

REPORT ON EXAMINATION

OF

CRYSTAL RUN HEALTH INSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2015

DATE OF REPORT:

MARCH 21, 2018

EXAMINER:

JEFFREY USHER, CFE

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

March 21, 2018

Honorable Maria T. Vullo
Superintendent of Financial Services
Albany, New York 12257

Madam:

Pursuant to the provisions of the New York Insurance Law, and acting in accordance with the instructions contained in Appointment Number 31516, dated August 4, 2016, attached hereto, I have made an examination into the financial condition and affairs of Crystal Run Health Insurance Company, Inc. a for-profit stock company licensed pursuant to the provisions of Article 42 of the New York Insurance Law, as of December 31, 2015. The following report is respectfully submitted thereon.

The examination was conducted at the home office of Crystal Run Health Insurance Company, Inc., located at 109 Rykowski Lane, Middletown, NY.

Wherever the designations the “Company” or “CRHIC” appear herein, without qualification, they should be understood to indicate Crystal Run Health Insurance Company, Inc.

Wherever the designation the “Crystal Run Companies” appears herein, without qualification, it should be understood to indicate Crystal Run Health Insurance Company, Inc. and Crystal Run Health Plan, LLC, collectively.

Wherever the designation “CRHG” appears herein, without qualification, it should be understood to indicate Crystal Run Health Group, LLC, the immediate parent of the Crystal Run Companies.

Wherever the designation “CRHLLP” appears herein, without qualification, it should be understood to indicate Crystal Run Healthcare, LLP, the ultimate parent.

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

A separate market conduct examination was conducted as of December 31, 2015, to review the manner in which the Crystal Run Companies conducted their business practices and fulfilled their contractual obligations to policyholders and claimants. A separate report has been submitted thereon.

A concurrent financial examination was also made of Crystal Run Health Plan, LLC (“CRHP”), a for-profit health maintenance organization (HMO) licensed pursuant to the provisions of Article 44 of the New York State Public Health Law. This company is an affiliate within the Crystal Run Health Care Holding company system as detailed herein. A separate report thereon has been submitted for CRHP.

1. SCOPE OF THE EXAMINATION

This is the first examination of Crystal Run Health Insurance Company, Inc. An “on organization” was conducted as of Dec. 10, 2014, with the Report on Examination filed on December 29, 2014. This examination was conducted as a financial examination as such term is defined in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook, 2016 Edition* (the “Handbook”) and covered the period from January 1, 2015 through December 31, 2015. The examination was conducted observing the guidelines and procedures in the Handbook. Where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2015 were also reviewed.

The examination was conducted on a risk-focused basis in accordance with the provisions of the Handbook, which provides guidance for the establishment of an examination plan based on the examiner’s assessment of risk in CRHIC’s operations and utilizes that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the Company’s current financial condition, as well as to identify prospective risks that may threaten the future solvency of CRHIC.

The examiner identified key processes, assessed the risks within those processes and assessed the internal control systems and procedures used to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, an evaluation of the overall financial statement presentation, and determined management’s compliance with the Department’s statutes and guidelines, Statutory Accounting Principles, as adopted by the Department, and NAIC Annual Statement instructions.

Information concerning the Company's organizational structure, business approach and control environment were utilized to develop the examination approach. The examination evaluated the Company's risks and management activities in accordance with the NAIC's nine branded risk categories.

These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit
- Market
- Liquidity
- Legal
- Reputational

The examination also evaluated the Company's critical risk categories in accordance with the NAIC's ten critical risk categories. These categories are as follows:

- Valuation/Impairment of Complex or Subjectively Valued Invested Assets
- Liquidity Considerations
- Appropriateness of Investment Portfolio and Strategy
- Appropriateness /Adequacy of Reinsurance Program
- Reinsurance Reporting and Collectability
- Underwriting and Pricing Strategy/Quality
- Reserve Data
- Reserve Adequacy
- Related Party/Holding Company Consideration
- Capital Management

The Company was audited for calendar year 2015 by the accounting firm of PKF O'Connor Davies. The Company received an unmodified opinion for 2015. Certain audit work papers of PKF O'Connor Davies were reviewed and relied upon in conjunction with this examination.

During the examination, a review was made of the Company's IT systems and operations on a risk-focused basis, in accordance with the provisions of the Handbook.

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulations or rules, or which require explanation or description.

2. DESCRIPTION OF THE COMPANY

Crystal Run Health Insurance Company, Inc. was incorporated on December 2, 2013, as a for-profit accident and health insurer. The Company was licensed on December 31, 2014, pursuant to Article 42 of the New York Insurance Law to write insurance business as defined under Section 1113(a)(3)(i) of the New York Insurance Law. The Company operates as for-profit accident and health insurer, and commenced operations on June 1, 2015.

On July 23, 2014, the Company issued to CRHG, the immediate parent of CRHIC, 100,000 shares of capital stock with a par value of \$2.00 per share, for a price of \$68 per share resulting in an aggregate purchase price of \$6,800,000. The total investment consisted of paid in capital of \$200,000 and contributed surplus of \$6,600,000.

