

RECEIVERSHIP STATUS REPORT TO THE SPECIAL MASTER

November 1, 2024

R-565 Friday Health Insurance Company

Special Deputy Receiver:	CANTILO & BENNETT, L.L.P.	TX Guaranty Assoc.:	TLHIGA
SDR Responsible Person:	Susan E. Salch	Receiver's Counsel:	David Ashton
SDR's Counsel:	Christopher Fuller and Greg Pierce	Est'd Closing Date:	TBD

SPECIFIC ACCOMPLISHMENTS SINCE THE LAST STATUS CONFERENCE

- Drafted Second Supplement to Fee Application to add Phia as an approved subcontractor.
- Tentative agreement to mediate disputes in Delaware ABC proceeding.
- Submitted additional losses to Excess of Loss ("XOL") reinsurer.
- Began initial review of \$639,847,812.72 POC filed by the Centers for Medicare and Medicaid Services ("CMS").

SPECIFIC ESTATE GOALS TO ACHIEVE IN THE NEXT QUARTER

- File application for approval of settlement with XOL reinsurer.
- File application for approval of second early access distribution.
- File application for approval of Second Supplement to SDR's Fee Application.

Receivership Background

- Date of Permanent Injunction (Liquidation): March 23, 2023
- Date of Appointment of SDR: March 23, 2023
- Claims Filing Deadline: September 5, 2024
- States Where Licensed: Texas
- Lines of Business: Affordable Care Act (“ACA”) individual and small group health insurance plans
- Early Access Distribution: December 2023 - \$25,000,000

Statement of Assets and Liabilities as of September 30, 2024

Total Assets:	\$450,088,538
Cash:	\$171,279,045
Non-Cash Assets:	\$151,899,101
Restricted Assets:	\$126,910,392
Total Liabilities:	\$829,202,957
Negative Equity:	(\$379,114,419)

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 companies of the other states, AXA sent each of them a notice of dispute. The SDR and AXA have communicated regarding the reinsurer’s contentions, and the SDR is preparing to respond to certain requests for information.

AXA owes FHIC approximately \$246 million as of September 30, 2024. Reporting is done quarterly, so the paid loss figure, which includes the ceded risk adjustment obligation reported by CMS in its June 30, 2023, report and POC, will be quantified further in the quarterly reporting, as post-receivership paid losses by TLHIGA and the guaranty associations for the other states’ affiliates are reported.

FHIC has an XOL treaty with Odyssey Reinsurance Company. The treaty terminated on June 30, 2023, but continues to cover losses arising before and reported by June 30, 2023. TLHIGA has provided the SDR with information for claims that both exceed the association’s \$500,000 cap and the same threshold for XOL coverage, which has been reported to the reinsurer. The parties to the agreement are negotiating a final commutation of the agreement. Since the last report, additional covered losses were reported by guaranty associations from other states, which have been submitted to Odyssey.

Subrogation: Before receivership, Phia pursued subrogation recoveries for FHIC even though the only written agreement was between Phia and the Friday Colorado affiliate. Estate counsel notified Phia of the receivership and instructed it that all collections and

communications regarding Texas claims had to go through the SDR. As of June 30, 2024, the SDR has received \$246,377 in subrogation; all on pre-liquidation claim payments.

The SDR will submit a Second Supplement to the Fee Application to include Phia as a receivership subcontractor in the near future. TLHIGA has agreed that the SDR will contract with Phia for the collection of all Texas claims. The SDR will then work with TLHIGA to reconcile which recoveries go to the estate (pre-liquidation claims) and which will be credited to TLHIGA (from their claim processing).

Overpayment Recovery: FHIC's financial records reflect significant overpayments to providers that are owed to the company. The SDR continues to update the amounts owed and is reconciling guaranty association payments and credits. The SDR anticipates beginning collection efforts in early 2025.

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

Claims Activity

POC Processing: As of September 30, 2024, 2,318 timely POCs had been received; 6 were mailed after the September 5, 2024, deadline. A large number of POCs were mailed by the September 5 deadline, and some are still being uploaded to the SDR's server. As of October 10, 2024, the SDR has completed the initial intake process for 2,238 POCs: 1188 by providers for themselves and 981 by providers on behalf of members, 3 for agent commissions, 13 for premiums or post-policy termination payments, 46 by members for unpaid claims, 2 by vendors, 2 by reinsurers (AXA and Odyssey), 1 by CMS and 2 by TLHIGA (one for claims, the other for expenses). Providers filed 47 POCs listing the names of members they treated as claimants.

Upon intake, the SDR's claims team identifies POCs that could be covered by TLHIGA, and then checks the association's claims log to see if the claim has already been determined. The SDR has not yet referred any POCs to TLHIGA.

A number of the POCs received to date fail to comply with the Receivership Court-approved instructions. The SDR's claims subcontractor has been instructed to contact such claimants by mail and request that the omission be cured within thirty days. Failure to do so will result in the denial of the POC. Only a handful of corrected POCs have been submitted in response to the letters.

TLHIGA: As of September 30, 2024, TLHIGA handled 158,107 claims totaling \$26,183,413. Some of the payments include offsetting provider overpayments due to the estate. As of September 30, TLHIGA had only 6 open claims.

The association reports approximately 749 remaining appeals of its claim determinations. A handful of providers have 741 of the claims.

TLHIGA agreed to have claims that are in excess of the association's \$500,000 limit on coverage processed entirely under its agreement with UST. The results are reported to the

SDR for reinsurance reporting purposes. The Receivership Court deemed all claims in excess of TLHIGA's \$500,000 limit in order to protect consumers and facilitate reinsurance reporting.

The Receivership Court approved the SDR's application for an early access distribution on November 9, 2023. The SDR distributed \$25 million to TLHIGA in December 2023. The SDR reviewed TLHIGA's backup and documentation for its request for a second early access distribution and expects to seek approval for a second early access distribution.

Risk Adjustment Transfer ("RAT") Liability: As noted above, CMS filed a POC for \$639,847,812.72. Although it includes several liability categories, CMS claims \$638,746,072.43 in RAT liability.

General Legal Activity

Delaware Assignment for Benefit of Creditors ("ABC") Proceeding: The SDR is working with the SDR's from the other Friday affiliates, the ABC entity, and an alleged secured creditor on a stipulation to the Delaware Chancery Court staying proceedings while the parties mediate their disputes.

In a related matter, the SDR for the Georgia affiliate filed suit in its state court against the ABC entity and the parent companies, FHPMSC and FHP. The Georgia SDR asserts causes of action for preferential transfers, conversion, and breach of guaranty agreement. FHPMSC and FHP requested, and were granted, extensions on their answer dates, but counsel has not made an appearance for the ABC entity.

Litigation: There are no pending lawsuits against FHIC.

Estate Closing Date of Receivership: TBD

Identification of Factors Affecting Closing Date and Final Distribution: TBD