Report for Special Master's Status Conference

August 4, 2023

R-565 Friday Health Insurance Company

SDR: CANTILO & BENNETT, L.L.P.
Primary Responsible Person: Susan E. Salch
Estate Counsel: Christopher Fuller and Greg Pierce
Receiver's Counsel: David Ashton
RLO Analyst: John Walker

Background on Receivership

- Date of Permanent Injunction (Liquidation): March 23, 2023
- Date of Appointment of SDR: March 23, 2023
- Claims Filing Deadline: TBD
- States Where Licensed: Texas
- Lines of Business: Friday Health Insurance Company ("FHIC") offered Affordable Care Act ("ACA") individual and small group health insurance plans
- Texas Guaranty Association Triggered: Texas Life and Health Insurance Guaranty Association ("TLHIGA")
- Early Access Distributions: TBD

Overview of FHIC: FHIC was licensed to write business only in Texas and began issuing policies on January 1, 2021. The company only offered ACA individual and group health insurance policies. In 2022, FHIC insured approximately 300,000 individuals. All individual policies terminated on December 31, 2022. There were only eight small group plans remaining covering forty-eight people as of the date of receivership and they have all terminated pursuant to the terms of the plans.

FHIC was placed into Supervision on September 30, 2022. It was placed into receivership for liquidation on March 23, 2023.

FHIC was a virtual insurance company and did not have any employees, offices, or equipment of its own. All functions were performed by FHIC parent, Friday Health Plans Management Services Company, Inc. ("FHPMSC").

Statement of Assets and Liabilities as of June 30, 2023

Total Assets:	$382,670,031
Cash & Invested Assets:	$186,490,457
Non-Cash Assets:	$ 77,439,801
Restricted Assets:	$118,739,773
Total Liabilities:	$747,908,439
Negative Equity:	($365,238,408)

Status and Activity Since Last Conference

Affiliates Status and Interaction with SDR and Friday Health Plans, Inc. ("FHP"): All five of FHIC's active affiliates in Colorado, Georgia, North Carolina, Oklahoma, and Nevada are under some form of regulatory control and all are headed to liquidation. Unlike FHIC, the receivers for these companies (referred to collectively as the "Other States' Receivers" or "OSRs") require significant administrative and claims handling services which FHPMSC was contractually required to provide. Each of the affiliates are significantly smaller than FHIC.

In the second week of June 2023, FHPMSC stated that it would cease operations in the near future unless the OSRs of the five affiliated Friday entities and their related guaranty associations agreed to retain FHPMSC to conduct the runoff of the entities. The OSRs refused to pay the amounts demanded, which ultimately lead to the shutdown described below. At this time, the OSRs are negotiating with whomever controls the FHPMSC entity to maintain access to the two offices in Alamosa, the equipment, and the third-party contracts.

The Texas SDR has cooperated with the OSRs and their respective guaranty associations on a number of matters.

FHPMSC Shutdown: As of the close of business on July 6, 2023, FHPMSC terminated all remaining employees. An existing third-party vendor, UST HealthProof ("UST"), hired a significant number of the former employees to continue to work at the (former) FHPMSC's Alamosa office and to provide administration and claims processing services for the receivers of the other states — Colorado, Oklahoma, Georgia, and North Carolina (whether the Nevada affiliate is participating is unknown) and claims processing for the TLHIGA. As of the date of this report, it appears that one Alamosa office remains open and functioning. The SDR is not a party to the agreement with UST.

Delaware Assignment for Benefit of Creditors ("ABC") Proceeding: It is not clear who currently controls the FHPMSC entity, since all of its employees, including management, were fired on July 6, 2023. Before the shutdown, its counsel stated that the company and its parent FHP would file an antiquated Delaware statutory proceeding referred to as an Assignment for Benefit of Creditors. In response to the information, the SDR retained Delaware counsel. The SDR was involved in an ABC proceeding in Delaware in the Access Insurance Company receivership and is familiar with the process. The ABC petition was filed on July 24, 2023. The SDR and counsel are reviewing how the transactions before and after the ABC filing were structured. The SDR's Delaware counsel had previously notified, in writing, the counsel for the ABC transactions that it reserved its right to oppose any ABC filings and seek their dismissal, if necessary.

IT Matters: On June 2, 2023, the Receivership Court issued its order approving the SDR's Application for Approval of Receivership Service Provider to retain vendor, Network1, to create and maintain secure cloud storage for the estate's data. As of the date of this Report, all of the policy and claim data has been uploaded into the Network1 cloud storage. FHIC's financial data has been secured.

Paper Records: The Receivership Court granted the SDR's application for authority to continue FHIC's pre-receivership practice of shredding paper records after they are scanned for optical character recognition and imaged into a database. The order was entered on June 2, 2023. The SDR has been informed that the paper records in question are being destroyed pursuant to the order.

