

Report on Examination
of
Coventry Summit Health Plan, Inc.

f/k/a Summit Health Plan, 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 Summit Health Plan, 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 Summit Health Plan, Inc. (the "Company"), a single-state Florida health maintenance organization (HMO). The last limited-scope financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of September 30, 2005. This was the first full-scope financial condition examination of the Company.

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.

COMPANY HISTORY

The Company was incorporated in Florida on November 24, 2004 and licensed by the Office as an HMO on July 13, 2005. Formerly known as Summit Health Plan, Inc., the Company was acquired by Summit Health Plan Holdings, LLC in June of 2006. Subsequently, the owners of Summit Health Plan Holdings, LLC contributed their ownership interest in the Company to Florida Health Plan Administrators, LLC (FHPA). On September 10, 2007, Coventry Health Care, Inc. (CHCI) acquired FHPA and, on February 25, 2010, the Company's name was changed from Summit Health Plan, Inc. to Coventry Summit Health Plan, 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.).

Dividends and Capital Contributions

No dividends were distributed by the Company during the period examined. In 2009, it received \$2 million in capital contributions.

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

Senior Officers

<u>Name</u>	<u>Title</u>
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

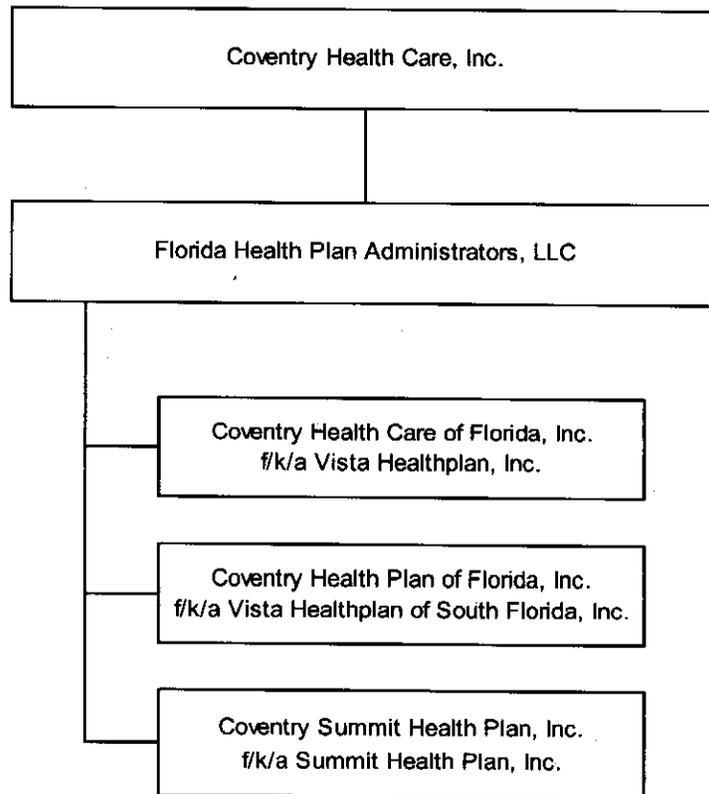
Board of Directors

<u>Name</u>	<u>Location</u>
Christopher A. Ciano	Ft. Lauderdale, Florida
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 69O-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 69O-143.046, F.A.C., on March 31, 2011.

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

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



The following agreements were in effect with affiliates:

FHPA provided executive management, consulting, marketing, accounting, claims processing, utilization management, provider relations, and member relations services to the Company pursuant to a 2005 agreement.

CHCI provided management, consulting, administrative, claims adjudication and payment, group setup and maintenance, and billing and collections services to the Company.

Carefree Insurance Services, Inc. acted as a general agent on behalf of the Company in connection with the sale and marketing of the Company's Medicare product.

