Report

of the

Examination of

Physicians Plus Insurance Corporation

Madison, Wisconsin

As of December 31, 2017

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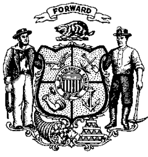

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, *Governor*
Mark V. Afable*, Commissioner*

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March 1, 2019

Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

PHYSICIANS PLUS INSURANCE CORPORATION
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Physicians Plus Insurance Corporation (PPIC or the company) was conducted in 2016 as of December 31, 2015. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 and 2019 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of an affiliated company domiciled in Minnesota, with Wisconsin acting in the capacity as the lead state for the coordinated examination. Representatives of Minnesota participated in the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and

prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

PPIC is a life, accident and health (LAH) insurance company. The company provides care through contracts with hospitals, clinics, and otherwise independent physicians operating out of their separate offices.

The company was incorporated on July 17, 1986, as a for-profit network model HMO and commenced business on October 3, 1986. The company is incorporated under ch. 611, Wis. Stat., as a stock insurance corporation.

Shown below is a summary of several corporate changes that occurred at the company.

December 31, 2013	Meriter Health Services, Inc., purchases 100% of PPIC stock.
February 1, 2014	Meriter Health Services, Inc., sold its shares to Iowa Health System d/b/a UnityPoint Health (UPH), a provider of health-related services that operates in Iowa and Northern Illinois.
February 25, 2015	The s. 609.03, Wis. Stat., HMO restriction was removed, and PPIC is considered a life, accident, and health company thenceforth
July 1, 2017	UPH entered into an Exchange Agreement with Gundersen Health System (GHS) and University Health Care, Inc. (UHC) in which PPIC stock was transferred to Quartz Holding Company (QHC). UHC, UPH, and GHS hold the capital stock of QHC. Through this transaction, the company became part of the Quartz Group (Quartz) operating under the same umbrella as Unity Health Insurance Corporation (Unity) and Gundersen Health Plan, Inc. (GHP).

PPIC rents its provider network from Quartz Health Solutions, Inc., (QHS) that includes health care systems that offer more than 2,100 primary care physicians (PCP) and in excess of 6,800 specialty physicians in a 51-county network service area. The company also contracted with 70 hospitals to provide inpatient services. Hospitals are reimbursed on a variety of payment terms. The contracts include hold-harmless provisions for the protection of policyholders. The agreements have a one-year term, with automatic renewal, and may be terminated by either party upon 180-days' prior written notice prior to the end of a term.

Within Dane County, UW Health and UnityPoint Health – Meriter delivery systems provide the majority of the services with some additional services provided by non-UW Health entities for members selecting a PCP within Dane County. In the Regional portion of the company's service area, QHS contracts directly with hospitals, primary care, and specialty care providers and clinics as well as

ancillary health care providers. Within the Regional portion of the service area, specifically in La Crosse County, GHS provides the majority of services. For non-state and local government members, the Regional and Dane County operational areas are combined into a single provider network.

PPIC offers a variety of commercial group plans known as HMO, point of service (POS), preferred provider organization (PPO), and health savings account (HSA) that include deductible, copayment, and coinsurance products. In addition, the company offers individual and group HMO, Medicare Select, and contracts to provide Medicaid managed care services. At enrollment, HMO members are required to select a PCP. The physical location of the PCP determines the payment arrangement that follows. The PCP coordinates the member's medical care and is responsible for providing routine health care to that member. Members may self-refer to participating providers in both the Regional and Dane County operational areas. For those members who select the HMO product, PPIC requires a member to obtain prior written authorization from the company for treatment from a non-participating provider (not under contract).

Payment to providers falls under various payment arrangements depending on PCP selection, location of the member, the provider of service, and type of service. Payment arrangements include capitation, per diems, diagnosis-related groups (DRGs), discounted fee-for-service, and fee schedules. Virtually all payments, however, are part of an overall capitation arrangement under which GHS and UW Health are at risk for medical services provided.

In 2015, the company marketed individual plans, both on and off the federally facilitated health insurance exchange, and small group policies. Effective January 1, 2017, however, the company no longer offers products on the exchange.

The following basic health care coverages are provided by the insurance contracts:

Ambulance Services
Chiropractic Services
Diagnostic Services
Diabetic Treatment and Education
Durable Medical Equipment and Medical Supplies
Emergency Room Services
Hearing Exams and hearing aids
Home Health Care Services
Hospice
Inpatient Hospital Services
Outpatient Hospital Services
Kidney Disease Treatment (including Dialysis and Transplant)

Physician Services
Skilled Nursing Care
Therapy – Physical, Speech, Occupational, Cardiac Rehab
Temporomandibular Joint Treatment (TMJ)
Transplants
Urgent Care
Vision Care
Maternity and Newborn Benefits
Mental Health Service (Psychological and Chemical Dependency - AODA)
Oral Surgery (Specific Procedures Only)
Pharmaceutical Drugs

HMO plans may include deductible, coinsurance, and/or copayments on covered services. These out-of-pocket expense amounts vary by plan and are selected by each employer or individual policyholder. Services relating to behavioral health or alcohol and other drug abuse (AODA) coverage are covered in accordance with federal and state mental health parity laws.

