

Report of Examination of

Plans' Liability Insurance Company
Worthington, Ohio

As of December 31, 2013

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Columbus, Ohio
October 31, 2014

Honorable Mary Taylor
Lt. Governor/Director
Ohio Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Plans’ Liability Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 2 Mid America Plaza, Oakbrook Terrace, Illinois.

Scope of Examination

The Company was last examined by the Department as of December 31, 2008. The current examination covers the period of January 1, 2009 through and including December 31, 2013.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook. The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes 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.

For years covered by the examination, the certified public accounting firm of KPMG, LLP (“CPAs”) provided an unqualified opinion based on statutory accounting principles.

Relevant work performed by the CPAs during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers', employees', and agents' welfare and pension plans;
4. loss experience;
5. pending litigation; and
6. Articles of Incorporation and Bylaws.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

<u>Name</u>	<u>Principal Occupation</u>
Howard Francis Beacham, III	President and Chief Executive Officer BCS Financial Corporation
David Russell Gentile	President and Chief Executive Officer Blue Cross and Blue Shield of Kansas City
Paul Martin von Ebers	President and Chief Executive Officer Blue Cross and Blue Shield of North Dakota
Terry Dee Kellogg	President and Chief Executive Officer Blue Cross and Blue Shield of Alabama
Steven Scott Martin	President and Chief Executive Officer Blue Cross and Blue Shield of Nebraska
Scott Phillip Serota	President and Chief Executive Officer Blue Cross Blue Shield Association
Paul Mark White	President and Chief Executive Officer Arkansas Blue Cross and Blue Shield

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

<u>Name</u>	<u>Title</u>
Howard Francis Beacham, III	President and Chief Executive Officer
Henry Alan Carpenter	Senior Vice President, General Counsel & Secretary
Susan Ann Pickar	Senior Vice President, Finance & Treasurer
David Russell Gentile	Chairman of the Board

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. BCS Financial Corporation is the ultimate controlling party of the insurance holding company system.

Territory and Plan of Operations

Except for California and Hawaii, the Company is licensed to transact business in all states and the District of Columbia.

The following schedule illustrates the Company's premium written in 2013 by line of business:

	Direct	Assumed	Ceded	Net	Percent
Other liability-claims made	0	2,528,537	0	2,528,537	99.4%
Fidelity	<u>0</u>	<u>16,367</u>	<u>0</u>	<u>16,367</u>	<u>0.6%</u>
Totals	<u>0</u>	<u>2,544,904</u>	<u>0</u>	<u>2,544,904</u>	<u>100.0%</u>

Significant Operating Results

The Company reported the following net underwriting results, reported in thousands, during the examination period:

	2013	2012	2011	2010	2009
Premiums earned	<u>\$ 2,314</u>	<u>\$ 2,045</u>	<u>\$ 3,004</u>	<u>\$ 4,905</u>	<u>\$ 4,959</u>
Losses incurred	11,260	1,587	1,329	(478)	2,378
Loss adjustment expenses incurred	1,605	827	1,050	2,369	2,628
Other underwriting expenses incurred	2,973	3,643	3,666	4,340	4,783
Premium deficiency reserve	<u>192</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total underwriting deductions	<u>16,029</u>	<u>6,057</u>	<u>6,045</u>	<u>6,231</u>	<u>9,789</u>
Net underwriting gain	(\$ 13,715)	(\$ 4,012)	(\$ 3,041)	(\$ 1,326)	(\$ 4,831)
Loss ratio	486.6%	77.6%	44.2%	(9.7%)	48.0%
Loss adjustment expense ratio	<u>69.4%</u>	<u>40.5%</u>	<u>34.9%</u>	<u>48.3%</u>	<u>53.0%</u>
Loss and LAE ratio	556.0%	118.1%	79.1%	38.5%	101.0%
Other underwriting expense ratio	<u>124.4%</u>	<u>169.0%</u>	<u>125.6%</u>	<u>84.5%</u>	<u>93.8%</u>
Combined ratio	<u>680.4%</u>	<u>287.1%</u>	<u>204.7%</u>	<u>123.0%</u>	<u>194.8%</u>

Reinsurance

Effective July 1, 2013, the Company reinsures BCS Insurance Company professional liability business for the first \$1,000,000 of ultimate net loss in each claim made/each policy plus 5% of \$4,000,000 in excess of \$1,000,000 of ultimate net loss in each claim made/each policy. The Company also reinsures a loss corridor retention for the above reinsurance layer.

The contract contains an insolvency clause, intermediary clause, errors and omission clause and an arbitration clause, which meet the guidelines prescribed by the NAIC.

