

REPORT ON EXAMINATION
OF THE
COVENTRY HEALTH CARE OF DELAWARE, INC.
AS OF
DECEMBER 31, 2009

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
COVENTRY HEALTH CARE OF DE, INC.
AS OF
DECEMBER 31, 2009

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 24th day of June, 2011

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2009 of the

COVENTRY HEALTH CARE OF DELAWARE, INC.

is a true and correct copy of the document filed with this Department.

Attest By: *Sonia C. Harris*

Date: 24 June 2011



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 24th day of June, 2011.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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SALUTATION

February 11, 2011

Honorable Karen Weldin Stewart, CIR-ML
Insurance Commissioner
State of Delaware
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19901

Dear Commissioner:

In compliance with instructions contained in Certificate of Authority No. 10.010 an examination has been made of the affairs, financial condition and management of the

COVENTRY HEALTH CARE OF DELAWARE, INC.

hereinafter referred to as "CHCD" or "Company", incorporated under the laws of the State of Delaware. The examination was conducted at 750 Prides Crossing, Newark, Delaware.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

The last examination was as of December 31, 2006. This examination covered the period of January 1, 2007, through December 31, 2009, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2009. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company 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. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, 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 report addresses regulatory issues reviewed during the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Ernst and Young, LLP. Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

SUMMARY OF SIGNIFICANT FINDINGS

The following is a summary of significant events occurring since the prior examination date and previously included within this Report on Examination:

- The Company is a wholly owned subsidiary of Coventry Health Care, Inc., (CHC- a Delaware Corporation) and maintains an Excess of Loss Reinsurance Agreement with Coventry Health and Life Insurance Company, an affiliated Delaware Insurance Company.
- The Company maintains approximately one hundred employees. The claim and premium functions of CHCD are processed by large Coventry Service Centers, which handle the same functions for several Coventry Health Care plans.
- Capital and Surplus decreased \$4,092,877 during the period under examination.

The decrease primarily resulted from the payment of a stockholder dividend of \$14,800,000 in 2007. CHCD reported total Net Income of \$11,619,746 for the examination period.

- The Company has experienced considerable turnover among its Directors and Senior Management during the examination period in general, and in 2009/2010 in particular. Of the Company's Directors, only Thomas Zielinski has served on the Board since the previous examination (2006) date. In 2007, Marc Malloy was elected President and CEO of the Company. In November 2009, Marc Malloy resigned and was replaced as President and CEO by David Reynolds. In November, 2010, Dave Reynolds resigned. Timothy Nolan, the President and CEO of HealthAmerica Pennsylvania, Inc., an affiliate of CHCD, was named acting President and CEO of the Company.

SUBSEQUENT EVENTS

As noted elsewhere in this report, the Company has experienced considerable turnover among its directors and senior management. In 2009, the Company's President and CEO resigned, and David Reynolds was appointed to fill those positions. In November, 2010, David Reynolds resigned. Timothy Nolan, the President and CEO of HealthAmerica Pennsylvania, Inc., an affiliate of CHCD, was named acting President and CEO of the Company.

In March 2010, the United States Congress passed healthcare reform legislation known as the Affordable Care Act. This legislation, as presently constituted, will have a dramatic effect on all health insurers. The provisions of the legislation will be phased in and will not be fully operational until 2014. However, there are several mandates in the legislation that have already impacted health insurers like CHCD. The legislation eliminates the pre-existing exclusion clause from contracts and bans any health insurance contract that has life time coverage limits. Most importantly, the legislation requires

health insurers to calculate a Medical Loss Ratio (MLC) and requires that insurers with a MLC of 80% or less, make refunds to its policyholders or provide additional services.

COMPANY HISTORY

CHCD is a managed care organization that was originally incorporated on October 6, 1986 as Physicians Health Plan of Delaware, Ltd. The name of the Company was changed to Health Plan of Delaware, Ltd. (HPD) in October 1986. On September 30, 1988, HPD was acquired by Principal Health Care, Inc, (PHC), a wholly owned subsidiary of Principal Life Insurance Company. The Company's name was then changed to Principal Health Care of Delaware, Inc. (PHCD).

Effective April 1, 1998, the Company became a wholly-owned subsidiary of Coventry Health Care, Inc. when Principal Health Care, Inc. merged with Coventry Corporation to form Coventry Health Care, Inc. Subsequently, on January 1, 2000 the Company's name was changed to its current title, Coventry Health Care of Delaware, Inc. No corporate changes directly affecting the Company occurred during the examination period.

