

Report on Examination
of
Universal Health Care
Insurance Company, Inc.

St. Petersburg, 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

Sharon P. Clark, Commissioner
Kentucky Department of Insurance
Secretary, NAIC Southeastern Zone
P.O. Box 517
Frankfort, Kentucky 40602-0517

Joseph Torti, III, Superintendent
Rhode Island Division of Insurance
Chair, NAIC Financial Condition (E) Committee
1511 Pontiac Avenue, Building 69-2
Cranston, Rhode Island 02920

Dear Commissioners McCarty and Clark and Superintendent Torti:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Universal Health Care Insurance Company, Inc. as of December 31, 2009. Our report on the examination follows.

Florida Office of Insurance Regulation
March 6, 2011

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2009 of Universal Health Care Insurance Company, Inc. (the "Company"), a multi-state insurer 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, 2008.

This examination covered the period of January 1, 2009 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 main administrative office was located in St. Petersburg, Florida, where this examination was conducted.

COMPANY HISTORY

The Company was incorporated in Florida on May 25, 2006. It was licensed by the Office as an insurer and commenced business on May 26, 2006. The Company was authorized by the State of Florida to operate as an accident and health insurer in accordance with Section 624.401, Florida Statutes (F.S.).

Dividends and Capital Contributions

The Company distributed an \$8 million shareholder dividend during 2009. It did not receive any capital contributions during the year.

CORPORATE RECORDS

The minutes of the shareholder and Board of Directors meetings 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 625.304, F.S., except as follows. The Company was required by Section 607.1601(1), F.S., to keep a record of all actions taken by committees of its Board of Directors. Upon examination, the Company was unable to demonstrate that it maintained records of actions taken by the Company's Audit Committee.

The Company was required by Rule 69O-143.042(2), Florida Administrative Code (F.A.C.), to have its securities custody agreements authorized by a resolution of the Board of Directors or an authorized committee of the Board. We found that the Company had entered into a securities custody agreement which had not been so authorized.

MANAGEMENT AND CONTROL

The Company was wholly owned by Universal Health Care Group, Inc. (Group). It was affiliated through common ownership with other entities including the Florida health maintenance organization Universal Health Care, Inc., the Florida third party administrator American Managed Care, LLC (AMC), Universal HMO of Texas, Inc., American Family & Geriatric Care, P.A., and Courtesy Health Care Corp.

The Company's senior officers, directors and Audit Committee members were as shown below.

Senior Officers

Name	Title
Akshay M. Desai, M.D., M.P.H.	President and Chief Executive Officer
Brett J. McIntyre	Chief Financial Officer
James P. O'Drobinak	Chief Operating Officer
Sandip I. Patel	Secretary and General Counsel
Steven J. Schaefer	Treasurer

Board of Directors

Name	Location
Jayendra Choksi, M.D.	Tampa, Florida
Akshay M. Desai, M.D., M.P.H.	St. Petersburg, Florida
Deepak Desai	San Francisco, California
Seema Desai	St. Petersburg, Florida
Brett J. McIntyre	St. Petersburg, Florida