The SDR was notified in late June 2023 that FHPMSC had approximately forty boxes of returned mail and paper appeals (mostly IDRs) for FHIC. The documents are located in the Alamosa office. The materials are primarily Explanations of Benefits ("EOBs") notices, which are sent out when a claim on the policy is processed. The returns have been noted in the policy files for the consumers. All of the boxes will be shipped to Austin, inventoried, and stored.

Claims Activity

Proof of Claim ("POC") process: The SDR and TDI are working jointly on a draft application to provide notice and set a POC deadline**.** Once approved, the SDR will file it with the Receivership Court.

TLHIGA: The SDR continued its strong working relationship with TLHIGA. TLHIGA originally contracted with FHIC's parent company, FHPMSC, to process its covered claims. The vast majority of the claims were processed before FHPMSC shutdown. The guaranty association is contracting with UST to handle new claims and appeals. As of July 31, 2023, TLHIGA has approved the processing of approximately 95,000 claims and has authorized payment of over $12.8 million.

Due to processing constraints, FHPMSC's claims system automatically off-set any overpayments owed by particular providers against future claims. Therefore, the SDR and TLHIGA entered into a Rule 11 Agreement authorizing the guaranty association to reduce amounts owed to those providers by the amount of the overpayments, treating the amounts as a form of early access. The Rule 11 Agreement will be subsumed into the Early Access Agreement (see below, "**Early Access**").

TLHIGA has agreed to have claims that are "over the cap" (in excess of the association's $500,000 limits on coverage) fully processed under its agreement with UST. The SDR expects to be able to process all POCs except IDR claims with existing approved subcontractors. The SDR may have to contract with a third-party vendor, such as UST, to process IDR POCs initially. However, the deadline to file such claims will be, at the earliest, mid-2024, leaving the SDR with sufficient time between now and then to identify and retain such a contractor.

Risk Adjustment Transfer ("RAT") Liability: The RAT program is a component of the ACA that transfers premiums from insurers that enroll members with relatively lower health risks to insurers that enroll members with relatively higher health risks. CMS issued its 2022 Summary Report on June 30, 2023. It recites that FHIC owes $633,696,895 in RAT liability for the 2022 plan year. RAT payments are calculated annually, and payment for the 2022 assessment is due in August 2023. The RAT obligation arises under federal law, and it is the SDR's position that it has a Class 3 priority under Section 443.301 of the Insurance Code. The SDR will not make any payments on the RAT liability outside of the POC process.

Early Access: The SDR and TDI are working jointly on a draft application to approve an early access agreement with TLHIGA and distribute $25 million as the first early access distribution. Once approved, the SDR will file it with the Receivership Court.

Asset Recovery Activity

Reinsurance: FHIC has two reinsurance relationships. The first is a quota share agreement with AXA France Vie ("AXA") with coverage of 60% for 2021 and 80% for 2022. Shortly before receivership, AXA gave notice that it considered the agreement to be terminated as of January 1, 2022. Following regulatory action against the other states' companies, AXA sent each of them a notice of termination. AXA has made a written demand that the SDR formally agree to sequester all money from the trust account and further agree not to draw from the trust account funds held at Treasury, notwithstanding how much money AXA owes FHIC. The request is under review.

FHIC has an excess-of-loss treaty with Odyssey Reinsurance Company (Odyssey). The treaty terminated on June 30, 2023. The treaty contains a sunset clause which requires notice of estimated excess of losses claims by no later than June 30, 2023. The required reporting was completed and provided to Risk Strategies, the reinsurance intermediary, before the deadline.

Cash/Securities: As FHIC's portfolio of US Treasury Bills and Bonds mature, proceeds are deposited in the estate's Texas Treasury Safekeeping Trust account. The total investments matured from inception of the estate is $64,000,000.

Other Asset Recovery Activity: The SDR and estate counsel have begun to research potential asset recovery claims.

General Legal Activity

Litigation: There were no pending lawsuits against FHIC at liquidation. A case that was filed in small claims court in Denver was dismissed after the court was notified of the receivership. There were a number of arbitrations pending at receivership, consisting of health care providers objecting to the amount paid on particular claims under the Prompt Pay statutes and regulations. All claimants have been notified of the receivership and automatic stay.

Summary of Major Achievements:

- Completed takeover activities.

- Established estate cloud storage for all policy and claim data using Network1.
- Retained Delaware counsel to advise on FHPMSC ABC proceedings.
- Filed estate's first Quarterly Financial Report to the Receivership Court.

Estate Goals to Achieve Prior to Next Status Conference:

- Continue coordinating with TLHIGA.
- File application to set POC filing deadline.
- File first early access application.
- Work with the guaranty associations and OSRs on reinsurance reporting.
- Review potential asset recovery activity.

Estate Closing Date of Receivership: TBD

Identification of Factors Affecting Closing Date and Final Distribution: TBD