In addition to HMO products, the company offers a point of service (POS) plan. The POS plan covers services by participating providers as well as services by non-participating providers with two or three levels of benefits depending on the benefit plan design. Services may be subject to a copayment, deductible, or coinsurance based on the participating status of the provider.

PPIC offers a preferred provider organization (PPO) program. The provider network is provided on a rental basis through multi-plan PPO. The PPO is generally available as an accommodation to employers with their principal location in the company's service area with employees who live outside of the service area. On a limited basis, the PPO is offered to members who reside within the PPIC service area.

PPIC currently does not market products for new sales. For existing business, PPIC uses internal sales staff, as well as outside agencies. Non-group and groups in the range of 2-100 employees were sold primarily through agents. Agents are paid renewal commissions in a range from $2.20 to $32.00 per contract per month and potentially an annual fixed fee depending on group size.

PPIC uses an actuarially determined base as a beginning point in premium determination. This rate is adjusted to reflect the age, sex, occupation, and coverage characteristics for new groups. Experience is reviewed for renewal groups. Based on the review, a recommendation is made regarding adjusting the rate or canceling the group. The base rate is adjusted quarterly for inflation and other trending factors.

During 2017, the company only wrote business in the State of Wisconsin. The following chart is a summary of premium income as reported by the company in 2017. The growth of the company is discussed in the "Financial Data" section of this report.

Premium Income

Line of Business	Direct Premium	Reinsurance Ceded	Net Premium
Comprehensive (hospital and medical)	$207,581,443	$1,549,340	$206,032,103
Medicare Select	3,210,771		3,210,771
Federal employees health benefit plan	11,971,394	73,503	11,897,891
Title XIX - Medicaid	19,320,548	90,079	240,457,846
Other health	280,577	193,966	86,611
Total All Lines	$242,364,734	$1,906,888	$240,457,846

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 11 members. The directors are elected during the annual shareholder meeting to serve a three-year term. Officers are elected by the board of directors during the annual shareholder meeting. Members of the company's board of directors may also be members of other boards of directors in the holding group. The internal board members currently receive no compensation for serving on the board. External board members are compensated through QHS. External board members are compensated as follows:

- Board meetings - $2,000 per quarterly meeting
- Phone conference and committee meetings - $300 per conference/meeting
- Special meetings or ad hoc committees - $300 per meeting
- Travel expenses are paid separately per IRS regulations

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Robert Flannery, Chair Waunakee, WI	SVP & Chief Financial Officer of UW-Health	2019
Gerald Arndt Onalaska, WI	Retired, Former Executive of GHS	2020
William Farrell La Crescent, MN	Sr. Vice President, Business Services of GHS	2021
Michael Dallman Waunakee, WI	SVP & Chief Strategy Officer of UW- Health President of University Health Care, Inc.	2021
Michael Dolan, MD La Crosse, WI	SVP & Medical COO of GHS	2019
Alan Kaplan, MD Waunakee, WI	Chief Executive Officer of UW-Health	2020
Heidi Eglash La Crosse, WI	Attorney, Eglash Law Office, LLC	2019
Kevin Hauser Richland Center, WI	President & Chief Executive Officer of Westby Co-op Credit Union	2020

Name and Residence	Principal Occupation	Term Expires
John Sickels Wausau, WI	Chief Banking Officer/President of River Valley Bank/River Valley Insurance	2021
Virginia Graves Fitchburg, WI	Black Spruce, Inc.	2020
Gerald Kember Black Earth, WI	Consultant, School Perceptions	2019

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2017 Compensation
Terry Bolz	President and Chief Executive Officer	$643,671
James Hiveley	VP, Chief Financial Officer, and Treasurer	406,195
Christine Senty	General Counsel, VP, and Secretary	396,253
Gary Lenth, MD	Chief Medical Officer and Executive VP	400,000

Note: The officers above also serve in a similar capacity for other affiliated entities within the holding group. The portion of executive compensation reflects the total for the group.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Audit Committee
Gerald Arndt, Chair
Robert Flannery
Virginia Graves
Kevin Hauser

Human Resource Committee
John Sickels, Chair
Gerald Arndt
Michael Dallman
Gerald Kember

Finance Committee
Virginia Graves, Chair
Heidi Eglash
William Farrell
Robert Flannery
Alan Kaplan
Jodilynn Vitello

Marketing Committee
John Sickels, Chair
Michael Dallman
Michael Dolan
Virginia Graves
Pamela Maas
Chris Roth

Quality Committee
Michael Dolan, Chair
Dan Ecklund
Jonathan Jaffery
Alan Kaplan
Gerald Kember
Gary Lenth
Mary Pak
Tim Size