MANAGEMENT AND CONTROL

The bylaws of the Company require at least three but not more than nine directors to serve on the Board at all times. The Company reported five directors at year end 2007 and 2008, respectively, and three directors at year end 2009. The directors elected and serving as of December 31, 2009 were as follows:

<u>Director</u>	<u>Principal Occupation</u>
David L. Reynolds	President and CEO of the Company
Thomas C. Zielinski	Senior Vice President and General Counsel, Coventry Health Care, Inc.
Timothy E. Nolan	President and CEO, Health America Pennsylvania, Inc.

The Company has experienced considerable turnover among its directors and senior management during the examination period in general, and particularly in 2009/2010. Of the Company's directors, only Thomas Zielinski has served on the board since the previous examination (2006) date. The turnover in management is discussed below.

The bylaws of the Company provide for committees of the board, however no committees were organized and no meetings were held during the examination period. It should be noted that the Audit Committee of the parent, Coventry Health Care Inc., supervises the external and internal audit functions of all the companies in the Coventry Group, in accordance with the NAIC Model Audit Rule.

The officers of the Company elected and serving as of December 31, 2009 were as follows:

<u>Officer</u>	<u>Position</u>
David L. Reynolds	President and CEO
John Ruhlmann	Treasurer
Shirley R. Smith	Secretary
Daniel J. Rachfalski	Actuary
Melinda L. Tuzzo	Assistant Treasurer
Jonathan D. Weinberg	Assistant Secretary

In 2007, Marc Malloy was elected President and CEO of the Company. In November 2009, Marc Malloy resigned and was replaced as President and CEO by David Reynolds. In November 2010, David Reynolds resigned. Timothy Nolan, the President

Coventry Health Care of Delaware, Inc.

and CEO of HealthAmerica Pennsylvania, Inc., an affiliate of CHCD, was named acting President and CEO of the Company.

In November 2009, Shawn Guertin, the longtime Director and Treasurer of the Company resigned. At the time of the 2006 examination and up to October 2009, Nikki Farmer was the reporting actuary of the Company. In October 2009, Daniel Rachfalski was elected reporting actuary of the CHCD and held that position until he resigned in October 2010. In 2009, the CFO and the Controller of the Company resigned. Neither position was filled, rather the CFO and Controller of HealthAmerica Pennsylvania has taken over the responsibility of supervising the financial reporting for CHCD.

The Company appropriately notified the Delaware Insurance Department of all changes as required by 18 Del C. § 4919.

The previous examination noted that a stockholder dividend of \$14 million that was paid by CHCD to the parent in 2006 was not approved by the Company's Board of Directors. A recommendation requiring that the Board of Directors approve all dividends was made by the 2006 examination. The current examination noted that CHCD paid a \$14.8 million stockholder dividend in 2007 that was also not approved by the Board. Therefore,

It is again recommended that the Company's Board of Directors approve all dividends paid by Coventry Health Care of Delaware, Inc.

AFFILIATED COMPANIES

CHCD is a wholly owned subsidiary of Coventry Health Care Inc. (Coventry or CHC) who is a diversified; national managed healthcare company based in Bethesda, Maryland. Coventry operates health plans, insurance companies and network rental and workers' compensation services companies while providing a full range of risk and fee-based managed care products and services to a broad cross section of individuals, employer and government-funded groups, government agencies, and other insurance carriers and administrators. At year end 2009, Coventry had enrolled over 5.3 million members and operated in all fifty states.

During the first quarter of 2009, Coventry realigned its organizational structure into the following three reportable segments: Health Plan and Medical Services, Specialized Managed Care, and Workers' Compensation. Each of these reportable segments, which CHC also refers to as "Divisions," is separately managed. Coventry Health Care of Delaware, Inc. is aligned with the Health Plan and Medical Services Division. Claims, information systems, underwriting/actuarial, and customer service (which includes enrollment, premium billing and call centers) are all centralized in a few Service Centers. This allows Coventry to achieve economies of scale as well as better utilize resources and gather meaningful data. Coventry's local approach allows those most knowledgeable with local consumers, brokers and providers to best evaluate and perform sales functions, medical case management as well as provider contracting and network management.

The largest division within Coventry is the Health Plan and Medical Services Division, which offers a portfolio of health insurance benefits to the employer group and individual markets. Coventry's insured product portfolio includes a diversified mix of managed care products, including Health Maintenance Organizations (HMO), Preferred Provider Organizations (PPO) and Point of Service Plans (POS). Commercial group products are offered on both a fully insured and self-funded basis i.e. Administrative Services Only (ASO). While HMO, POS and PPO products are available in most markets, benefit plan designs may vary. Coventry's products, in this division, are sold via an internal sales organization as well as through brokers. The organization has sales representatives that sell directly to clients and also works with brokers.

Coventry contracts for network providers to participate in various provider networks to address specific clients. The Coventry National Network is a nationwide network offered to corporate/self insured employers and government employee groups. Within Coventry's health plan markets, statewide networks (subsets of Coventry National) are offered to support local HMO, POS and PPO products. The First Health Network provides national network access to third party administrators, small group health insurance carriers and workers' compensation insurance carriers.

The Company paid the following dividends to CHC during the period under examination:

2007	\$14,800,000
2008	0
2009	0

In its 2009 Annual Report, Coventry disclosed the following consolidated financial information:

As of December 31, 2009:

Assets	\$8,166,532,000
Stockholders Equity	3,712,554,000

For 2009:

Operating Revenue	\$13,903,526,000
Net Earnings	242,301,000

Fidelity Bonds and Other Insurance

The Company has obtained fidelity coverage through a financial institution bond covering Coventry Health, Inc. The bond provides coverage of \$10 million for a single loss (\$500,000 deductible) with \$20 million in coverage for the aggregate limit.

TERRITORY AND PLAN OF OPERATION

Territory

The Company is only licensed to transact business as an HMO in the States of Delaware and Maryland. During 2009 the Company reported the following Direct Premiums Written (DPW) in Delaware and Maryland:

Delaware-	\$ 114,801,368
Maryland-	<u>214,201,189</u>
Total DPW-	<u>\$ 329,002,557</u>

The following shows DPW broken down by line of business:

Group Commercial-	\$ 285,311,359
Federal Employee-	8,347,573
Medicaid Title XIX -	<u>35,343,625</u> (Maryland only)
Total DPW-	<u>\$ 329,002,557</u>

The 2009 A. M. Best rating for CHCD was B+ (Good).

CHCD offers health maintenance organization (HMO) and Point of Service (POS) health insurance plans in Delaware and Maryland. The Company also participates in the Federal Employees Health Benefits Program in both states. In Maryland, CHCD participates in the Medicaid Title XIX program.

As noted in the Growth of Company section, there has been a negative trend in net underwriting gain in each year with the Company reporting a net underwriting loss in 2009.

In 2007 the Plan was to grow the HMO and POS products in the State Maryland. Member months increased by 115,301 which accounts for approximately 83% of the member month growth in 2007. The increase in membership increased the net premium income and also increased the total hospital and medical expenses. The Plan reported a net underwriting loss in the Medicaid line of business in the amount of \$3.3 million. However, the Company did report a net gain in the HMO and POS line of business in the amount of \$11.9 million.

In 2008 the results were the opposite. The Plan reported a net gain of \$2.1 million for Medicaid and a reduced net gain in HMO and POS of \$841,000. There was a decrease in member months in 2008 in the HMO and POS products that resulted in an \$11.1 million reduction in premium income while the Plan did not see the same reduction in the amount of hospital and medical expenses, rather an approximately \$79,000 reduction.

In 2009, the HMO and POS products saw a significant reduction in membership resulting in another \$25 million reduction in premium income. There was a similar reduction in hospital and medical expenses of \$23.3 million. The Plan reported a net underwriting loss of \$1.7 million on its Medicaid business and a small net gain on HMO and POS of \$285,000.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the four preceding years. The amounts presented are prior to any examination financial adjustments.

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets	\$72,734,977	\$78,380,464	\$85,552,799	\$82,450,089
Capital and Surplus	\$32,157,257	\$33,149,125	\$31,544,541	\$36,250,133
Direct Premiums Written	\$329,002,557	\$355,772,430	\$367,047,376	\$323,957,299
Net Premiums Written	\$320,864,606	\$346,818,256	\$357,946,951	\$314,242,024
Underwriting gain/ (loss)	\$(2,175,351)	\$3,137,764	\$8,746,712	\$16,258,471
Net Income	\$1,172,741	\$824,018	\$9,622,987	\$15,272,563

As indicated, the Company's Capital and Surplus decreased by \$4,092,877 from year end 2006 to December 31, 2009. The components of the decrease are presented in the following chart:

Net Income	\$11,619,746
Change in Deferred Income Tax	(612)
Change in Non-admitted assets	(912,011)
Dividends to Stockholders	<u>(14,800,000)</u>
Total	<u><u>\$(4,092,877)</u></u>

In 2007, CHCD appointed a new President and CEO. The Company reported a sizable increase of premiums for 2007, especially in the State of Maryland. In 2008 and 2009, premiums have decreased and underwriting results have declined. The Company has elected new Presidents and CEOs in 2009 and 2010, and is currently operating under an interim Chief Executive.

