

**Report on Examination**  
**of**  
**Physicians United Plan, Inc.**

**Orlando, Florida**

**as of**

**December 31, 2009**

**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 Commissioner McCarty:

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 Physicians United Plan, Inc. as of December 31, 2009. Our report on the examination follows.

Florida Office of Insurance Regulation  
April 8, 2011

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## SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2009 of Physicians United Plan, Inc. (the "Company"), a single-state health maintenance organization (HMO) domiciled in Florida. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2007.

This examination covered the period of January 1, 2008 through December 31, 2009. 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 Company's administrative office was located in Orlando, Florida, where this examination was conducted.

## **SUMMARY OF SIGNIFICANT FINDINGS**

In its 2009 annual statement, the Company overstated its 'health care and other amounts receivable' and its capital and surplus by \$532,000. In addition, the Company's capital and surplus at December 31, 2009 was less than the amount required by Section 641.225, Florida Statutes (F.S.). Recommendations relating to these and other findings of the examination are contained on pages 17 and 18.

## **COMPANY HISTORY**

The Company was incorporated in Florida on February 21, 2005 and licensed by the Office as an HMO on July 29, 2005. It commenced business on January 1, 2006. The Company was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, F.S.

### **Dividends and Capital Contributions**

No dividends were distributed by the Company during 2008 or 2009. The Company issued \$1,655,000 and \$1,624,500 in preferred stock during 2008 and 2009, respectively.

## **CORPORATE RECORDS**

The minutes of the meetings of the shareholder and 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. However, the Company was unable to provide a written record of a shareholder meeting in 2008 for the election of directors as required by Section 607.0701(1), F.S.

## MANAGEMENT AND CONTROL

The Company's common stock was owned by IDJB Investments, LLC. The Company was affiliated through common ownership with other entities including Florida Cardiology, P.A., Health Care Services of Florida, LLC, Intellisight, LLC (Intellisight), and Nanki International, LLC.

The Company's senior officers and directors were as shown below.

### Senior Officers

<u>Name</u>	<u>Title</u>
Imtiaz H. Sattaur	President and Chief Executive Officer
J. Daniel Kollefrath	Senior Vice President and Treasurer
Michael F. Turrell	Vice President and Secretary

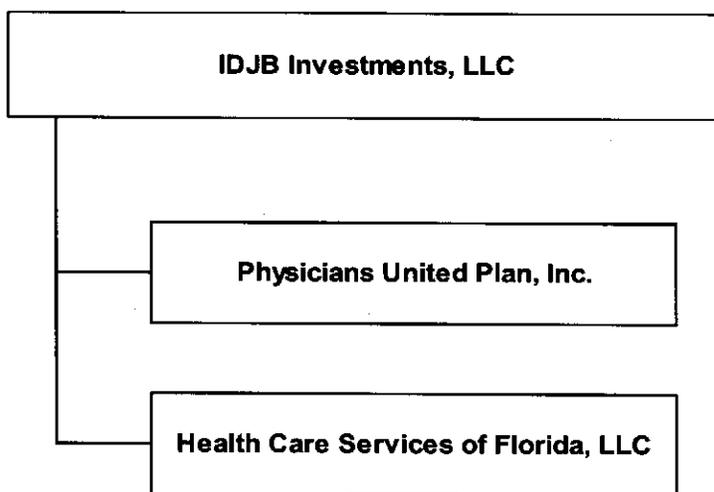
### Board of Directors

<u>Name</u>	<u>Location</u>
Dennis S. Agliano, M.D.	Tampa, Florida
Rohini Bajaj, M.D.	Winter Park, Florida
Sandeep Bajaj, M.D.	Winter Park, Florida
J. Daniel Kollefrath	Orlando, Florida
Rudolph G. Moise, M.D.	Davie, Florida
Ralph J. Nobo, Jr., M.D.	Bartow, Florida
Imtiaz H. Sattaur	Orlando, 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 April 22, 2010.