The company has no employees. Necessary staff is provided through a management agreement with QHS. Under the agreement QHS agrees to negotiate employer, provider, subscriber, and other contracts; advises the board; maintains accounting and financial records; recruits marketing, utilization review, and claims processing personnel; and provides or contracts for claims processing, and MIS. The company shall pay to QHS an advance payment up to 1/12th of the amount of the annual operating budget for services provided no later than the fifth business day of each month. No later than 30 days after the end of the calendar year, QHS shall submit to the company a statement of reimbursable expenses based on the actual cost of the services provided to the company. Within 30 days of receipt of the statement, the company shall either pay to QHS any outstanding balance or receive a refund of any excess payment. The company may terminate the agreement upon 30-days' written notice if the default of standards of performance continues 30 days after notice of such default.

Insolvency Protection for Policyholders

Under s. Ins 9.04 (6), Wis. Adm. Code, HMOs are required to either maintain compulsory surplus at the level required by s. Ins 51.80, Wis. Adm. Code, or provide for the following in the event of the company's insolvency:

1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and

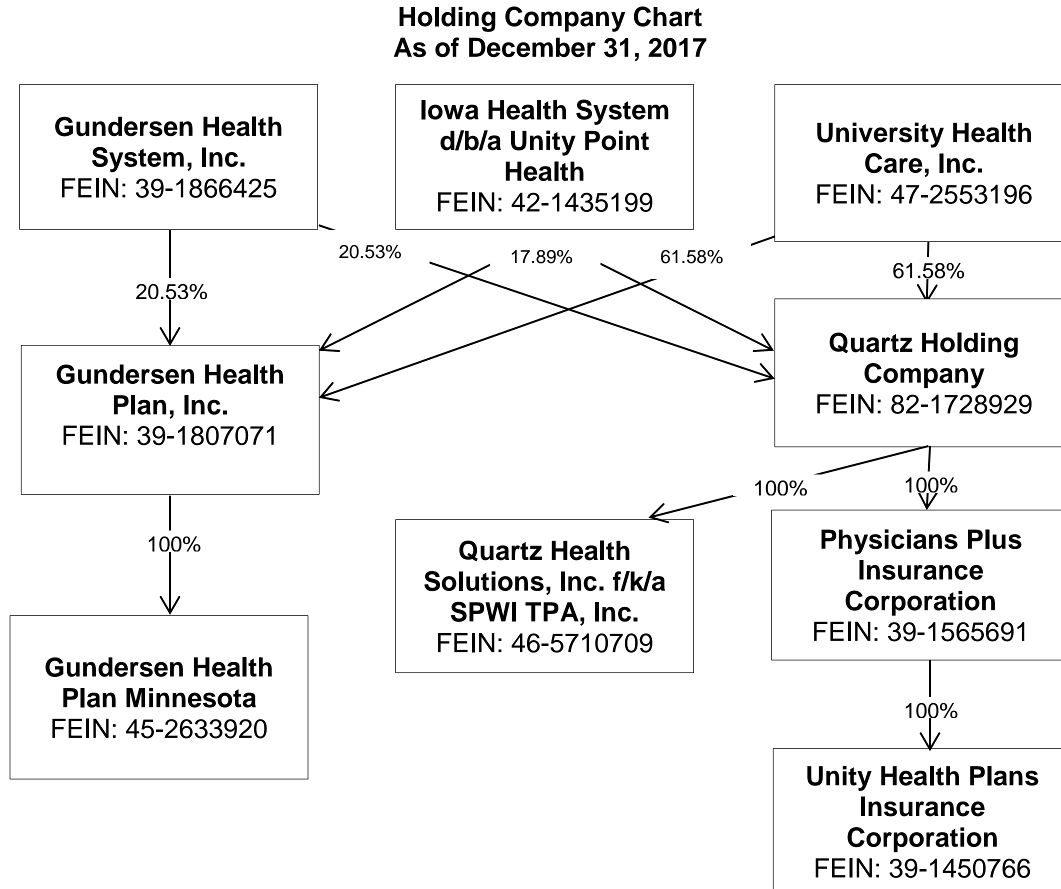
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

The company has met this requirement through its reinsurance contract, as discussed in the Reinsurance section of this report.

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parents are GHS (20.5%), UPH (17.9%), and UHC (61.6%). The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.

Holding Company Chart
As of December 31, 2017



Gundersen Health System, Inc.

GHS is a non-profit integrated healthcare system that provides comprehensive medical care to patients primary in Wisconsin, as well as in Iowa and Minnesota, by operating hospitals, clinics, health plans, long-term care facilities, ambulance services, a foundation, and an energy-producing company, in addition to providing medical and health/wellness education and community outreach, and conducting medical education and clinically based research.