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 that 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. The policy was maintained at acceptable levels and was in compliance with Rule 69O-191.069, F.A.C. The Company was 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 directly 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 May 7, 2013. It provided health care services to 33,293 Medicare members as of December 31, 2010, and operated in the Florida counties of Broward, Hernando, Hillsborough, Martin, Miami-Dade, Palm Beach, Pasco, Pinellas, Polk, 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)	11,993	22,059	33,293
Premiums	\$ 147.4	\$ 266.4	\$ 408.8
Revenues	\$ 147.4	\$ 266.4	\$ 408.8
Net income (loss)	\$ 1.5	\$ (0.2)	\$ 8.0
Capital and surplus	\$ 6.2	\$ 8.5	\$ 17.1

REINSURANCE

The Company maintained stop loss reinsurance with Coventry Health and Life Insurance Company. The reinsurance agreement, as amended on April 1, 2010, provided coverage for 80% of the cost of specified Medicare health care services in excess of \$375,000, up to \$1,000,000.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$500,000 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 Summit Health Plan, Inc.
Assets
December 31, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 56,276,056	\$ -	\$ 56,276,056
Cash, cash equivalents and short-term investments	27,401,148	-	27,401,148
	83,677,204	-	83,677,204
Investment income due and accrued	455,225	-	455,225
Amounts recoverable from reinsurers	13,007	-	13,007
Current federal income tax recoverable	660,619	-	660,619
Net deferred tax asset	548,819	-	548,819
Aggregate write-ins for other than invested assets	192,102	-	192,102
Total assets	\$ 85,546,976	\$ -	\$ 85,546,976

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

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$ 38,508,079	\$ -	\$ 38,508,079
Accrued medical incentive pool and bonuses	6,898,197	-	6,898,197
Unpaid claims adjustment expenses	818,413	-	818,413
Aggregate health policy reserves	2,636,650	-	2,636,650
General expenses due or accrued	3,977,884	-	3,977,884
Amounts due to parent, subsidiaries and affiliates	360,184	-	360,184
Liability for amounts held under uninsured plans	15,234,546	-	15,234,546
Total liabilities	68,433,953	-	68,433,953
Capital and Surplus			
Common capital stock	1	-	1
Gross paid in and contributed surplus	5,125,000	-	5,125,000
Unassigned funds	11,988,022	-	11,988,022
Total capital and surplus	17,113,023	-	17,113,023
Total liabilities, capital and surplus	\$ 85,546,976	\$ -	\$ 85,546,976

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

Net premium income	\$ 408,774,354
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Hospital and medical benefits	300,477,036
Other professional services	2,092,414
Outside referrals	1,293,477
Prescription drugs	54,908,807
Incentive pool, adjustments and bonuses	20,292,500
	<hr/> 379,064,234
Net reinsurance recoveries	457,733
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Total hospital and medical	378,606,501
Claims adjustment expenses	9,875,757
General administrative expenses	10,076,524
Increase in reserves	144,325
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Total underwriting deductions	398,703,107
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Net underwriting gain	10,071,247
Net investment gains	1,452,505
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Income before income tax	11,523,752
Federal income tax	3,556,708
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Net income	\$ 7,967,044
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Coventry Summit Health Plan, Inc.
Statement of Changes in Capital and Surplus
For The Three Years Ended December 31, 2010

Capital and surplus - December 31, 2007	\$ 5,313,015
Net income (loss)	1,548,205
Change in net deferred income tax	398,895
Change in nonadmitted assets	(1,100,326)
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Capital and surplus - December 31, 2008	6,159,789
Net income (loss)	(160,522)
Change in net deferred income tax	1,337,232
Change in nonadmitted assets	(847,170)
Paid in capital	2,000,000
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Capital and surplus - December 31, 2009	8,489,329
Net income (loss)	7,967,044
Change in net deferred income tax	(487,446)
Change in nonadmitted assets	1,144,096
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	17,113,023
Examination adjustments	-
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Capital and surplus - December 31, 2010	\$ 17,113,023
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Coventry Summit Health Plan, 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			\$ 17,113,023
	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Total assets	\$ 85,546,976	\$ 85,546,976	\$ -
Total liabilities	\$ 68,433,953	\$ 68,433,953	\$ -
Net change in capital and surplus			<u>-</u>
Capital and surplus, December 31, 2010 - per examination			<u>\$ 17,113,023</u>

SUMMARY OF FINDINGS

Tax Allocation Agreement

As reported on page 5, 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.

SUBSEQUENT EVENTS

In its annual statement, the Company reported total capital and surplus of \$27.6 million as of December 31, 2011. In addition, it reported net premium income and total revenues of \$401.2 million and net income of \$11.0 million for the year 2011.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Coventry Summit Health Plan, 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 \$17,113,023 which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus was \$8,175,487.

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