REINSURANCE

Assumed

The Company assumed no business during the period under review.

Ceded

For the period under examination and subsequent thereto, the Company maintained one ceded reinsurance contract with Coventry Health and Life Insurance Company (CHLIC- a Delaware domiciled insurer). A summary of the agreement follows:

Excess Risk Reinsurance Agreement- HMO, POS and Medicaid Members (Excess Agreement)

Effective November 1, 2006, the Excess Agreement provided for the cession of 90% of all losses in excess of the Company's retention, which is \$175,000 for each HMO Member and each POS Member, and 80% of all losses in excess of the Company's retention for each Medicaid member, which was \$200,000. The Excess Agreement limits reinsurance recoveries to \$1,000,000 as respects any one member and provides for no aggregate contract limit.

In 2008, 2009 and 2010, the Excess Agreement was amended to adjust the ceded premium rates and the Company's retentions. Effective April 1, 2008, the Company's retentions increased to \$200,000 for HMO and POS members and increased to \$250,000 for Medicaid members. In 2009, the retentions increased to \$225,000 for HMO/POS members and \$275,000 for Medicaid members. In 2010, the retention for Medicaid members was increased to \$300,000. All other terms remained unchanged. In 2009, CHCD paid CHLIC premiums of \$8,137,951 under the Excess Agreement.

INTER-COMPANY AGREEMENTS

The Company was a party to several inter-company agreements at year end 2009 and during the examination period. The major agreements, excluding reinsurance, are detailed below.

Management Service Agreement with CHC

The Company's Agreement with Coventry Health Care, Inc. (CHC) was effective January 1, 1999. CHC provides general management services, including but not limited to: senior management services, actuarial consulting, advertising and public relations consulting, marketing, purchasing services, pharmacy services, corporate and legal services, regulatory compliance and governmental affairs and reporting, accounting services, tax compliance and consulting, facilities management, risk management, information system services and consulting, service center services, payroll services, and human resources consulting.

For the services provided, the Company paid CHC \$14,881,588 during 2009. The fee is calculated on a monthly per member per month (pmpm) basis and settled through intercompany accounts. There have been four (4) amendments to the agreement, effective January 1, 2003, January 1, 2007, February 1, 2009 and February 1, 2010, all of which adjusted the compensation paid for services.

Amendment # 5 was effective August 1, 2010 and replaces Management Services provided by CHC with the following services to be provided by the Coventry Service Centers: claims processing services, data integrity services, fraud and recovery support, premium billing and collection services, enrollment and eligibility services, member services, and benefit and contract administration. In addition, pre-certification functions for the Medicaid line of business shall be performed in accordance with applicable state law and Maryland Medicaid contractual requirements. The examination verified that the Agreement and all amendments have been approved by the Delaware Insurance Department.

Administrative Services Agreement with Coventry Health and Life Insurance Company

Under this Agreement, CHCD provides PPO services for CHLIC, including but not limited to, management and general administrative services, sales and marketing, financial services, medical management, provider relations and contracting, and facilities and support. During 2009, CHCD received \$257,957 for providing these services.

Tax Allocation Agreement with CHC, Inc.

The agreement between Coventry Health Care, Inc. (CHC) and its various subsidiaries was effective for the tax year ending December 31, 2004. CHCD is included in the list of subsidiaries that have signed on to the Tax Allocation Agreement. The agreement provides that each affiliate's income tax liability "will be calculated for each Subsidiary which is a member of the Affiliated Group as if it were to file a separate federal or state income tax return." In addition, the Company retains the right to any Net Operating Loss deductions it would be entitled to if the Company had filed its own tax return. Regular intercompany tax settlements are provided for within the Agreement.

Guarantor Agreement with CHC, Inc.

This agreement between CHCD and Coventry Health Care, Inc. (CHC) was originally effective January 1, 2005 and shall continue thereafter until mutually rescinded by the parties. Per the terms of this agreement, CHC is to protect subscribers and their dependents in the event of insolvency so as to constitute an insolvency protection plan as required by Delaware's Health Maintenance Organization Act and the regulations promulgated there under, and Maryland's similar laws and regulations.

