

REPORT ON EXAMINATION
OF THE
AMERIHEALTH CASUALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2009

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

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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", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 13th day of June, 2011

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

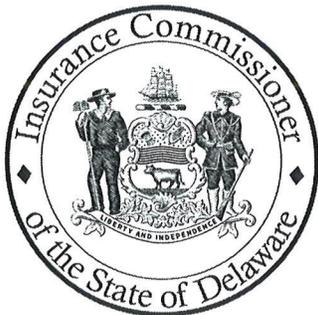
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2009 of the

AMERIHEALTH CASUALTY INSURANCE COMPANY

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

Attest By: *Sonia C. Harris*

Date: 13 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 13th 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

April 18, 2011

Honorable Karen Weldin Stewart, CIR-ML
Insurance Commissioner
State of Delaware
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions contained in Certificate of Authority No. 10.016A, an examination has been made of the affairs, financial condition and management of the

AMERIHEALTH CASUALTY INSURANCE COMPANY

hereinafter referred to as "ACIC" or "Company", incorporated under the laws of the State of Delaware. The examination was conducted at 1717 Arch Street, Philadelphia, Pa. 19103.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

The last examination was as of December 31, 2006. This examination is a comprehensive risk-focused examination which covers the three year period from January 1, 2007 to December 31, 2009, and encompasses a general review of 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.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. In such cases, these matters were thoroughly discussed with responsible Company officials during the course of the examination.

In accordance with the NAIC Financial Condition Examiners Handbook, this examination will evaluate the financial condition and identify prospective risks 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 assessed the principles used by and significant estimates made by management, and evaluated the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

HISTORY

ACIC was incorporated on November 12, 1997. The Company commenced operations in 2000. Since inception, the Company has been a subsidiary of AmeriHealth Inc., in turn a subsidiary of Independence Blue Cross (IBC), of Philadelphia, Pa.

MANAGEMENT AND CONTROL

The control and management of the Company is vested in the Board of Directors. The persons elected and serving as Directors of the Company at December 31, 2009 were:

<u>Director</u>	<u>Principal Occupation</u>
Christopher D. Butler	Executive Vice President and Chief Operating Officer-IBC
Alan Krigstein	Chief Financial Officer and Treasurer-IBC

As indicated, all of the Company's directors are executives of ACIC's ultimate parent, IBC. The Company experienced considerable turnover in the membership of the Board during the period under examination. This trend continued in 2010, when the Board completely changed. Don Liskay, the President and CEO of ACIC, was elected to the Board in 2010.

The officers of ACIC are elected by the Board of Directors annually. Those persons serving as of December 31, 2009 were:

<u>Name</u>	<u>Title</u>
Donald J. Liskay	President & CEO
Alan Krigstein	Treasurer & CFO
Lilton R. Taliaferro, Jr.	Secretary
Robert M. Adams	Vice President-Sales and Marketing
Lee J. Herzer	Vice President-Operations
Joseph C. Santore, Jr.	Vice President, Controller and Assistant Treasurer

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. The ownership line of the Company as reported in Schedule Y- Part 1 of ACIC's 2009 Annual Statement is shown below:

Independence Blue Cross

AmeriHealth, Inc.

AmeriHealth Casualty Insurance Company

In addition, to the above, there are numerous members of the insurance holding company system including several insurance companies, two of which are being examined concurrently: Healthcare Delaware Inc., and Independence Insurance Inc.

As indicated, the Company's immediate parent, AmeriHealth, Inc., is a wholly-owned subsidiary of IBC, and the ownership structure did not change during the period under examination.

ACIC is ultimately owned by Independence Blue Cross (IBC), a non-profit health service corporation that is the largest provider of health insurance in the Delaware Valley area consisting of the Southeastern Pennsylvania, Southern New Jersey and Northern Delaware.

At December 31, 2009, IBC reported the following:

Assets	\$3,986,948,000
Unassigned Funds	\$2,420,042,000
Underwriting Income for 2009	\$10,466,131,000
Net Loss for 2009	\$(63,737,000)

The examiners have reviewed the Company's most recently filed Form B-Insurance Holding Company Registration Statement. Based on that review, it appears that the Company has disclosed all intercompany arrangements and in turn has filed the applicable information/agreements with the Delaware Insurance Department.