The Company's authorized control level Risk-Based Capital ("RBC") was \$304,630 as of December 31, 2015. Its total adjusted capital was \$2,411,133, yielding an RBC ratio of 791.50% at December 31, 2015.

A. Corporate Governance

Pursuant to the Company's charter and by-laws, management of the Company is to be vested in a board of directors consisting of no less than seven (7) and no more than twelve (12) directors. As of December 31, 2015, the directors consisted of nine (9) members as set forth below:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Scott Hines Slate Hill, NY	Medical Director/Division Leader, Crystal Run Healthcare LLP
David Jaeger Monroe, NY	Division Leader, Crystal Run Healthcare LLP
Gnanamba Kondagunta Goshen, NY	Division Leader, Crystal Run Healthcare LLP
Michelle Koury Goshen, NY	Chief Operating Officer, Crystal Run Healthcare LLP
Jonathan Nasser, MD Goshen, NY	Medical Director/Division Leader, Crystal Run Healthcare LLP
Laura Nicoll Monroe, NY	Medical Director/Division Leader, Crystal Run Healthcare LLP
Douglas Sansted Westport, CT	Chief Legal Officer, Crystal Run Healthcare LLP
Gregory Spencer, MD Goshen, NY	Chief Medical Officer, Crystal Run Healthcare LLP
Hal Teitelbaum, MD White Lake, NY	Chief Executive Officer/Managing Partner, Crystal Run Healthcare LLP

The officers of CRHIC included the following individuals:

<u>Name</u>	<u>Title</u>
Hal Teitelbaum, MD	President
Stephen A. Zeng	Interim Executive Director & Vice President of Finance
Kathleen Owens	Chief Compliance Officer
Jonathan Nasser, MD	Chief Medical Officer
Michelle Reay	Vice President Operations
Douglas Sansted	Secretary
Greg Spencer, MD	Assistant Secretary
Michelle Koury, MD	Treasurer

Enterprise Risk Management (ERM)

Part 82.2(a) of Insurance Regulation No. 203 (11 NYCRR 82) states in part:

“Pursuant to Insurance Law sections 1503(b), 1604(b), and 1717(b), an entity shall adopt a formal enterprise risk management function that identifies, assesses, monitors, and manages enterprise risk. Except as provided in subdivision (c) of this section, a domestic insurer that is not a member of a holding company system, an article 16 system, or an article 17 system also shall adopt such a formal enterprise risk management function. The enterprise risk management function shall be appropriate for the nature, scale, and complexity of the risk...”

In accordance with Insurance Regulation No. 203 (11 NYCRR 82) “Enterprise Risk Management and Own Risk and Solvency Assessment,” the Company’s ultimate parent, Crystal Run Healthcare, LLP, is required to adopt a formal enterprise risk management function effective December 31, 2014. CRHIC did not have an ERM framework in place during the examination period to proactively identify and mitigate various business risks, including prospective business risks.

It is recommended that CRHIC comply with Part 82.2(a) of Insurance Regulation No. 203 (11 NYCRR 82) by adopting a formal enterprise risk management function.

Internal Audit Department (IAD)

The Crystal Run Companies do not have an Internal Audit Department.

Insurance Regulation No. 118

Part 89.1(c) of Insurance Regulation No. 118 (11 NYCRR 89) states:

“Audit committee means a committee (or equivalent body) established by the board of directors of a company for the purpose of overseeing the accounting and financial reporting processes of a company or group of companies, and auditing of financial statements of the company or group of affected companies provided that: ...

(3) for a company that does not otherwise designate an audit committee, the company’s entire board of directors shall constitute the audit committee.

Part 89.2(c) of Insurance Regulation No. 118 (11 NYCRR 89) states:

“Every company required to file an annual audited financial report pursuant to this Part shall designate a group of individuals to constitute its audit committee.”

The Company’s Parent, CRHG, as well as its ultimate parent, CRH, are both non-publicly traded companies and therefore not subject to the Sarbanes-Oxley Act of 2002. However, the ultimate parent and the New York entities are subject to the provisions of Insurance Regulation No. 118. Insurance Regulation No. 118 (11 NYCRR 89) – “Audited Financial Statements,” is similar to the NAIC’s Model Audit Rule (“MAR”), and applies to certain New York regulated entities, including CRHIC. Insurance Regulation No. 118 became effective January 1, 2010.

The Crystal Run Companies have not formally designated the Company’s Board of Directors or a group of individuals to constitute its audit committee, as required by the cited regulation.

It is recommended that the Crystal Run Companies comply with Part 89.2(c) of Insurance Regulation No. 118 (11 NYCRR 89.2) by formally designating each respective company's entire Board of Directors or a group of individuals to constitute its audit committee.

B. Territory and Plan of Operation

The Company entered into a commitment with the Department, upon licensure, to maintain a net premium to surplus ratio of not more than 8:1 for Exclusive Provider Organization ("EPO") and Preferred Provider Organization ("PPO") products, and not more than 4:1 for other than EPO and PPO products. The CRHIC net premium to capital and surplus ratio as of December 31, 2015 was 0.884 to 1, in compliance with CRHIC's commitment. CRHIC began offering products with an effective date of June 1, 2015. During 2015, the Company wrote small group coverage "Off Exchange" and experience rated large group business.