THIRD-PARTY AGREEMENT

The examination noted two significant third-party agreements effecting CHCD: MHNet Specialty Services, LLC and Coventry Health Care, Inc. and each of CHC's subsidiaries

Effective August 1, 2008, the Company was added to an agreement between MHNet Specialty Services, LLC (MHNet) and Coventry Health Care, Inc. and its subsidiaries. Under the terms of the agreement MHNet will provide behavioral health management services, including behavioral health utilization management, network contracting and credentialing, and claims processing to CHCD and in the states of Delaware and Maryland. An Amendment effective August 1, 2010 changed the rate charged for services. The Company paid \$5,994,883 in 2009 for services under this contract.

Radiology Management Agreement between MedSolutions, Inc. (MSI) and CHCD

The Company's agreement with MSI was originally effective April 1, 2005 and has been amended six times. The agreement calls for MSI to contract with radiology service providers for use by enrollees in the Company's managed health care programs. The examination noted a provision in the Agreement that requires the contracts between MSI and the participating radiology providers to include a statement that holds CHCD harmless in the event, including but not limited to, nonpayment by MSI, MSI's insolvency or breach of MSI's agreement with the provider. Regulation 1406(4) of 18 Del.Admin. states that claim payments forwarded by the insurer to the administrator shall not be deemed to have been paid to the insured party or claimant until the payments are received by the insured party or claimant. Therefore, requiring the agreement

between MSI and the providers to include this wording is contradictory to Regulation 1406.

It is recommended the Company amend its Agreement with MedSolutions, Inc. to require the contracts between MedSolutions, Inc. and the Participating Radiology Providers to include wording that is in compliance with 18 Del. Admin. Code §1406(4).

ACCOUNTS AND RECORDS

During the period under examination, the Company's accounts and records were audited by the firm of Ernst & Young, LLP. The examination reviewed the 2008 and 2009 audit workpapers of Ernst & Young, and utilized them to the fullest extent possible during the course of the examination.

The Company's information systems operation is centralized at the Coventry Health Care Data Center in Cranberry Township, Pennsylvania. Applications development and maintenance staff are located in Scottsdale, AZ. The CHC IT Department manages the data center, network infrastructure, site support, database administration, help desk and shared resources that support financial applications.

The examination utilized INS Services, Inc. to perform information technology (IT) review. Based solely on their review of internal audit workpapers, CPA's and SAS 70 reports, the assessment of the overall strength of the risk mitigation strategies/controls related to information systems of the Company was Strong for those policies and procedures that had been in place during the examination period.

Additionally, based on the examination team's review of key activities: (investments, claims, actuarial, premiums and underwriting and financial reporting), the

design and operating effectiveness of key controls and other risk mitigating strategies identified have been assessed as Strong.

FINANCIAL STATEMENTS

The Company's financial position on December 31, 2009 and the results of operations for 2009 are presented in the following statements:

Analysis of Assets

Liabilities, Surplus and Other Funds

Underwriting and Investment Exhibit

Capital and Surplus Account

Financial Adjustments (Examination Changes)

ANALYSIS OF ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Note</u>
Bonds	\$46,251,348		\$46,251,348	
Cash, Cash Equivalents, Short- Term Investments	20,066,842		20,066,842	1
Investment Income Due and Accrued	541,873		541,873	
Uncollected Premiums	3,947,385		3,947,385	
Amounts Recoverable from Reinsurers	1,128,859		1,128,859	
Amounts Receivable-Uninsured Plans	226,857		226,857	
Current Federal Income Tax Recoverable	135,758		135,758	
Net Deferred Tax Asset	1,875,071	\$1,875,071	0	
Health Care Receivable	652,487	216,434	436,053	
Other Assets	<u>1,387,447</u>	<u>1,387,445</u>	<u>2</u>	
Totals	<u>\$76,213,927</u>	<u>\$3,478,950</u>	<u>\$72,734,977</u>	