It should be noted that ACIC has no employees. All of its business is produced by an affiliate, CSI Services Inc. ACIC's claims are serviced by another affiliate, CompServices Inc, which also provides the Company's accounting services. The ultimate parent, IBC, provides investment services.

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 adjustments:

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets	\$195,199,705	\$177,475,818	\$182,321,387	\$160,512,505
Policyholder Surplus	\$51,554,991	\$42,827,469	\$61,959,727	\$53,563,366
Gross Premiums Written	\$81,371,692	\$83,475,056	\$78,728,602	\$73,110,000
Net Premiums Written	\$77,599,431	\$79,606,809	\$75,535,085	\$70,666,508
Underwriting gain (loss)	\$(6,789,623)	\$(283,761)	\$4,728,818	\$6,531,491
Net Income	\$2,807,460	\$(7,557,930)	\$7,877,306	\$8,378,046

As indicated, the Company reported a large underwriting loss for 2009. Company management attribute the underwriting loss primarily to two factors: greater claim frequency which is a normal occurrence in the workers compensation line of business during a recession; and the loss of discounts with several prominent providers. The loss of provider discounts occurred as a by-product of negotiations between IBC and the providers. Company management has stated that in 2010, ACIC was able to largely re-acquire the provider discounts in place at the start of 2009.

In 2008, ACIC reported Net Income of (\$7,557,930). This loss was generated by negative investment income of (\$4,998,169) for the year. The Company reported realized capital losses of (\$11,112,029) for 2008.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business in the states of Delaware, Pennsylvania, New Jersey and South Carolina.

As per a revision effective August 18, 2006 to the Company's Certificate of Authority issued by the Delaware Insurance Department, the Company is authorized to write the following lines of business: property; casualty, including workers' compensation and employers liability, and vehicle, liability; burglary & theft; personal property floater; glass; boiler and machinery; miscellaneous.

Since the commencement of operations, ACIC has only written workers compensation and employers liability insurance. All of the Company's business, both direct and assumed, is produced by its sole agent and affiliate, CSI Services Inc. (CSI).

Effective March 1, 2003, a plan was adopted by which ACIC would write directly as much of the CSI-produced business as possible. In situations where the policyholder requests an insurer with an A.M. Best rating, a non-related insurer would write the business and cede the exposure to ACIC. The lack of an A.M. Best rating has severely curtailed those plans and the Company derives most of its premiums through a fronting arrangement with the Companion Group. (See following section). ACIC did commence writing workers compensation on a "High Deductible" basis during the previous examination period. Under this program, the Company provides excess coverage on an occurrence and yearly aggregate basis to policyholders who retain a significant portion of the risk.

REINSURANCE

For 2009, ACIC reported the following distribution of premiums written:

Direct	\$13,520,519
Assumed	67,851,173
Ceded	<u>(3,772,261)</u>
Net Premiums Written	<u>\$77,599,431</u>

Assumed

Effective March 1, 2003, ACIC entered into a contract with Companion Property & Casualty Insurance Company and Companion Commercial Insurance Company (Companion). Both insurers are domiciled in South Carolina. Companion cedes to ACIC 100% of the workers compensation and employers liability business generated by CSI Services Inc., with a limit of \$1,000,000 ceded for each policy. Ceded excess of loss reinsurance covers claims in excess of \$500,000. Assumed premiums for 2009 from Companion were \$67,571,053. The Company's only other assumed premiums for 2009 were \$280,120 from the mandatory Delaware assigned risk pool.

ACIC's contract with Companion was amended twice during the examination period to adjust the commission structure, and to compensate Companion for the costs of participating in the assigned risk workers compensation program in New Jersey.

Ceded

As of March 1, 2009, ACIC entered into three excess of loss contracts with non-related insurers. The first contract provides two layers of coverage totaling \$1,500,000 in excess of a \$500,000 retention per occurrence. The second contract provides \$8,000,000 in coverage in excess of the \$2,000,000 provided by the underlying excess

layer. A third contract provides \$20,000,000 in coverage in excess of the \$10,000,000 stipulated in the two underlying layers.