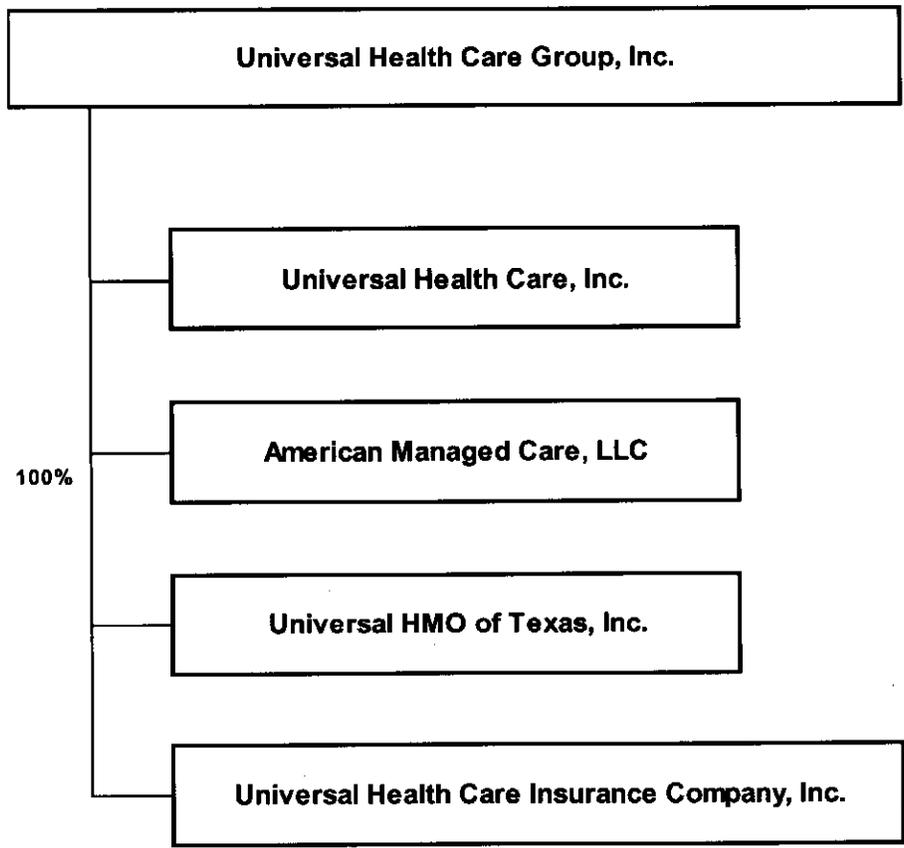
Audit Committee

Brett J. McIntyre
Deepak Desai
Jayendra Choksi, M.D.

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), 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 February 4, 2011.

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

**Universal Health Care Insurance Company, Inc.
Abbreviated Organizational Chart
December 31, 2009**



The results of the Company's operations were included in the consolidated federal income tax return of Group pursuant to a tax allocation agreement dated September 27, 2007 and amended on February 27, 2008. The consolidated income tax liability was required to be allocated to members of the consolidated group on a pro rata basis according to the separate return tax liabilities of included members. All payments were required to be made on a quarterly basis not later than the due dates of the affiliated group's estimated tax payments.

AMC provided claims processing, customer service, utilization review, accounting, information systems, credentialing, quality assurance, enrollment and billing services to the Company pursuant to a June 1, 2006 management agreement which was amended effective January 1, 2007 and January 1, 2008. AMC was prohibited by the agreement from assigning or subcontracting any of the services without the express written approval of the Office and the U.S. Department of Health and Human Services Centers for Medicare & Medicaid Services (CMS). However, AMC outsourced many of the services to the Indian firm Indus BPO Services Pvt. Ltd. without the approval of the Office and CMS, in violation of the agreement.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained fidelity bond coverage of \$2,000,000 with a deductible of \$25,000. The minimum amount of such coverage for the Company as recommended by the NAIC was \$1,250,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offered to eligible employees benefits including health and dental insurance, paid leave and a 401(k) retirement plan sponsored by American Family & Geriatric Care, P.A., an affiliate.

TERRITORY AND PLAN OF OPERATION

The Company operated a Medicare Advantage private fee-for-service plan. It provided health care services to Medicare enrollees pursuant to a contract with CMS. It was authorized to transact insurance in the following states:

Arizona	Louisiana	Nevada	Texas
Florida	Maryland	Pennsylvania	Utah
Georgia	Mississippi	South Carolina	

COMPANY GROWTH

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

(In millions)

	2007	2008	2009
Net premiums	\$ 562.2	\$ 140.3	\$ 81.9
Total revenues	\$ 562.2	\$ 140.3	\$ 81.9
Net income	\$ 30.3	\$ 4.3	\$ 8.2
Capital and surplus	\$ 121.1	\$ 69.2	\$ 63.5

SURPLUS NOTES

The Company was obligated to Group for surplus notes as follows:

Interest Rate	Amount
5.0%	\$ 8,000,000
5.0%	2,000,000
5.0%	11,000,000
9.0%	2,750,000
	\$ 23,750,000

The notes were approved by the Company's board of directors and the Office. In accordance with Section 628.401, F.S., the debt was included in the Company's surplus.

REINSURANCE

The Company maintained reinsurance under a yearly renewable term indemnity reinsurance agreement with Hanover Life Reassurance Company of America. Effective January 1, 2009, the Company ceded 75% quota share of the reinsured risk, subject to an annual maximum reinsurance premium of \$1 billion, net of any existing reinsurance.