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

**Physicians United Plan, Inc.  
Abbreviated Organizational Chart  
December 31, 2009**



Intellisight, an affiliate and Florida-licensed third party administrator, provided management services to the Company in accordance with a January 1, 2005 agreement. The services were for the purpose of developing, establishing and operating the Company's health insurance programs. Under the agreement, the Company is obligated to pay Intellisight for the services at the rate of 1% of gross premium revenue for each month in which the Company "maintains a monthly net income position" up to a maximum of \$3 million, but only after and if certain agreed-upon deliverables are fully met and the Company's life-to-date cumulative net income is at least \$1 million. As of December 31, 2009, the Company had not accumulated a life-to-date net income of \$1 million. Consequently, at December 31, 2009, the Company was contingently liable to Intellisight for up to \$3 million.

Intellisight provided certain administrative and operational services to the Company related to claims management, a call center, and information transmission, pursuant to an agreement entered into on May 6, 2005 and amended on August 1, 2008. The agreement, which was terminated on September 30, 2008, called for monthly fees equal to the greater of \$25,000 or 3% (1.5% as of August 1, 2008) of collected premiums.

Intellisight provided computer network infrastructure services to the Company pursuant to a November 18, 2008 agreement. In connection with the services, the Company acquired computer hardware and software and incurred monthly fees. The agreement was terminated effective December 2, 2009.

The Isix Creative division of Intellisight served as the Company's marketing agency of record from July 1, 2006 until September 5, 2008.

Guardian Health Services, LLC, an affiliate, provided clinical program services to the Company pursuant to a June 1, 2007 agreement in return for fees based on the number of the Company's members per month. The arrangement was terminated on April 4, 2008.

Dynamic Resources Group, LLC, an affiliate, provided staffing to the Company pursuant to an April 21, 2007 agreement in return for reimbursement of its costs. The agreement was terminated effective December 31, 2009.

The Company leased office space on North Semoran Boulevard in Winter Park, Florida from Nanki International, LLC, an affiliate, pursuant to a five-year lease beginning January 1, 2009.

Florida Cardiology, P.A., an affiliate, provided cardiology services to the Company's members on a fee-for-service basis pursuant to a January 1, 2006 agreement amended September 1, 2007.

Health Care Services of Florida, LLC, an affiliate, arranged for and provided certain covered health services to the Company's members pursuant to a January 1, 2007 agreement.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company maintained acceptable levels of general liability insurance as required by Rule 69O-191.069, F.A.C., and was insured by a blanket fidelity bond in accordance with Section 641.22(7), F.S., in the amount of \$1 million. 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**

As a Medicare Advantage organization, the Company provided health care services to Medicare enrollees as authorized by the U.S. Department of Health and Human Services Centers for Medicare and Medicaid Services pursuant to Title 42, Part 422, Code of Federal Regulations. It was authorized to transact business as an HMO solely in the State of Florida and operated in the following Florida counties: Brevard, Broward, Hillsborough, Lake, Marion, Miami-Dade, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Seminole and Sumter.

## COMPANY GROWTH

The Company reported the following for years 2007, 2008 and 2009:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Year-end enrollment	3,205	11,764	18,574
<b>In millions:</b>			
Net premiums	\$ 25.4	\$ 86.3	\$ 154.6
Total revenues	\$ 25.4	\$ 86.3	\$ 154.6
Net loss	\$ 4.1	\$ 10.7	\$ 4.7
Capital and surplus (deficit)	\$ 0.3	\$ (0.4)	\$ 3.1

## SURPLUS NOTES

At December 31, 2009, the Company was obligated to IDJB Investments, LLC for \$16 million in surplus notes with interest rates ranging from 7.00% to 11.25%.<sup>1</sup> The notes were approved by the Company's board of directors and the Office, and complied with the provisions of Rule 69O-191.088, F.A.C. In accordance with Section 641.19(19), F.S., the debt was included in the Company's surplus.

## REINSURANCE

On January 1, 2009, the Company renewed a one year reinsurance agreement with OneBeacon Insurance Company. Under the agreement, the maximum benefit for each member per policy period was \$1,500,000 and the specific retention amount per member per policy period was \$150,000 plus a portion of certain losses. The premium was \$4.26 per member per month subject to a minimum annual premium of \$75,000. The agreement had not been filed with and approved by the Office as required by Rule 69O-191.072, F.A.C.