As of December 31, 2017, the GHS's audited GAAP consolidated financial statement reported assets of $1.8 billion, liabilities of $600.5 million, and net assets of $1.2 billion. Operations for 2017 produced excess revenue over expenses of $124.6 million on revenues of $1.2 billion.

Unity Point Health

UPH is an Iowa non-profit corporation formed in December 1994. UPH and its subsidiaries provide inpatient and outpatient care and physician services from various hospital facilities and ambulatory service and clinic locations in Iowa, Illinois, and Wisconsin. Primary, secondary, and tertiary care services are provided to residents of Iowa, Illinois, and Wisconsin, as well as adjacent states.

As of December 31, 2017, UPH's GAAP audited consolidated financial statement reported assets of $5.6 billion, liabilities of $2.2 billion, and net assets of $3.4 billion. Operations for 2017 produced excess revenue over expenses of $229.5 million on revenues of $4.2 billion.

University Health Care, Inc.

UHC is a non-profit, tax-exempt corporation that serves as a network development vehicle by developing regional programs and clinical centers and developing business relationships with other health care providers. UHC's purpose is to support the missions of the University of Wisconsin Medical School, the University of Wisconsin Hospitals and Clinics Authority and the University of Wisconsin Medical Foundation.

UHC is no longer an audited entity; therefore, the examination reviewed the consolidated GAAP financial information of UW Hospitals and Clinics Authority d/b/a UW Health, parent of UHC, which includes the financial information of UHC. As of June 30, 2017, UW-Health's GAAP audited financial statement reported assets of $2.9 billion, liabilities of $1.2 billion, and a net position of $1.7 billion. Operations for 2017 produced an increase in net position of $89.8 million on revenues of $2.5 billion.

Quartz Holding Company

QHC operates as a shell company that exists for the sole purposes of holding ownership in PPIC and QHS. As of December 31, 2017, the QHC's unaudited GAAP financial statement reported assets of $87.3 million, no liabilities, and equity of $87.3 million. QHC had no financial

activity for 2017; however, it posted a net loss of $7.6 million which reflects the net impact from its two subsidiaries.

Quartz Health Solutions, Inc.

QHS is a service organization that performs administrative and claims processing for the holding group and for employers of self-funded group health plans. As of December 31, 2017, QHS's unaudited GAAP financial statement reported assets of $15.3 million, liabilities of $12.6 million, and equity of $2.7 million. Operations for 2017 produced a net loss of $1.9 million on revenues of $85.4 million.

Gundersen Health Plan Inc.

GHP is a nonstock, nonprofit HMO established to provide comprehensive health care insurance for Wisconsin, Illinois, and Iowa insureds, and the parent of Gundersen Health Plan Minnesota. GHP is licensed to write business for small and large group commercial, Medicare, Medicaid, and individual. As of December 31, 2017, GHP's audited statutory financial statement reported assets of $36.2 million, liabilities of $14.4 million, and capital and surplus of $21.8 million. Operations for 2017 produced a net loss of $0.8 million on revenues of $269.7 million.

Gundersen Health Plan Minnesota

Gundersen Health Plan Minnesota (GHP MN) is a nonprofit HMO established to provide comprehensive health care insurance for Minnesota insureds. GHP MN is licensed to write business for small and large group commercial and Medicare. As of December 31, 2017, GHP MN's audited statutory financial statement reported assets of $2.4 million, liabilities of $0.5 million, and capital and surplus of $1.9 million. Operations for 2017 produced a net loss of $0.1 million on revenues of $8.1 million.

Unity Health Plans Insurance Corporation

Unity is a for-profit HMO established for the purpose of delivering health care services to its subscribers. Unity is licensed to write business for individuals (including ACA), commercial small and large groups, and Medicare SELECT. As of December 31, 2017, the company's audited statutory financial statement reported assets of $171.1 million, liabilities of $110.5 million, and capital and

surplus of $60.6 million. Operations for 2017 produced a net loss of $0.8 million on revenues of $958.3 million.

Agreements with Affiliates:

GHS, UHC, and UPH have an Exchange Agreement, effective April 6, 2017 which outlines various transactions that are to take place subsequent to the closing of the agreement. GHS, UHC, and UPH each own a certain number of shares of the common stocks of QHC and become members of GHP.

QHC has a Stockholders Agreement with GHS, UPH, and UHC, effective July 1, 2017, in connection to the Exchange Agreement, governs the affairs of QHC, and outlines the rights and obligations of the "Owners." The agreement covers topics such as capital contributions and distributions including mandatory capital contributions to QHC in the event of a capital deficiency, restrictions on the transfers of equity interests, corporate governance, disputes, and other miscellaneous items.

GHP has a Members Agreement with GHS, UPH, and UHC, which was amended and restated effective July 1, 2017, in connection with the Exchange Agreement, in which GHS, UPH, and UHC are the only members of GHP. The agreement also covers topics such as capital contributions and distributions including mandatory capital contributions to GHP to meet the statutory minimum capital requirements, risk pools, and service area expansion, corporate governance, disputes, and other miscellaneous items.