The Company maintained stop loss insurance with HCC Life Insurance Company, providing coverage for 90% of eligible expenses incurred per member per contract year in excess of \$150,000, with a lifetime maximum of \$2,000,000 per member.

ACCOUNTS AND RECORDS

In its 2009 annual statement, the Company incorrectly reported cash on deposit with the State of Florida as a cash equivalent, and the balances of various checking accounts as short-term investments rather than as cash. In addition, it failed to make the disclosures relating to its investment in repurchase agreements required by the annual statement instructions.

The examination included a review of the Company's controls over its information systems. During the examination, we identified and separately communicated to the Company certain deficiencies in the areas of change management, physical access, risk assessment, and management and organization control.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, F.S., and with other states as required:

Holder	Description	Par Value	Market Value
Florida	Cash	\$ 1,100,000	\$ 1,100,000
Georgia	U.S. Treasury note	35,000	34,991
Nevada	U.S. Treasury note	200,000	199,946
South Carolina	U.S. Treasury note	125,000	124,966
Texas	U.S. Treasury note	1,000,000	999,730
Total deposits		\$ 2,460,000	\$ 2,459,633

Universal Health Care Insurance Company, Inc.
Assets
December 31, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 51,735,592	\$ -	\$ 51,735,592
Cash, cash equivalents and short-term investments	12,397,384	-	12,397,384
	64,132,976	-	64,132,976
Investment income due and accrued	313,605	-	313,605
Accrued retrospective premiums	7,401,639	-	7,401,639
Other amounts receivable under reinsurance contracts	5,484,257	-	5,484,257
Current federal and foreign income tax recoverable	41,397	-	41,397
Net deferred tax asset	1,509,083	-	1,509,083
Receivables from parent, subsidiaries and affiliates	377,268	(377,268)	-
Health care and other amounts receivable	49,647	-	49,647
Aggregate write-ins for other than invested assets	44,782	-	44,782
Total assets	\$ 79,354,654	\$ (377,268)	\$ 78,977,386

Universal Health Care Insurance Company, Inc.
Liabilities, Capital and Surplus
December 31, 2009

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$ 8,985,001	\$ -	\$ 8,985,001
Unpaid claims adjustment expenses	416,901	-	416,901
Premiums received in advance	89,786	-	89,786
General expenses due or accrued	705,842	-	705,842
Current federal and foreign income tax payable	1,639,016	-	1,639,016
Amounts withheld or retained for the account of others	676,437	-	676,437
Amounts due to parent, subsidiaries and affiliates	1,215,338	-	1,215,338
Liability for amounts held under uninsured plans	253,460	-	253,460
Aggregate write-ins for other liabilities	1,908,665	-	1,908,665
Total liabilities	\$ 15,890,446	\$ -	\$ 15,890,446
Capital and Surplus			
Common capital stock	2,500,100	-	2,500,100
Gross paid in and contributed surplus	12,499,900	-	12,499,900
Surplus notes	23,750,000	-	23,750,000
Unassigned funds	24,714,208	(377,268)	24,336,940
Total capital and surplus	63,464,208	(377,268)	63,086,940
Total liabilities, capital and surplus	\$ 79,354,654	\$ (377,268)	\$ 78,977,386

Universal Health Care Insurance Company, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
For The Year Ended December 31, 2009

Net premium income	\$ 81,859,120
Hospital and medical benefits	1,317,784
Other professional services	1,702,809
Emergency room and out-of-area	7,383,660
Prescription drugs	24,738,616
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Total hospital and medical	35,142,869
Claims adjustment expenses	(38,993)
General administrative expenses	35,802,248
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Total underwriting deductions	70,906,124
Net underwriting gain	10,952,996
Net investment income earned	1,107,859
Net realized capital gains	7,639
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Income before income tax	12,068,494
Federal income tax	3,880,406
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Net income	\$ 8,188,088
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Universal Health Care Insurance Company, Inc.
Statement of Changes in Capital and Surplus
For The Three Years Ended December 31, 2009

Capital and surplus - December 31, 2006	\$ 13,368,453
Net income	30,264,078
Change in nonadmitted assets	(1,540,183)
Change in surplus notes	79,000,000
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Capital and surplus - December 31, 2007	121,092,348
Net income	4,343,918
Change in nonadmitted assets	(1,008,752)
Change in surplus notes	(60,000,000)
Paid in capital	2,500,000
Paid in surplus	(2,500,000)
Cumulative effect of error correction	4,768,748
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Capital and surplus - December 31, 2008	69,196,262
Net income	8,188,088
Change in net unrealized capital gains	52,660
Change in net deferred income tax	(61,061)
Change in nonadmitted assets	(461,149)
Change in surplus notes	(3,250,000)
Dividends to stockholders	(8,000,000)
Cumulative effect of error correction	(2,200,592)
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	63,464,208
Examination adjustments	(377,268)
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Capital and surplus - December 31, 2009	\$ 63,086,940
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**Universal Health Care Insurance Company, 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.

