

REPORT ON EXAMINATION

OF THE

MWD INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

DATE OF REPORT

JUNE 26, 2013

EXAMINER

WEI CAO

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawskey  
Superintendent

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Honorable Benjamin M. Lawskey  
Superintendent of Financial Services  
Albany, New York 12257

June 26, 2013

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30907 dated December 27, 2012, attached hereto, I have made an examination into the condition and affairs of MWD Insurance Company as of December 31, 2011, and submit the following report thereon.

Wherever the designation “the Company” or “MWD” appears herein without qualification, it should be understood to indicate MWD Insurance Company. Wherever the designation “Parent” or “Medco” appears herein without qualification, it should be understood to refer to Medco Health Solutions, Inc.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

## 1. SCOPE OF EXAMINATION

The examination covers the period from the Company's inception of May 1, 2006 through December 31, 2011, and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including invested assets, and losses and loss adjustment expense reserves. The examination included a review of income, disbursements and Company records deemed necessary to accomplish such analysis or verification. Additionally, a review was performed to determine whether the captive insurer was operating within its by-laws, conforming with its plan of operation, as submitted to the New York State Department of Financial Services, and was in compliance with Article 70 of the New York Insurance Law.

Comments and recommendations are limited to those items requiring financial adjustment, procedural recommendations, or instances where the Company was not conforming to the application submitted to the Department or Article 70 of the New York Insurance Law.

The report utilized work performed by the Company's independent certified public accountants and its opining actuary to the extent considered appropriate.

## 2. DESCRIPTION OF COMPANY

MWD Insurance Company operates as a subsidiary of Medco Health Solutions, Inc. The Company was organized under the laws of the State of New York on May 1, 2006 as a captive insurer. The Company received a Certificate of Authority from the New York State Department of Financial Services on July 6, 2006 to commence business.

### A. Articles of Incorporation

The Company is organized to transact the kinds of insurance specified in Sections 1113(a) and 1114 of the New York Insurance Law, subject at all times to the limitations on the business of pure captive insurance companies set forth in Article 70 of the New York Insurance Law.

### B. By-Laws

It appears that the Company is in compliance with its by-laws in all material respects.

C. Capital Structure

As a pure captive insurance company incorporated as a stock insurer, the Company is required to maintain surplus as regards policyholders of not less than \$250,000, of which \$100,000 shall represent paid in capital pursuant to the provisions of Section 7004(a)(1) of the New York Insurance Law.

As of December 31, 2011, the Company's paid in capital was \$100,000 consisting of 100,000 shares of \$1 par value per share common stock and its surplus as regards policyholders was \$542,571.

D. Corporate Records

The corporate records reviewed appear to be substantially accurate and complete in all material respects.

E. Management and Control

(i) Captive Manager

Section 7003(b)(4) of the New York Insurance Law provides that no captive insurer shall do any captive insurance business in this state unless it utilizes a captive manager resident in the State of New York that is licensed as an agent or broker under the provisions of the Article 21 of the New York Insurance Law or any other person approved by the Superintendent.

The Company is managed by Aon Insurance Managers (USA) Inc., the captive management arm of Aon Risk Services Northeast, Inc., an insurance broker licensed by the Department. The manager's duties, pursuant to the Management Agreement shall have the following authorities and duties:

- Assist the Company in complying with rules, regulations and requirements of and pursuant to Article 70 of the New York Insurance Law;
- Maintain the Company's books and records in accordance with established insurance accounting principles;
- Assist in the maintenance of the Company's bank accounts;
- Prepare statistical and other reports;

- Prepare for the Company's review and approval, tax statements and returns with respect to premium taxes as required pursuant to Article 70 of the New York Insurance Law;
- Coordinate the activities of, and provide assistance and information to various entities selected by the Company to provide legal, audit, actuarial, claims adjustment, loss reserve analysis and certification and other common services to it ("service providers");
- Provide continuing advice on captive insurance industry customs, practices, and other technical matters;
- Provide administrative assistance in the implementation of any insurance or reinsurance program;
- Provide facilities and services to assist in the conduct of, and the Company's response to, any regulatory inquiries, investigations and examinations.

(ii) Board of Directors

At December 31, 2011, the board of directors was comprised of the following four members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Peter Gaylord New York, NY	Treasurer, Medco Health Solutions, Inc.
Jayne Kasarda Chatham, NJ	VP Finance, Medco Health Solutions, Inc.
Rachel Gould New York, NY	Director – State and Local Taxes, Medco Health Solutions, Inc.
Colleen McIntosh Highland Mills, NY	Associate General Counsel, Medco Health Solutions, Inc.