At the time of the 2006 examination, ACIC retained \$1,000,000 for each loss occurrence. In 2009, the Company began retaining \$500,000 per occurrence, however the treaty providing the decreased retention also includes additional annual deductibles of \$1,250,000. The ceded premium for the excess of loss contracts in 2009 was \$700,604.

Fronting Programs:

During the period under examination, ACIC continued its participation in two fronting programs:

- Unified Re Co. Ltd: The Company writes workers compensation business for a consortium of companies that own a captive, Unified Re Co. Ltd, domiciled in the Cayman Islands. ACIC cedes 100% of the losses on this business to Unified Re, subject to limits of \$300,000 per occurrence and 135% of the Pennsylvania audit premiums and 125% of the New Jersey written premium. In 2009, ACIC ceded premiums of \$2,718,717 to Unified Re under this program.

- Highmark Casualty Insurance Company: ACIC writes a single policy for a risk located in Delaware and cedes the business 100% to Highmark Casualty. Ceded premiums for this program in 2009 were \$352,940.

INTER-COMPANY AGREEMENTS

As of December 31, 2009, ACIC had the following inter-company agreements in effect:

-Underwriting Agency Agreement between ACIC and CSI Services, Inc. (CSI). For a consideration of 14% of earned premiums, CSI will solicit and bind risks on ACIC's behalf and perform all other functions necessary for the production of business. For 2009, ACIC paid CSI \$1,355,684 under this agreement.

-Third Party Claims Administration Agreement between ACIC and CompServices Inc. For a consideration of 6% of earned premiums, CompServices will investigate and adjust all claims on the Company's behalf. For 2009, ACIC paid CompServices \$839,359 under this agreement.

It should be noted that the fees due CSI Services and CompServices under the above agreements are based on direct, earned premium. The fees due CSI Services and CompServices for assumed business are paid by the Companion companies. ACIC, in turn, reimburses Companion for these fees through the commission allowed on business ceded by Companion and assumed by the Company.

In addition, ACIC has Administrative Services and Tax Sharing Agreements with the ultimate parent, Independence Blue Cross (IBC). Under the Administrative Services Agreement, IBC will provide any services needed to ACIC, for a consideration of the cost of providing the service. Also under the Agreement, ACIC may provide services to IBC. The most important area in which IBC provides services to the Company is in investments. Through a resolution of the Board of Directors, ACIC has adopted the IBC Investment Policy and the IBC Investment Department performs day to day

management of ACIC's Investment portfolio.

ACCOUNTS AND RECORDS

For the period under examination, the Company's accounts and records were audited by the accounting firm of Deloitte and Touche (D&T). The workpapers from D&T's 2009 audit were reviewed by the examination and utilized to the fullest extent possible.

In the review of the preparation of the 2009 Annual Statement, the examination noted exceptions in the reporting of two items:

- ACIC reported an amount of \$200,000 under the annual statement account: Liability for amounts held under uninsured plans. The balance should have been reported as Funds held under reinsurance treaties.
- The Company included the amount of \$1,000,000 in the annual statement line item: ceded reinsurance premiums payable. The amount in question is an additional retention by the Company and is not payable to the reinsurer. The \$1,000,000 should have been reported as either as a component of the Losses liability or as a special write-in item.

It is recommended the Company comply with the Annual Statement Instructions and report reinsurance balances in the appropriate lines of the Annual Statement Blank.

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	\$68,594,354		\$68,594,354	1
Common stocks	36,212,716		36,212,716	
Cash, Cash Equivalents, Short- Term Investments	63,601,618		63,601,618	
Investment Income Due and Accrued	890,174		890,174	
Uncollected premiums and agents' balances in the course of collection	4,005,186	\$619,677	3,385,509	
Deferred premiums booked but not yet due	13,811,073		13,811,073	
Accrued retrospective premiums	756,964		756,964	
Amounts recoverable from reinsurers	137,159		137,159	
Current Federal Income Tax Recov.	6,140,450		6,140,450	2
Net Deferred Tax Asset	5,408,000	663,000	4,745,000	
Prepaid expenses	1,152,221	1,152,221		
Accrued reimbursement for High Deductible Claims Paid	1,015,756		1,015,756	
Receivable from parent, subsidiaries and affiliates	<u>251,382</u>	<u>0</u>	<u>251,382</u>	
Totals	<u>\$201,977,053</u>	<u>\$2,434,898</u>	<u>\$199,542,155</u>	

LIABILITIES, SURPLUS AND OTHER FUNDS

		<u>Notes</u>
Losses	\$96,268,082	3
Loss Adjustment Expenses	12,370,000	
Other Expenses	270,352	
Taxes, licenses and fees	1,343,468	
Unearned premiums	29,487,695	
Advance premiums	420,259	
Ceded reinsurance premiums payable	1,904,211	
Provision for reinsurance	73,000	
Payable to parent, subsidiaries and Affiliates	425,300	
Retrospective premiums payable	547,261	
Liability for amounts held under uninsured plans	<u>12,942,086</u>	
Total Liabilities	<u>\$156,051,714</u>	
Common Capital Stock	\$4,000,000	
Gross Paid In and Contributed Surplus	37,725,000	
Unassigned Funds	<u>1,765,441</u>	
Surplus as Regards Policyholders	<u>\$43,490,441</u>	
Total Liabilities and Surplus as Regards Policyholders	<u>\$199,542,155</u>	

STATEMENT OF INCOME

Premiums Earned	\$79,097,882
Losses Incurred	\$70,975,690
Loss Adjustment Expenses Incurred	6,973,762
Other Underwriting Expenses Incurred	<u>20,345,053</u>
Total Underwriting Deductions	<u>\$98,294,505</u>
Net Underwriting Gain	\$(19,196,623)
Net Investment Gain	9,374,083
Miscellaneous Income	<u>0</u>
Net Income before Federal Taxes	\$(9,822,540)
Federal Taxes Incurred	<u>4,565,450</u>
Net Income	<u><u>\$(5,257,090)</u></u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as Regards Policyholders- Previous Year	<u>\$42,827,469</u>
Net income	\$(5,257,090)
Change in Unrealized Capital Losses	6,343,258
Change in Provision for Reinsurance	4,000
Change in Non-Admitted Assets	7,336,804
Dividends to Stockholders	(4,000,000)
Change in Net Deferred Income Tax	<u>(3,764,000)</u>
Change in Surplus as Regards Policyholders	<u>\$662,972</u>
Surplus as Regards Policyholders- Current Year	<u><u>\$43,490,441</u></u>

SCHEDULE OF EXAMINATION ADJUSTMENTS

	<u>Examination Amount</u>	<u>Company Amount</u>	<u>Increase/(Decrease) to Policyholder Surplus</u>
Current Federal Tax Recoverable	\$6,140,450	\$1,798,000	\$4,342,450
Losses	96,268,082	83,861,082	<u>(12,407,000)</u>
Total Change in Policyholder Surplus			\$(8,064,550)
Company Policyholder Surplus			<u>51,554,991</u>
Examination Policyholder Surplus			<u>\$43,490,441</u>

NOTES TO FINANCIAL STATEMENTS

Note #1 Invested Assets

ACIC reported the following invested assets at December 31, 2009

Bonds	\$68,594,354
Common Stocks	36,212,716
Cash and Short-Term Investments	<u>63,601,618</u>
 Total Invested Assets	 <u>\$168,408,688</u>

As noted previously under Inter-Company Agreement, the Investment Department of the parent, IBC, manages the Company's investment portfolio on a day to day basis. In 2008, ACIC reported net realized capital losses of \$11,112,029 due largely to write-downs of \$10,255,127 for securities that were Other Than Temporary Impaired.

As indicated, ACIC reported short-term investments of \$63,601,618 at year end 2009, of which \$35,956,000 was placed in one investment. This investment exceeds 10% of the Company's assets and therefore violates 18 Del.C. 1305 (1).

It is recommended the Company take action to comply with the diversification requirements of 18 Del.C. 1305 (1).