Financial Statements

The financial condition and the results of its operations for the five year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus
Statement of Income
Statement of Changes in the Capital and Surplus Account

**Statement of Assets
December 31, 2013**

Admitted assets

Bonds	\$ 68,179,049
Common stocks	5,103,816
Cash and short-term investments	5,567,445
Other invested assets	<u>2,096,853</u>
Total cash and invested assets	80,947,163
Investment income due and accrued	524,554
Uncollected premiums and agents' balances in the course of collection	153,139
Current federal and foreign income tax recoverable and interest thereon	706,775
Total admitted assets	<u>\$ 82,331,631</u>

**Statement of Liabilities, Capital and Surplus
December 31, 2013**

Liabilities

Losses	\$ 28,526,066
Reinsurance payable on paid losses and loss adjustment expenses	446,653
Loss adjustment expenses	3,571,568
Other expenses	143,999
Taxes, licenses and fees	100,000
Borrowed money and interest thereon	3,860,678
Unearned premiums	802,816
Remittances and items not allocated	92,720
Payable to parent, subsidiaries and affiliates	326,207
Aggregate write-ins for liabilities	
Continuity credit assumed liability	2,702,428
Assumed reinsurance liability	1,612,740
Premium deficiency reserve	192,000
Retroactive reinsurance reserve assumed	<u>55,870</u>
Total liabilities	42,433,745

Capital and Surplus

Common capital stock	2,942,436
Gross paid in and contributed surplus	23,180,772
Unassigned funds	<u>13,774,678</u>
Surplus as regards policyholders	<u>39,897,886</u>
Total liabilities, capital and surplus	<u>\$ 82,331,631</u>

Statement of Income
As of December 31, 2013

Premiums earned	<u>\$ 2,313,773</u>
Losses incurred	11,259,507
Loss adjustment expenses	1,604,766
Other underwriting expenses	2,972,686
Aggregate write-ins for underwriting deductions	
Premium deficiency reserve	<u>192,000</u>
Net underwriting gain	(13,715,186)
Net investment income earned	2,647,262
Net realized capital gain less capital gains tax	<u>438,467</u>
Net investment gain	<u>3,085,729</u>
Aggregate write-ins for miscellaneous income	
Continuity credit assumed	(776,707)
Retroactive reinsurance gain assumed	24,622
Miscellaneous Income	<u>3,363</u>
Total other income	<u>(748,722)</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>(11,378,179)</u>
Federal and foreign income taxes incurred	<u>(116,959)</u>
Net income	<u>(\$ 11,261,220)</u>

Statement of Changes in the Capital and Surplus Account (in thousands)

<u>Capital and Surplus</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital & surplus, prior year end	\$51,284	\$53,730	\$52,960	\$50,835	\$50,589
Net income	(11,261)	(3,555)	829	1,760	(44)
Change in net unrealized capital gains less capital gains tax	736	280	20	204	(150)
Change in net deferred income tax	3,871	882	(245)	229	(648)
Change in non-admitted assets	(4,732)	(256)	166	(68)	801
Cumulative effect of changes in accounting principles	-	203	-	-	287
Net change in capital and surplus	<u>(11,386)</u>	<u>(2,446)</u>	<u>770</u>	<u>2,125</u>	<u>246</u>
Capital and surplus, current year end	<u>\$39,898</u>	<u>\$51,284</u>	<u>\$53,730</u>	<u>\$52,960</u>	<u>\$50,835</u>

Notes to Financial Statements

Investments

The Company's investment portfolio primarily consists of fixed income bonds, mutual funds and an income fund and is in compliance with Section 3925.08 of the ORC. The investments were valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Charles C. Emma, FCAS, MAAA, of EVP Advisors, Inc. to render a Statement of Actuarial Opinion ("Opinion") on the total reserves. Mr. Emma prepared an Actuarial Report supporting the Opinion in conjunction with the preparation of the Company's December 31, 2013 Annual Statement.

Thomas Botsko, ACAS, MAAA, the Department's Chief Property and Casualty Actuary, reviewed the Actuarial Report and performed other procedures as considered necessary to evaluate the loss and loss adjustment expense ("LAE") reserves. Mr. Botsko concluded the reserves fall within a reasonable range of reserve estimates at December 31, 2013.

Subsequent Events

There are no material subsequent events.

Conclusion

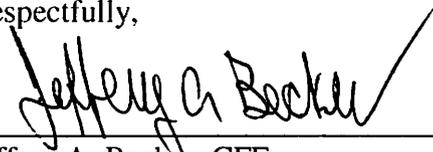
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2013, and is summarized as follows:

Total Admitted Assets	<u>\$ 82,331,631</u>
Liabilities	42,433,745
Surplus as Regards Policyholders	<u>39,897,886</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 82,331,631</u>

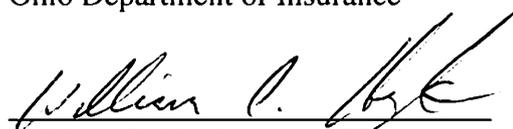
Acknowledgement

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Edward Nagorny, CISA, CFE, CPA; Kim Somogyi, AES, CPA and Bradley Schroer.

Respectfully,



Jeffery A. Becker, CFE
Examiner-In-Charge
Office of Risk Assessment
Ohio Department of Insurance



William C. Harrington, CFE
Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

MEMORANDUM

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FROM : [Illegible]

SUBJECT: [Illegible]

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Verification

As required by Section 3901.07 of the ORC, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2013.

Jeffery A. Becker 11/13/14 William C. Harrington 11/13/14
Examiner-In-Charge Date Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named, Jeffery A. Becker, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 13 day of November, 2014.

Elizabeth Chase
(Notary) **ELIZABETH CHASE**
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires

State of Ohio
County of Franklin

Personally appeared before me the above named, William C. Harrington, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 13 day of November, 2014.

Elizabeth Chase
(Notary) **ELIZABETH CHASE**
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires