation Agreement

The results of the Company's operations were included in the consolidated income tax returns of CHCI pursuant to a tax allocation agreement effective in 2008. In accordance with the agreement, consolidated income tax liabilities were allocated to members of the consolidated group in amounts that approximated the amounts which would have been computed on a separate company basis. The agreement did not contain a provision that it would be canceled upon issuance of an order by the Office as required by Section 641.234(3), F.S.; however, the agreement was amended to include the required provision during the course of the examination.

FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured on the general liability insurance policy of CHCI which was maintained at acceptable levels in compliance with Rule 69O-191.069, F.A.C. The Company was also a named insured on the crime policy of CHCI in the amount of \$10 million which adequately met the requirements of Section 641.22(7), F.S. As an individual practice association model HMO, the Company maintained adequate professional liability insurance. It required in its provider contracts that its providers certify and maintain appropriate levels of medical malpractice insurance or its equivalent as required by Rule 69O-191.069, F.A.C.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no direct employees and, therefore, did not provide employee benefits or sponsor retirement plans.

TERRITORY AND PLAN OF OPERATION

The Company held a current health care provider certificate issued by the Florida Agency for Health Care Administration pursuant to Part III of Chapter 641, F.S., valid until January 30, 2014. It provided health care services to comprehensive, Medicare and Medicaid members and had 56,892 members as of December 31, 2010, of which 51% were comprehensive, 36% were Medicaid, and 13% were Medicare members.

The Company operated in the Florida counties of Broward, Martin, Miami-Dade, Palm Beach, and St. Lucie.

COMPANY GROWTH

The Company reported the following for years 2008, 2009 and 2010:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Year-end enrollment (In millions)	69,312	67,853	56,892
Premiums	\$ 326.5	\$ 313.3	\$ 278.9
Revenues	\$ 326.5	\$ 313.3	\$ 278.9
Net income	\$ 7.4	\$ 5.6	\$ 6.3
Capital and surplus	\$ 24.6	\$ 30.1	\$ 37.4

REINSURANCE

Since September 1, 2008, the Company maintained stop loss reinsurance with Coventry Health and Life Insurance Company. The agreement, as amended on April 1, 2010, provided coverage for 90% of the cost of specified commercial health care services in excess of \$450,000, 90% of the cost of specified individual health care services in excess of \$400,000, and 80% of the cost of specified Medicare health care services in excess of \$375,000, up to a maximum per member of \$1,000,000.

ACCOUNTS AND RECORDS

The Company and certain affiliates, including Coventry Health Care of Florida, Inc., were defendants in a lawsuit which was settled in 2010 for \$35,075,061. As a result, the Company was liable for claims in the amount of \$5,266,656. The settlement amount was paid by FHPA on behalf of all defendants. The expenses were attributable to the Company and other defendants and should have been recognized and reported by them as such. However, the Company failed to report its share of the settlement as expenses. As a result, the Company's expenses, as reported in its 2010 annual statement, were understated and its net income was overstated by \$5,266,656. Upon examination, that amount was reclassified from 'unassigned funds' to 'gross paid in and contributed surplus' in accordance with paragraph 7 of Statement of Statutory Accounting Principles (SSAP) No. 72.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$2,130,000 in accordance with Section 641.285, F.S., and a Rehabilitation Administrative Expense Fund deposit of \$10,000 in accordance with Section 641.227, F.S.

Coventry Health Plan of Florida, Inc.
Assets
December 31, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 64,474,800	\$ -	\$ 64,474,800
Cash, cash equivalents and short-term investments	23,430,395	-	23,430,395
	87,905,195	-	87,905,195
Investment income due and accrued	574,883	-	574,883
Uncollected premiums and agents' balances	914,871	-	914,871
Amounts recoverable from reinsurers	683,978	-	683,978
Current federal income tax recoverable	227,074	-	227,074
Net deferred tax asset	2,368,080	-	2,368,080
Aggregate write-ins for other than invested assets	339,831	-	339,831
Total assets	\$ 93,013,912	\$ -	\$ 93,013,912

Coventry Health Plan of Florida, Inc.
Liabilities, Capital and Surplus
December 31, 2010