During the period covered by this examination, the board met once each year. A review of the meeting minutes during the examination period indicated that all the board meetings were generally well attended.

(iii) Officers

As of December 31, 2011, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Peter Gaylord	President
Jayne Kasarda	Secretary & Treasurer

F. Certified Public Accountant (“CPA”) and Actuarial Services

The Company was audited by the independent CPA, Johnson Lambert & Co., Burlington, VT during the examination period. The Company’s appointed actuary as of December 31, 2011 was Aon Global Risk Consulting, One Liberty Place, 1650 Market Street, Philadelphia, PA.

G. Growth of Company

The following schedule sets forth a summary of the Company’s significant financial information for the period covered by this examination:

<u>Year</u>	<u>New Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholders’ Equity</u>
2006	\$ 317,400	\$ 50,134	\$2,592,078	\$1,050,134
2007	1,269,600	336,116	2,384,752	1,249,335
2008	770,000	325,214	2,650,398	1,442,886
2009	808,000	(121,296)	2,304,090	1,323,109
2010	2,060,669	292,664	3,433,657	1,882,832
2011	2,069,000	(490,261)	4,079,514	542,571

### 3. FINANCIAL STATEMENTS

With the Department's permission, the Company's financial statements have been prepared in conformity with generally accepted accounting principles, which differ from statutory accounting principles prescribed or permitted by the Department for insurance companies. The Company's independent CPA firm concluded that the following financial statements present fairly, in all material respects, the Company's financial position as of December 31, 2011.

#### A Balance Sheet

##### Assets

Cash	\$3,504,682	
Prepaid expenses	1,250	
Premium receivable	172,417	
Federal income tax receivable	227,241	
Deferred federal income tax	<u>173,924</u>	
Total Assets		<u>\$4,079,514</u>

##### Liabilities

Losses and loss adjustment expenses	\$3,333,000	
Accounts payable and accrued expenses	23,250	
Unearned premiums	172,417	
Premium taxes payable	<u>8,276</u>	
Total liabilities		\$3,536,943

##### Capital and Surplus

Paid in capital (par value)	\$ 100,000	
Contributed surplus	900,000	
Surplus (accumulated earnings)	<u>(457,429)</u>	
Total shareholders' equity		<u>542,571</u>
Total liabilities and capital surplus		<u>\$4,079,514</u>

B. Statement of Income

The Company's Capital and surplus has increased \$542,571 since its inception of May 1, 2006 detailed as follows:

Underwriting Income

Net premiums earned \$7,294,669

Deductions:

Net losses and loss adjustment expenses incurred \$6,009,248  
 Professional and management fees 412,554  
 Policy acquisition expenses 40,070

Total operating deductions 6,461,872

Investment Income

Net investment income \$ 174,820  
 Realized losses on investments (6,004)  
 Impairment loss on investments (401,615)

Total investment income (232,799)

Income before federal income taxes \$ 599,998

Federal income tax expenses 207,427

Net Income \$ 392,571

C. Capital and Surplus Account

Capital and surplus as of May 1, 2006 \$ 0

	<u>Gains in surplus</u>	<u>Losses in surplus</u>	
Net income	\$392,571		
Issuance of common stock	100,000		
Capital contribution	900,000		
Shareholder dividend	<u>0</u>	<u>\$850,000</u>	
Net increase in surplus	<u>\$1,392,571</u>	<u>\$850,000</u>	<u>542,571</u>

Capital and surplus as of December 31, 2011 \$ 542,571

#### **4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The Company reported liabilities for Losses and loss adjustment expenses of \$3,333,000 in its 2011 annual statement. The Company's opening actuary stated the following in its Statement of Actuarial Opinion regarding the Company's reported liabilities:

"In my opinion, the amounts shown in the Annual Statement of MWD:

- Meet the requirements of the insurance laws of New York;
- Are consistent with reserves computed in accordance with accepted actuarial standards and principles; and
- Make a reasonable provision for all unpaid loss and loss expense obligations of MWD under the terms of its contracts and agreements."