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<sup>1</sup> See comments on page 16 related to the Company's 'aggregate write-ins for other than invested assets'.

## **ACCOUNTS AND RECORDS**

Company agreements with unaffiliated entities for administrative services, management services and certain provider services did not contain provisions that the contracts shall be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.

## **STATUTORY DEPOSITS**

The Company maintained on deposit with the Office an insolvency protection deposit of \$2,300,000 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.

**Physicians United Plan, Inc.**  
**Assets**  
**December 31, 2009**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 2,570,000	\$ -	\$ 2,570,000
Cash, cash equivalents and short-term investments	10,696,355	-	10,696,355
	13,266,355	-	13,266,355
Investment income due and accrued	24,292	-	24,292
Uncollected premiums and agents' balances	61,570	-	61,570
Accrued retrospective premiums	2,460,737	-	2,460,737
Amounts recoverable from reinsurers	343,889	-	343,889
Amounts receivable relating to uninsured plans	461,891	-	461,891
Health care and other amounts receivable	6,396,160	(532,000)	5,864,160
Aggregate write-ins for other than invested assets	1,550,000	-	1,550,000
<b>Total assets</b>	<b>\$ 24,564,894</b>	<b>\$ (532,000)</b>	<b>\$ 24,032,894</b>

**Physicians United Plan, Inc.**  
**Liabilities, Capital and Surplus**  
**December 31, 2009**

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$ 16,512,141	\$ -	\$ 16,512,141
Unpaid claims adjustment expenses	72,695	-	72,695
Aggregate health policy reserves	3,890,894	-	3,890,894
General expenses due or accrued	945,438	-	945,438
Amounts due to parent, subsidiaries and affiliates	5,500	-	5,500
<b>Total liabilities</b>	<b>21,426,668</b>	<b>-</b>	<b>21,426,668</b>
<b>Capital and Surplus</b>			
Common capital stock	16	-	16
Preferred capital stock	71,190	-	71,190
Gross paid in and contributed surplus	9,218,294	-	9,218,294
Surplus notes	17,550,000	-	17,550,000
Unassigned funds (deficit)	(23,701,274)	(532,000)	(24,233,274)
<b>Total capital and surplus</b>	<b>3,138,226</b>	<b>(532,000)</b>	<b>2,606,226</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 24,564,894</b>	<b>\$ (532,000)</b>	<b>\$ 24,032,894</b>

**Physicians United Plan, Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Company)**  
**For The Year Ended December 31, 2009**

Net premium income	\$ 154,592,016
Hospital and medical benefits	67,056,401
Other professional services	5,161,205
Outside referrals	5,081,725
Emergency room and out-of-area	43,962,068
Prescription drugs	17,988,770
Incentive pool, withhold adjustments and bonuses	(29,298)
	<hr/> 139,220,871
Net reinsurance recoveries	1,336,724
	<hr/> 137,884,147
Total hospital and medical	137,884,147
Claims adjustment expenses	316,490
General administrative expenses	21,315,684
	<hr/> 159,516,321
Total underwriting deductions	159,516,321
Net underwriting gain (loss)	(4,924,305)
Net investment income earned	223,774
	<hr/> 223,774
Net income (loss)	<hr/> <b>\$ (4,700,531)</b> <hr/>

**Physicians United Plan, Inc.**  
**Statement of Changes in Capital and Surplus**  
**For The Two Years Ended December 31, 2009**

Capital and surplus - December 31, 2007	\$ 250,662
Net income (loss)	(10,705,947)
Change in net deferred income tax	6,104,989
Change in nonadmitted assets	(7,392,380)
Change in surplus notes	9,750,000
Change in paid in capital	1,655,000
Aggregate write-ins for gains or losses in surplus	(46,217)
Capital and surplus (deficit) - December 31, 2008	(383,893)
Net income (loss)	(4,700,531)
Change in net deferred income tax	1,783,640
Change in nonadmitted assets	(985,490)
Change in surplus notes	5,800,000
Change in paid in capital	1,624,500
	3,138,226
Examination adjustments	(532,000)
Capital and surplus - December 31, 2009	\$ 2,606,226

**Physicians United Plan, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2009**

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

<b>Capital and surplus, December 31, 2009 - per annual statement</b>			<b>\$ 3,138,226</b>
	<b>Per Company</b>	<b>Per Examination</b>	<b>Increase (Decrease) In Capital &amp; Surplus</b>
Health care and other amounts receivable	\$ 6,396,160	\$ 5,864,160	\$ (532,000)
Net change in capital and surplus			(532,000)
<b>Capital and surplus, December 31, 2009 - per examination</b>			<b>\$ 2,606,226</b>

## COMMENTS ON FINANCIAL STATEMENTS

### **Health Care and Other Amounts Receivable**

**\$5,864,160**

The \$6,396,160 reported by the Company in its 2009 annual statement as 'health care and other amounts receivable' has been reduced by \$532,000 to \$5,864,160. Included in the amount reported by the Company was a risk sharing receivable in the amount of \$532,000 which was not collected within 90 days of billing as required by paragraph 20 of Statement of Statutory Accounting Principles (SSAP) No. 84. As a result, the receivable was nonadmitted upon examination. The receivable was collected on July 1, 2010.

### **Aggregate Write-Ins For Other Than Invested Assets**

**\$1,550,000**

The amount reported by the Company in its 2009 annual statement as 'aggregate write-ins for other than invested assets' consisted of a receivable for the proceeds of a \$1,550,000 surplus note received on March 24, 2010. On March 26, 2010, the Office granted permission to the Company to admit the asset as of December 31, 2009 in accordance with SSAP No. 72.

### **Contingent Liability**

At December 31, 2009, the Company was contingently liable to Intellisight, an affiliate, for up to \$3 million, as discussed on page 6.

### **Capital and Surplus**

**\$2,606,226**

At December 31, 2009, the Company was required by Section 641.225, F.S., to maintain capital and surplus of at least \$3,091,840. However, its capital and surplus after the above examination adjustment was \$2,606,226 including a receivable for the proceeds of a \$1,550,000 surplus note received on March 24, 2010.

## SUMMARY OF RECOMMENDATIONS

### Shareholder Meeting

As reported on page 3, the Company was unable to provide a written record of a shareholder meeting in 2008 for the election of directors as required by Section 607.0701(1), F.S. **We recommend that the Company hold annual meetings of its shareholder for the election of directors as required by Section 607.0701(1), F.S., and maintain written records of those meetings.**

### Reinsurance Agreement

As reported on page 9, the Company's reinsurance agreement had not been filed with and approved by the Office, as required by Rule 69O-191.072, F.A.C. **We recommend that the Company file the agreement with the Office for approval, as required by Rule 69O-191.072, F.A.C.**

### Administrative, Provider and Management Contracts

As reported on page 10, certain of the Company's agreements did not contain provisions that the contracts shall be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S. **We recommend that the Company amend the agreements and add the provisions required by Section 641.234(3), F.S.**

### Health Care Receivable

As reported on page 16, in its 2009 annual statement, the Company overstated the amount of its 'health care and other amounts receivable' account by \$532,000. **We recommend that, in future statements filed with the Office, the Company comply with SSAP No. 84.**

Capital and Surplus

Including a receivable for the proceeds of a surplus note in the amount of \$1,550,000, the Company's capital and surplus at December 31, 2009 was \$2,606,226, which was \$485,614 less than its required minimum capital and surplus of \$3,091,840, and the Company was in violation of Section 641.225, F.S. **We recommend that the Company maintain capital and surplus at least equal to the minimum amount required by Section 641.225, F.S., at all times.**

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Physicians United Plan, Inc. as of December 31, 2009, consistent with the insurance laws of the State of Florida.

The Company's capital and surplus at December 31, 2009 was determined to be \$2,606,226, which was not in compliance with Section 641.225, F.S. Its required minimum capital and surplus was \$3,091,840.

In addition to the undersigned, the following individuals participated in this examination: Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Richard Tan, Actuary; and Michael D. Young, AFE, Financial Examiner/Analyst.

Respectfully submitted,

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Darlene L. Lenhart-Schaeffer, CFE  
Financial Examiner/Analyst  
Florida Office of Insurance Regulation