Note #2 Federal Income Tax Receivable

The Company reported the amount of \$1,798,000 for the above captioned asset on the 2009 Annual Statement. The balance of \$6,140,450 presented in the financial statements of this report reflects the tax impact of the examination increase in the reserves for Losses and Loss Adjustment Expenses at year end 2009 (See Note #3)

Note #3. Losses
Loss Adjustment Expenses

At December 31, 2009, the Company reported the following reserves for Unpaid

Losses:

Reported Losses	
Direct	\$ 7,243,600
Assumed	37,563,409
Ceded	<u>(3,243,873)</u>
Net Reported Reserves	<u>\$ 41,563,136</u>
Incurred but not reported (IBNR)	
Direct	8,107,223
Assumed	35,346,989
Ceded	<u>(1,156,266)</u>
Net IBNR	<u>\$42,297,946</u>
Total reserve for Losses	<u>\$ 83,861,082</u>

Also at December 31, 2009, ACIC reported the following for reserves for

Unpaid Loss Adjustment Expenses (LAE):

Defense and Cost Containment	\$12,161,000
Adjusting and Other Expense	<u>209,000</u>

Total reserve for LAE \$12,370,000

ACIC retains the firm of Ernst & Young to issue the required actuarial opinion and report to the Delaware Insurance Department

The actuarial firm of INS Consultants, Inc. was retained by the Delaware Insurance Department to conduct an independent review of the Company's Loss and LAE Reserves as of December 31, 2009.

The results of the INS Consultants' review indicates that the Company's liabilities

for Losses and Loss Adjustment Expenses were deficient by \$12,407,000 or 12.9% at year end 2009. The financial statements of this Report reflect the impact of the INS Consultants review. The examination has allowed for the tax effect of the financial adjustment (See Note #2).

It should be noted that at year end 2010, the Company strengthened its Loss and Loss Adjustment Expense reserves by \$15,000,000. Of that amount, \$8,038,000 was allocated to the 2009 and prior calendar years with the remaining \$6,962,000 allocated to 2010. The post-tax effect on the Company's Surplus as Regards Policyholders for the year end 2010 reserve strengthening was \$9,750,000.

During the period under examination, ACIC received permission from the Delaware Insurance Department to discount the reserves for unpaid losses and defense and cost containment expenses. At year end 2009, these reserves were discounted on a non-tabular basis using a 3.3% rate. The total discount at December 31, 2009 was \$7,747,000.

STATUS OF PRIOR EXAMINATION RECOMMENDATIONS

The examination conducted as of December 31, 2006 made two recommendations. The current examination noted satisfactory compliance in addressing the previous examination recommendations.

RECOMMENDATIONS

The Company's attention is directed to the following:

It is recommended the Company comply with the Annual Statement instructions and report reinsurance balances in the appropriate lines of the Annual Statement Blank. (See Accounts and Records, page 11).

It is recommended the Company take action to comply with the diversification requirements of 18 Del.C. 1305 (1). (See Note #1, page 17).

SUMMARY COMMENTS

The following items of significance were noted during the examination:

- Based on filed annual statement amounts, the Company's Policyholders Surplus decreased \$2,008,375 or 3.7% during the three year examination period. However, ACIC reported large changes in its Policyholders Surplus during individual years: in 2008, Policyholders Surplus decreased \$19,132,258 or 30.9%, largely due to realized losses in the investment portfolio. In 2009, despite an underwriting loss, the Company's Policyholders Surplus increased by \$8,727,522 or 20.4%, due to strong investment gains.
- ACIC is ultimately owned by Independence Blue Cross (IBC), a non-profit health service corporation that is the largest provider of health insurance in the Delaware Valley area consisting of the Southeastern Pennsylvania, Southern New Jersey and Northern Delaware.
- A review by the Examination's actuarial consultants indicated that ACIC's Loss and Loss Adjustments Expense reserves were deficient by \$12,407,000 or 12.9%. The financial statements of this Report reflect the examination actuarial findings, with an allowance for the tax-effect of the adjustment.
- At year end 2010, the Company strengthened its Loss and Loss Adjustment Expense reserves by \$15,000,000. Of that amount, \$8,038,000 was allocated to the 2009 and prior calendar years with the remaining \$6,962,000 allocated to 2010.

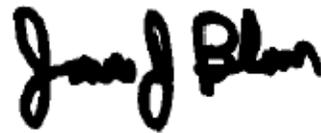
CONCLUSION

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	\$199,542,155	\$160,512,505	\$39,029,650
Liabilities	\$156,051,714	\$106,949,139	\$49,102,575
Policyholders Surplus	\$43,490,441	\$53,563,366	\$(10,072,925)

In addition to the undersigned, David J. Macesic, ACAS, MAAA of INS Consultants, Inc. participated in the examination.

Respectfully submitted,



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