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$ 25,319,938	\$ -	\$ 25,319,938
Accrued medical incentive pool and bonuses	4,146,036	-	4,146,036
Unpaid claims adjustment expenses	481,047	-	481,047
Aggregate health policy reserves	2,663,488	-	2,663,488
Premiums received in advance	4,242,872	-	4,242,872
General expenses due or accrued	15,141,023	-	15,141,023
Amounts due to parent, subsidiaries and affiliates	386,324	-	386,324
Liability for amounts held under uninsured plans	2,589,105	-	2,589,105
Aggregate write-ins for other liabilities	633,615	-	633,615
Total liabilities	55,603,448	-	55,603,448
Capital and Surplus			
Common capital stock	1	-	1
Gross paid in and contributed surplus	72,743,506	5,266,656	78,010,162
Unassigned funds (deficit)	(35,333,043)	(5,266,656)	(40,599,699)
Total capital and surplus	37,410,464	-	37,410,464
Total liabilities, capital and surplus	\$ 93,013,912	\$ -	\$ 93,013,912

Coventry Health Plan of Florida, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
For The Year Ended December 31, 2010

Net premium income	\$ 278,914,400
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Hospital and medical benefits	183,430,655
Other professional services	1,485,831
Outside referrals	824,226
Prescription drugs	32,263,368
Incentive pool, adjustments and bonuses	13,873,000
	<hr/> 231,877,080
Net reinsurance recoveries	1,672,873
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Total hospital and medical	230,204,207
Claims adjustment expenses	6,008,330
General administrative expenses	33,834,467
Increase in reserves	65,320
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Total underwriting deductions	270,112,324
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Net underwriting gain	8,802,076
Net investment gains	2,124,248
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Income before income tax	10,926,324
Federal income tax	4,623,872
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Net income	\$ 6,302,452
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Coventry Health Plan of Florida, Inc.
Statement of Changes in Capital and Surplus
For The Three Years Ended December 31, 2010

Capital and surplus - December 31, 2007	\$ 16,866,195
Net income	7,439,658
Change in net deferred income tax	1,266,291
Change in nonadmitted assets	(947,003)
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Capital and surplus - December 31, 2008	24,625,141
Net income	5,611,760
Change in net deferred income tax	1,573,144
Change in nonadmitted assets	(124,673)
Aggregate write-ins for gains or (losses) in surplus	(1,588,990)
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Capital and surplus - December 31, 2009	30,096,382
Net income	6,302,452
Change in net deferred income tax	1,260,115
Change in nonadmitted assets	(248,485)
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	37,410,464
Examination adjustments	-
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Capital and surplus - December 31, 2010	\$ 37,410,464
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Coventry Health Plan of Florida, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2010

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital and surplus, December 31, 2010 - per annual statement			\$ 37,410,464
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total assets	<u>\$ 93,013,912</u>	<u>\$ 93,013,912</u>	<u>\$ -</u>
Total liabilities	<u>\$ 55,603,448</u>	<u>\$ 55,603,448</u>	<u>\$ -</u>
Net change in capital and surplus			<u>-</u>
Capital and surplus, December 31, 2010 - per examination			<u><u>\$ 37,410,464</u></u>

SUMMARY OF FINDINGS

Tax Allocation Agreement

As reported on page 6, the Company's tax allocation agreement did not contain a provision that it would be canceled upon issuance of an order by the Office as required by Section 641.234(3), F.S.; however, the agreement was amended to include the required provision during the course of the examination.

Unreported Expenses

As reported on page 9, the Company failed to report certain expenses paid on its behalf by its parent. As a result, the Company's expenses, as reported in its 2010 annual statement, were understated and its net income was overstated by \$5,266,656. **We recommend that, in future statements filed with the Office, the Company properly report all of its expenses and its gross paid in and contributed surplus in accordance with the annual statement instructions and SSAP No. 72.**

SUBSEQUENT EVENTS

In its quarterly statement, the Company reported total capital and surplus of \$40.9 million as of September 30, 2011, and net premium income and total revenues of \$202.3 million and net income of \$2.2 million for the nine months then ended.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Coventry Health Plan of Florida, Inc. as of December 31, 2010, consistent with the insurance laws of the State of Florida.

The Company's capital and surplus at December 31, 2010 was determined to be \$37,410,464, which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus was \$5,578,288.

In addition to the undersigned, the following individuals participated in this examination: Christine N. Afolabi, CPA, Financial Specialist; Stephen Feliu, CFE (Fraud), Financial Examiner/Analyst; Cathy S. Jones, CPA, AFE, Financial Examiner/Analyst Supervisor; Scott R. Slaughter, CPA, Financial Examiner/Analyst; Richard Tan, Actuary; and Mike Young, CFE, Financial Examiner/Analyst.

Respectfully submitted,

Robert Y. Meszaros, Financial Specialist
Florida Office of Insurance Regulation