GHS, UHC, and UPH have a Stock Transfer Power Agreements, effective April 6, 2017, in connection to the Exchange Agreement in which all three entities became the owners of the capital stock of QHC after the close of the transaction discussed in the Exchange Agreement.

PPIC and Unity have Interested Parties Agreements with QHC, GHS, UPH, and UHC, effective July 1, 2017, in connection to the Exchange Agreement which governs the affairs of QHC and outlines the rights and obligations of the "Owners." The agreement covers topics such as capital contributions and distributions, including mandatory capital contributions to PPIC to meet the statutory minimum capital requirements, risk pools and servicearea expansion, corporate governance, disputes, and other miscellaneous items.

The company has a Management Agreement with QHS, effective July 1, 2017, in connection with the Exchange Agreement, which supersedes all prior management and administrative agreements between the company and its affiliates. Under the terms of the agreement, QHS is to provide management and administrative services to the company, which includes; but is not limited to, actuarial services, underwriting, human resource, legal, accounting, sales/marketing, claims management/settlement, employees, provider contracting, and network management. In return for the services provided, the company will pay to QHS an advance payment equal to 1/12th of the annual operating budget no later than the fifth day of each month. Within 30 days following the calendar-year end, QHS shall submit to the company a statement reflecting the actual costs of services that have been provided to the company for the year. Any under/overpayment shall be settled within five business days after reconciliation has been performed based on the statement submitted by QHS.

PPIC has an Employee Lease Agreement with QHS, effective July 1, 2017, until December 31, 2017, in connection to the Exchange Agreement in which PPIC leased all of its employees to QHS. QHS remitted payment to PPIC on a monthly basis for all expenses incurred related to the employment of the leased employees. All employees leased under this agreement are leased to other affiliates in the holding group as part of the Management Agreement between QHS and its affiliates. As of January 1, 2018, all PPIC employees became QHS employees.

Unity has a Lease Agreement with QHS, effective January 1, 2017, in which Unity leases its real property located at 840 Carolina Street, Sauk City, Wisconsin, to QHS. QHS pays a minimum annual rent payment of $628,800 to Unity in equal monthly installments ($52,400 per month). Other costs associated with the real property such as real estate taxes, costs of repair and maintenance, insurance, and personal property taxes shall be paid by QHS as additional rent to the minimum rent.

Unity has a Trademark License Agreement with GHS, effective January 1, 2017, in which GHS grants Unity with a royalty-free, non-exclusive license to use the names and trademarks of GHS to market, advertise, and promote certain health insurance plans as identified in the agreement.

GHP has a Management Agreement with GHP MN, effective January 1, 2017. Under the terms of the agreement, GHP is to provide management and administrative services to GHP MN which includes; but is not limited to, actuarial services, underwriting, human resource, legal, accounting,

sales/marketing, claims management/settlement, employees, provider contracting, and network management. In return for the services provided, the GHP provides GHP MN an invoice for the expenses no later than five business days following the end of each month. GHP MN pays the invoice within 10 business days following receipt of the invoice.

In addition to the agreements noted above, QHS holds provider agreements with UHC and GHS. QHS has a network access agreement with PPIC, Unity, GHP, and GHP MN to rent out the provider network. QHS also facilitates risk-sharing agreements with affiliated providers and GHP, Unity, and PPIC in which fixed fees and capitated rates are established to reduce the company's exposure to large claims, but QHS does not take on any risk.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Ceding Contracts

1. Reinsurer: Zurich American Insurance Company

   Type: Excess of Loss

   Effective date: January 1, 2019

   Retention:
   Gundersen Risk Pool:
   Commercial - $1,250,000
   Medicaid - $500,000
   Medicare - $500,000

   UW/Meriter Risk Pool:
   Commercial - $1,750,000
   Medicaid - $575,000
   Medicare - $500,000

   Coverage: 90% of net losses in excess of the company's retention

   Termination: The contract will terminate at the end of the contract period on December 31, 2019. Either party may elect to terminate the contract, in part or in whole, prior to the expiration date by providing a 30-days' notice to the other party. Any losses incurred on or after the termination date are not covered under the contract.

The reinsurance policy noted above has an endorsement containing the following insolvency provisions:

1. Zurich American Insurance Company will continue plan benefits for members who are confined in an acute-care hospital on the date of insolvency until their discharge.

2. Zurich American Insurance Company will continue plan benefits for any member insured plan until the end of the contract period for which premiums have been paid to plan by that member or on his behalf.

   Zurich American Insurance Company's maximum aggregate liability is limited to $5,000,000 for all members together, all contracts, and all agreement periods, combined.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2017, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company and the compulsory and security surplus calculation.