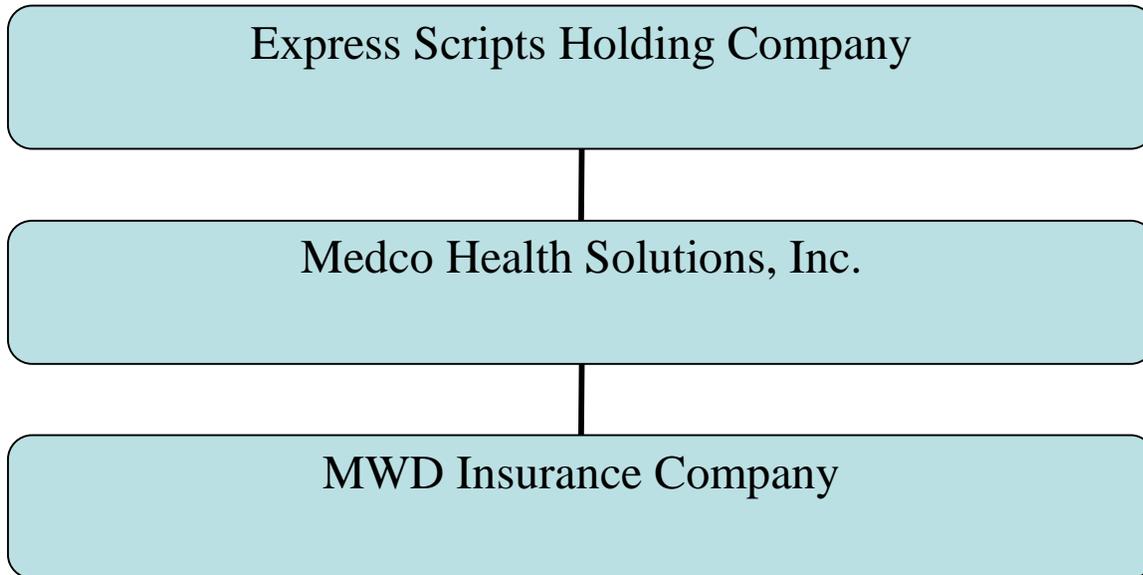
#### **5. ARTICLE 70 COMPLIANCE**

Article 70 of the New York State Insurance Law is the governing section of the law for the formation and continued operation of captive insurers in New York State. A review was performed to test the Company's compliance with all applicable parts of Article 70 of the New York Insurance Law. No significant areas of non-compliance were found.

#### **6. ORGANIZATIONAL STRUCTURE**

MWD Insurance Company is wholly-owned by Medco Health Solutions, Inc., a healthcare company that provides clinically-driven pharmacy services for private and public employers, health plans, labor unions, government agencies and individuals worldwide. On April 2, 2012 Express Scripts Holding Company completed its announced \$29.1 billion acquisition of Medco Health Solutions, Inc., creating the country's leading healthcare services company.

The below is the organizational chart post- merger of Express Scripts Holding Company and Medco Health Solutions, Inc.



#### **7. INSURANCE PROGRAM**

During the examination period, the Company provided Professional Liability Insurance to insure its parent company, Medco Health Solutions, Inc. As of December 31, 2011, the insurance limit for the Professional Liability coverage is \$15,000,000 per occurrence.

#### **8. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

There are no comments or recommendations in this report.

Respectfully submitted,

\_\_\_\_\_/s/\_\_\_\_\_  
Wei Cao  
Senior Insurance Examiner

STATE OF NEW YORK    )  
                                  )ss:  
COUNTY OF NEW YORK    )

WEI CAO, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

\_\_\_\_\_/s/\_\_\_\_\_  
Wei Cao

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2013.

APPOINTMENT NO. 30907

*NEW YORK STATE*

***DEPARTMENT OF FINANCIAL SERVICES***

*I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

*Wei Cao*

*as a proper person to examine the affairs of the*

***MWD INSURANCE COMPANY***

*and to make a report to me in writing of the condition of said*

***COMPANY***

*with such other information as he shall deem requisite.*

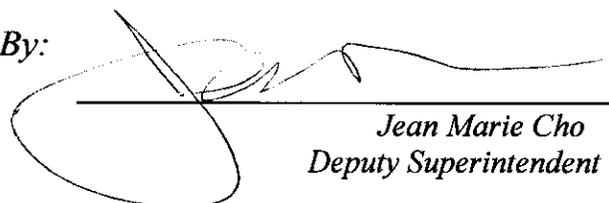
*In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York*

*this 27th day of December, 2012*

***BENJAMIN M. LAWSKY***  
*Superintendent of Financial Services*



By:

  
\_\_\_\_\_  
*Jean Marie Cho*  
*Deputy Superintendent*