	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Capital and surplus, December 31, 2009 - per annual statement				\$ 63,464,208
Receivables from parent, subsidiaries and affiliates	\$ 377,268	\$ -	\$ (377,268)	
Net change in capital and surplus				<u>(377,268)</u>
Capital and surplus, December 31, 2009 - per examination				<u>\$ 63,086,940</u>

COMMENTS ON FINANCIAL STATEMENTS

Receivables From Parent, Subsidiaries and Affiliates

\$0

The \$377,268 reported by the Company in its 2009 annual statement as 'receivables from parent, subsidiaries and affiliates' has been nonadmitted. The asset consisted of an amount due from Universal Health Care, Inc., an affiliate. The Company did not have a written agreement with Universal Health Care, Inc. providing for timely settlement of amounts owed resulting from transactions between the parties. Consequently, the receivable was nonadmitted in accordance with Statement of Statutory Accounting Principles (SSAP) Nos. 25 and 96.

SUMMARY OF RECOMMENDATIONS

The Company was unable to demonstrate that it maintained records of actions taken by its Audit Committee in accordance with Section 607.1601(1), F.S., as reported on page 2. **We recommend that the Company maintain records of actions taken by its Audit Committee, in accordance with Section 607.1601(1), F.S.**

As reported on page 2, the Company entered into a securities custody agreement which had not been authorized by a resolution of the Board of Directors or an authorized committee of the Board, as required by Rule 69O-143.042(2), F.A.C. **We recommend that the Company have its securities custody agreements authorized by a resolution of the Board of Directors or an authorized committee of the Board, in accordance with Rule 69O-143.042(2), F.A.C.**

As reported on page 5, the Company's affiliate AMC outsourced to an Indian company services which AMC had agreed to provide to the Company, without the approval of the Office and CMS and in violation of the agreement. **We recommend that the Company enforce the provision of its agreement with AMC which prohibits AMC from assigning or subcontracting services without the express written approval of the Office and CMS.**

In its 2009 annual statement, the Company incorrectly reported cash on deposit with the State of Florida as a cash equivalent and the balances of various checking accounts as short-term investments rather than as cash, as reported on page 8. In addition, it failed to make the disclosures relating to its investment in repurchase agreements required by the annual statement instructions. **We recommend that, in future annual statements, the Company accurately report its cash and make all required disclosures as required by the annual statement instructions.**

As reported on page 8, certain deficiencies in the Company's controls over its information systems were identified. **We recommend that the Company implement controls sufficient to remedy the identified deficiencies in its information system controls.**

In its 2009 annual statement, the Company incorrectly reported as an admitted asset a receivable in the amount of \$377,268 which did not qualify as an admitted asset under SSAP Nos. 25 and 96, as reported on page 14. **We recommend that, in future statements filed with the Office, the Company comply with SSAP Nos. 25 and 96.**

SUBSEQUENT EVENTS

In January of 2010, Brett J. McIntyre resigned as Chief Financial Officer and director, and Sandip I. Patel was elected to the Board of Directors.

During 2010, the Company became authorized to transact insurance in the District of Columbia, Ohio, North Carolina and Virginia.

In its 2010 annual statement, the Company reported a net loss of \$2,417,105 and capital and surplus of \$56,255,197.

On January 3, 2011, the Office granted permission to the Company to operate during 2011 under a ratio of gross written premiums to surplus of 16:1 instead of the 10:1 ratio limitation defined by Section 624.4095, F.S.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Universal Health Care Insurance Company, 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 \$63,086,940 which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus was \$1,500,000.

In addition to the undersigned, the following individuals participated in this examination: Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Kerry A. Krantz, Actuary; and Scott R. Slaughter, CPA, Financial Examiner/Analyst.

Respectfully submitted,

Stephen Feliu, CFE (Fraud)
Florida Office of Insurance Regulation