Physicians Plus Insurance Company
Assets
As of December 31, 2017

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 34,894,412	$	$ 34,894,412
Stocks:			
Preferred stocks			
Common stocks	59,654,800		59,654,800
Cash, cash equivalents, and short-term investments	17,276,105		17,276,105
Other invested assets	50,000	50,000	0
Investment income due and accrued	267,274		267,274
Uncollected premiums and agents' balances in course of collection	2,137,447	25,000	2,112,447
Accrued retrospective premiums and contracts subject to redetermination	66,699		66,699
Amounts recoverable from reinsurers	649,367		649,367
Current federal and foreign income tax recoverable and interest thereon	58,768		58,768
Electronic data processing equipment and software	2,110	2,110	
Furniture and equipment, including health care delivery assets	137,936	137,936	
Health care and other amounts receivable	2,721,568		2,721,568
Write-ins for other than invested assets:			
Contingent consideration	4,050,000		4,050,000
Prepaid expenses	335,109	335,109	
Total Assets	$122,301,595	$550,155	$121,751,440

Physicians Plus Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2017

Claims unpaid		$ 31,421,719
Accrued medical incentive pool and bonus payments		
Unpaid claims adjustment expenses		956,406
Aggregate health policy reserves		4,097,031
Aggregate life policy reserves		
Property/casualty unearned premium reserves		
Aggregate health claim reserves		
Premiums received in advance		5,092,166
General expenses due or accrued		2,284,602
Amounts due to parent, subsidiaries and affiliates		529,901
Total Liabilities		44,381,825
Common capital stock	$ 3,448,400	
Gross paid in and contributed surplus	119,606,200	
Aggregate write-ins for special surplus funds	3,627,980	
Unassigned funds (surplus)	(49,312,964)	
Total capital and surplus		77,369,616
Total liabilities, capital and surplus		$121,751,440

Physicians Plus Insurance Company
Statement of Revenue and Expenses
For the Year 2017

Net premium income		$240,457,846
Aggregate write-ins for other health care related revenues		284,359
Total revenues		240,742,205
Medical and Hospital:		
Hospital/medical benefits	$192,494,796	
Other professional services	5,000,260	
Emergency room and out-of-area	15,299,623	
Prescription drugs	18,593,910	
Incentive pool and withhold adjustments	(133,187)	
Subtotal	231,255,401	
Less:		
Net reinsurance recoveries	2,054,211	
Total medical and hospital	229,201,190	
Claims adjustment expenses	4,199,086	
General administrative expenses	21,046,787	
Increase in reserves for life and accident and health contracts	1,500,000	
Total underwriting deductions		255,947,064
Net underwriting gain or (loss)		(15,204,859)
Net investment income earned	1,255,503	
Net realized capital gains or (losses)	7,714,664	
Net investment gains or (losses)		8,970,167
Aggregate write-ins for other income or expenses		(3,712,547)
Net income or (loss) before federal income taxes		(9,947,239)
Federal and foreign income taxes incurred		7,632
Net income (loss)		$ (9,954,871)

Physicians Plus Insurance Company
Capital and Surplus Account
For the Two-Year Period Ending December 31, 2017

	2017	**2016**
Capital and surplus, beginning of year	$33,351,142	$29,947,393
Net income (loss)	(9,954,871)	1,884,121
Change in net unrealized capital gains/losses	(10,672,671)	733,702
Change in net deferred income tax	(2,005,156)	377,967
Change in nonadmitted assets	2,100,922	407,958
Change in surplus notes	(26,661,044)	
Surplus Adjustments:		
Paid in	92,616,857	
Wrtie-ins for gains and (losses) in surplus		
Impair. On intang. asset	(1,405,563)	
Capital and Surplus, End of Year	$77,369,617	$33,351,142

Physicians Plus Insurance Company
Statement of Cash Flow
For the Year 2017

Premiums collected net of reinsurance			$241,594,090
Net investment income			1,550,116
Miscellaneous income			1,059,359
Total Revenue			244,203,565
Less:			
Benefit- and loss-related payments		$224,113,779	
Commissions, expenses paid and aggregate write-ins for deductions		31,445,247	
Federal and foreign income taxes paid (recovered) net tax on capital gains (losses)		(80,000)	
Total			255,479,026
Net cash from operations			(11,275,461)
Proceeds from investments sold, matured or repaid:			
Bonds	$17,108,140		
Stocks	14,990,042		
Miscellaneous proceeds	2		
Total investment proceeds		32,098,184	
Cost of investments acquired—long-term only:			
Bonds	6,941,268		
Stocks	762,964		
Miscellaneous applications	1		
Total investments acquired		7,704,233	
Net cash from investments			24,393,952
Cash provided/applied:			
Surplus notes, capital notes		(30,711,044)	
Capital and paid in surplus, less treasury stock		26,312,862	
Other cash provided (applied)		(3,311,818)	
Net cash from financing and miscellaneous sources			(7,710,000)
Net change in cash, cash equivalents, and short-term investments			5,408,491
Cash, cash equivalents, and short-term investments:			
Beginning of year			11,867,619
End of year			$ 17,276,110