LIABILITIES, SURPLUS AND OTHER FUNDS

		<u>Note</u>
Claims Unpaid	\$30,240,553	2
Unpaid Claims Adjustment Expenses	593,958	
Aggregate Health Policy Reserves	453,460	
Premiums Received in Advance	3,986,641	
General Expenses Due and Accrued	4,604,993	
Remittances and Items not Allocated	241,593	
Amts. Retained for the Acct. of Others	66,211	
Amounts due to PSA	7,569	
Liability For Amounts Held for Uninsured Plans	45,113	
Other Liabilities	<u>337,630</u>	
Total Liabilities	<u>\$40,577,721</u>	
Common Capital Stock	\$300,000	
Gross Paid In and Contributed Surplus	15,025,942	
Unassigned Funds	<u>16,831,315</u>	
Capital and Surplus	<u>\$32,157,257</u>	
Total Liabilities and Capital and Surplus	<u>\$72,734,978</u>	

STATEMENT OF REVENUE AND EXPENSES

Total Revenue	<u>\$320,864,606</u>
Hospital and Medical Expenses, Net of	
Reinsurance Recoveries	\$276,151,031
Claims Adjustment Expenses	8,734,237
General Administrative Expenses	37,701,229
Increase in Reserves, Accident and Health	<u>453,460</u>
Total Underwriting Deductions	<u>\$323,039,957</u>
Net Underwriting Gain	\$(2,175,351)
Net Investment Gain	2,956,810
Miscellaneous Income	<u>(608,597)</u>
Net Income before Federal Taxes	\$172,862
Federal Taxes Incurred	<u>(999,879)</u>
Net Income	<u>\$1,172,741</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and Surplus Prior Reporting Year	\$33,149,124
Net income	1,172,741
Change in Non-Admitted Assets	(1,119,879)
Change in net deferred income tax	<u>(1,044,732)</u>
Change in Surplus as Regards Policyholders	<u>\$(991,870)</u>
Capital and Surplus-Current Year	<u>\$32,157,254</u>

FINANCIAL ADJUSTMENTS

The examination will propose no financial adjustments.

NOTES TO FINANCIAL STATEMENTS

1. Invested Assets

At year end 2009, CHCD reported short-term investments of \$21,611,108, of which \$21,126,169 was placed in one investment. This investment exceeds 10% of the Company's assets and therefore violates 18 Del.C. §1301 (1). In that the investment represents 66% of the Company's Capital and Surplus, there is certainly a credit risk.

It is recommended the Company take action to comply with the diversification requirements of 18 Del.C. § 1301 (1).

<u>2. Claims Unpaid</u>	<u>\$30,240,553</u>
<u>Unpaid Claims Adjustment Expenses</u>	<u>\$ 593,958</u>

The amounts shown above for Claims Unpaid and Unpaid Claims Adjustment Expenses are the same as reported on the Company's 2009 Annual Statement. The examination performed Data Validity Testing applicable to the claims data relied upon by James Kuklinski, ASA, MAAA, of INS Consultants, Inc. The examination actuary reviewed the above reserves and determined that the Company's reserves were fairly stated, and are accepted as reported.

STATUS OF PRIOR EXAMINATION RECOMMENDATIONS

The previous examination made a recommendation as per the Board of Directors approving all stockholder dividends. That recommendation is repeated by the current examination. The 2006 examination made an additional two-part recommendation for which compliance has been noted.

SUMMARY OF RECOMMENDATIONS

The Company's attention is directed to the following:

1. It is recommended that the Company's Board of Directors approve all dividends paid by Coventry Health Care Delaware, Inc. (See Management and Control, page 6).
2. It is recommended the Company amend its Agreement with MedSolutions, Inc. to require the contracts between MedSolutions, Inc. and the Participating Radiology Providers to include wording that is compliance with 18 Del.Admin. Code § 1406(4). (See Third Party Agreements, page 16).
3. It is recommended the Company take action to comply with the diversification requirements of 18 Del.C. § 1301 (1). (See Notes to the Financial Statements, page 22).

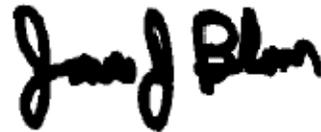
CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>Current Examination</u>	<u>Previous (2006) Examination</u>	<u>Changes Increases (Decreases)</u>
Assets	\$72,734,977	\$82,450,089	\$(9,715,112)
Liabilities	40,577,721	46,199,957	(5,622,236)
Capital and Surplus	32,157,257	36,250,133	(4,092,876)

In addition to the undersigned, Albert Piccoli Sr. CFE, William Holmes, CFE, Gregg Bealuk, CFE, Ann Pruett, CFE and James Kuklinski, ASA, MAAA of INS Consultants, Inc. participated in the examination.

Respectfully submitted,



James J. Blair, CPA, CFE
Examination Supervisor
Insurance Department
State of Delaware