Growth of Physicians Plus Insurance Company

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2017	$121,751,440	$44,381,825	$77,369,616	$240,742,205	$229,201,190	$(9,954,871)
2016	75,374,538	42,023,401	33,351,140	244,057,220	218,368,070	1,884,121
2015	64,581,380	34,633,995	29,947,388	252,011,268	226,693,554	(9,162,180)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2017	(4.1)%	95.8%	10.5%	-2.1%
2016	0.8	87.5	12.4	-4.1
2015	(3.6)	90.0	13.4	3.4

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2017	60,591	268.07	3.6
2016	61,860	281.72	4.2
2015	64,528	326.22	4.5

Per Member Per Month Information

	2017	2016	Percentage Change
Premiums:			
Commercial	$406.71	$399.12	1.9%
Medicare supplement	189.09	188.72	0.2
Federal employees health benefit plan	495.06	490.09	1.0
Medicaid	165.27	153.92	7.4
Other	1.37	2.21	-38.3
Net premium income	330.59	323.21	2.3
Expenses:			
Hospital/medical benefits	264.65	240.20	10.2
Other professional services	6.87	6.27	9.6
Emergency room and out-of-area	21.03	18.93	11.1
Prescription drugs	25.56	24.40	4.8
Incentive pool and withhold adjustments	(0.18)	0.93	-119.6
Less: net reinsurance recoveries	2.82	0.79	258.5
Total medical and hospital	315.11	289.95	8.7
Claims adjustment expenses	5.77	9.34	-38.2
General administrative expenses	28.94	30.70	-5.7
Increase in reserves for accident and health contracts	2.06	(6.24)	133.1
Total underwriting deductions	$351.88	$323.75	8.7

During the examination period, the company's total admitted assets increased 61.5% from $75.4 million in 2016 to $121.8 million in 2017, total liabilities increased by 5.6% from $42.0 million in 2016 to $44.4 million in 2017, and surplus increased by 132.0% from $33.4 million in 2016 to $77.4 million in 2017. The significant increase in assets is due to the Exchange Agreement, effective July 1, 2017, which made Unity a subsidiary of the company. As a result, the company received all the common stocks of Unity which increased assets by roughly $59.7 million, offset by losses incurred during 2017. As shown above, the company's enrollment trend had a declining trend year-over-year as the company loses membership due in part to transferring business to affiliated companies. The company plans to move all of its lines of business, with the exception of Medicare Select policies, to other affiliated insurers within the group in the future thus this will result in a significant decrease in members for the company going forward.

While 2016 was a profitable year for the company, the company suffered a significant loss during 2017 as previously mentioned. The net loss incurred in 2017 was the result of an increase in overall medical and hospital expenses despite the declining premiums due to an increase in large

cases, utilization, and underwriting losses from its minimum premium product. In addition, the company recorded a $3.8 million premium deficiency reserve for anticipated losses in 2018 and 2019 plan years due to integration expenses related to the GHP/Unity/PPIC transaction. The increases were offset by a decline in administrative expenses related to the 2017 moratorium on the Health Insurer fee. Over the course of the examination period, the company received the necessary funding to meet the required statutory surplus levels from its parent entities.

Physicians Plus Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2017

Assets			$121,751,440
Add insurance subsidiary security surplus			15,603,638
Less investment in insurance subsidiaries			59,654,800
Less liabilities			44,381,825
Adjusted surplus			33,318,453
Annual premium:			
Individual life and health	$ 11,121,629		
Factor	15%		
Total		$1,668,244	
Group life and health	229,336,217		
Factor	10%		
Total		22,933,621	
Compulsory surplus (subject to a $2,000,000 minimum)			24,601,865
Compulsory surplus excess (deficit)			$ 8,716,588
Adjusted surplus (from above)			$33,318,453
Security surplus (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum of 110%)			32,966,499
Security surplus excess (deficit)			$ 351,954

Reconciliation of Surplus per Examination

No exam adjustment or reclassification resulted from the examination. The capital and surplus reported at December 31, 2017, of $77,369,616 is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were 10 specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Affiliated Agreements—It is recommended that the company amend its affiliated agreements to include a specific due date for timely settlement of amounts owed in accordance with SSAP No. 25.

   Action—Compliance.

2. Approval of Investment Policy and Transactions—It is recommended that the company establish procedures that will enable the board of directors to routinely review investment policy and investment transactions, and that the minutes document that such discussions have taken place and where the investment policy and investment transactions were approved or disapproved.

   Action—Compliance.

3. Biographical Profiles—It is recommended that the company submit biographical data in accordance with s. Ins 6.52 (4), Wis. Adm. Code.

   Action—Compliance.

4. Board Committee Meeting Minutes—It is recommended that the company retain minutes as permanent records as required by s. Ins 6.80 (4) (a), Wis. Adm. Code.

   Action—Compliance.

5. Board Committee Meeting Minutes—It is recommended that the company either meet in accordance with its audit committee charter or amend its charter to establish a meeting frequency that the company will comply with.

   Action—Compliance.

6. Conflict of Interest Forms—It is recommended that the company have a uniform process for collecting, tracking, and maintaining conflict of interest forms as required by the directive of the Commissioner.

   Action—Compliance.

7. Disaster Recovery and Business Continuity Plan—It is recommended that the company annually update its business continuity plan to help ensure that the company is prepared and can resume operations in the event of a disaster.

   Action—Compliance.

8. Disaster Recovery and Business Continuity Plan—It is recommended that the company annually conduct a “tabletop” exercise to simulate a disaster to ensure that the business continuity plan can be effectively executed.

   Action—Compliance.

9. Executive Compensation—It is recommended that the company report compensation in accordance with the instructions on the Report of Executive Compensation per s. 611.63 (4), Wis. Stat.

   Action—Compliance.

10. Reinsurance Broker Agreement—It is recommended that the company secure a contract with its reinsurance intermediary with whom it does business that includes the provisions required by s. Ins 47.03, Wis. Adm. Code.

    Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Affiliated Transaction Disclosures

Review of the company's Annual Statement, Notes to the Financial Statements, and Footnote #10 noted that the company appears to have failed to properly disclose the capital contributions received from its parent entities during the examination period. In addition, the company failed to properly disclose the transactions in its Form B/C, Item 5, (e) – Transactions and Agreements as required under Ins 40.03 (3) (c) (3), Wis. Adm. It is recommended that the company properly disclose its material affiliated transactions in accordance with the NAIC Health Blank Instructions and Ins 40.03 (3) (c) 3, Wis. Adm.

Business Continuity Plan

As the company increases its reliance on third-party service providers, it is critical that the company assess the potential impact of business disruption from its third-party service providers and develop a back-up plan to alleviate this exposure as part of the company's business continuity plan. It is recommended that the company include critical third-party operations in its business impact analysis and risk assessment for its business continuity plan.

Other Information Technology Recommendations

The examination noted other areas where IT controls could be further strengthened, which were presented in a letter to management dated March 1, 2019. It is recommended that the company strengthen its IT control environment as specifically described in the management letter dated March 1, 2019.

VIII. CONCLUSION

PPIC is a for-profit LAH insurer operating in the states of Wisconsin and Illinois. In Wisconsin, PPIC is licensed to write business for individuals, small and large group commercial, and Medicare SELECT. The company is not currently writing any business in Illinois.

At the end of 2017, the company reported total net assets of $121.8 million, total liabilities of $44.4 million, and total capital and surplus of $77.4 million. The large difference between assets and liabilities is the result of the GHP/Unity/PPIC transaction during 2017 in which the company became the parent of Unity. Reflected in the difference is the common stock of Unity, which equates to $59.7 million. Adjusted capital and surplus of $33.3 million satisfied the compulsory and security surplus requirement at year-end 2017.

Though 2016 was a profitable year for the company, during 2017 the company incurred a large loss that significantly reduced its surplus. As noted above, the company received the common stocks of Unity during the same time which offset the loss and resulted in a net increase in surplus. The loss during 2017 appears to be the result of increasing medical and hospital expenses due to an increase in large cases, utilization, and underwriting losses from its minimum premium product, integration expenses related to the GHP/Unity/PPIC transaction, and a PDR for anticipated losses in 2018 and 2019 plan years due to additional integration expenses related to the transaction. Over the course of the examination, the parent entities have been providing the necessary funding to keep the company above the statutory minimal surplus requirement. In addition, under the terms of the Interested Parties Agreement, the parent entities shown in Section IV of the exam report are obligated to provide mandatory funding to the company should it fall below the statutory minimum surplus requirement.

The prior examination resulted in 10 recommendations, all of which have been complied with. The current examination resulted in three recommendations, which are outlined in Section IX below.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 29 - Affiliated Transaction Disclosures—It is recommended that the company properly disclose its material affiliated transactions in accordance with the NAIC Health Blank Instructions and Ins 40.03 (3) (c) 3, Wis. Adm.

2. Page 29 - Business Continuity Plan—It is recommended that the company include critical third-party operations in its business impact analysis and risk assessment for its business continuity plan.

3. Page 29 - Other Recommendations—It is recommended that the company strengthen its IT control environment as specifically described in the management letter dated March 1, 2019.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
James Krueger	Insurance Financial Examiner
Mark Prodoehl	Insurance Financial Examiner
Sheng Vang	Insurance Financial Examiner
Jerry DeArmond, CFE	Loss Reserve Specialist
Eleanor Lu	IT Specialist
Karl Albert, CFE	Workpaper Specialist
Robert McLaughlin, CFE	ACL Specialist

Respectfully submitted,

Kongmeng Yang
Examiner-in-Charge