During the year 2015, enrollment in New York by county and product type was as follows:

County	CRHIC 2015 Enrollment			
	EPO Large Group	EPO Small Group Off-Exchange	PPO Small Group Off-Exchange	Total
Orange	515	1,139	20	1,674
Sullivan	26	194	0	220
Total	541	1,333	20	1,894

The Company contracted with licensed brokers for the production of its business.

C. Reinsurance

i. Assumed Reinsurance

The Company did not assume any business during the examination period.

ii. Ceded Reinsurance

On December 31, 2015, the Company had a reinsurance agreement with Everest Insurance Company (“Everest”), an authorized reinsurer. The coverage gives the Company unlimited coverage up to 90% of claims incurred with a deductible of \$200,000 per Covered Person.

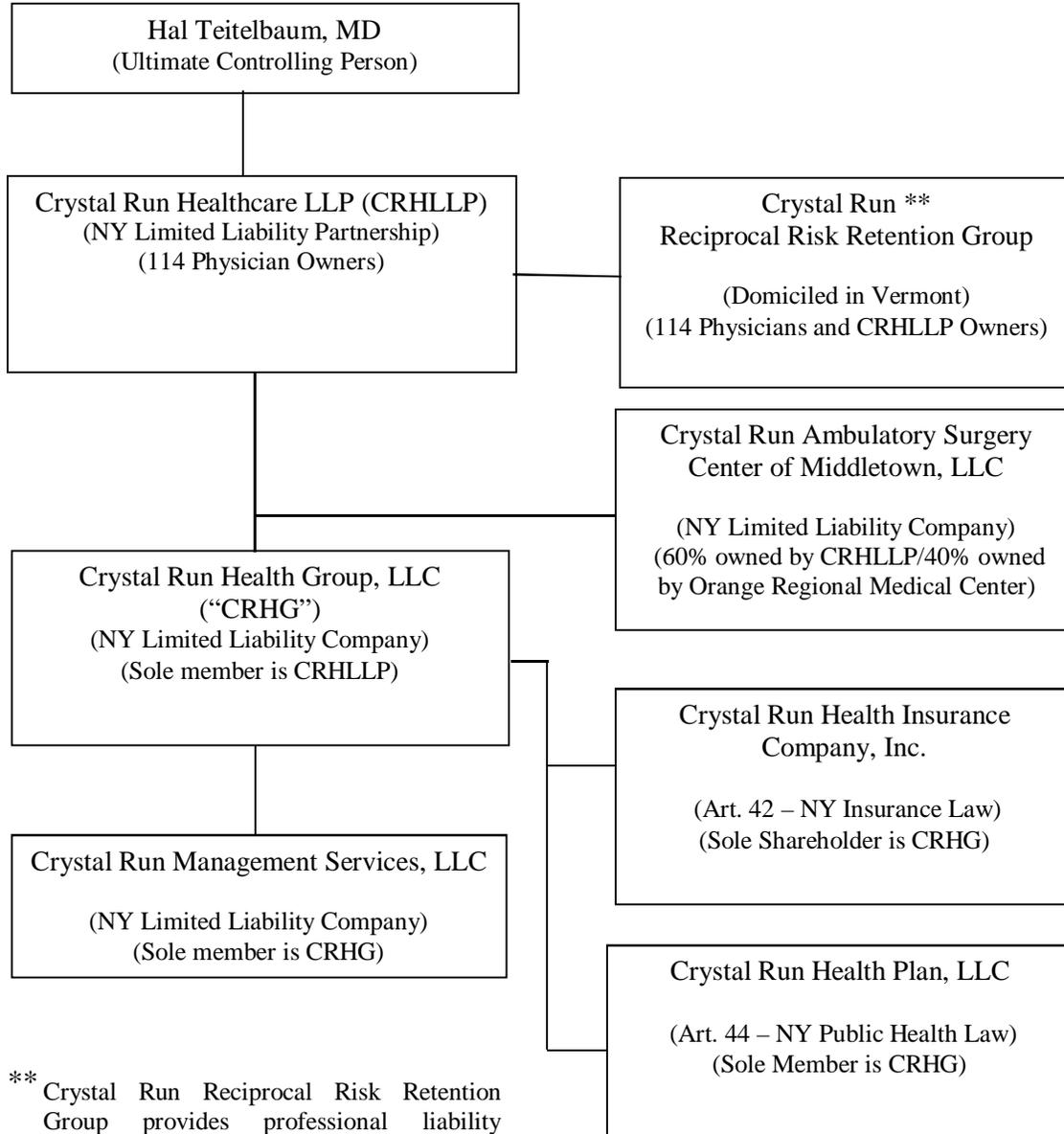
The reinsurance agreement contained all the required standard clauses, including the insolvency clause required by Section 1308(a)(2)(A) of the New York Insurance Law.

On June 1, 2016, the Company initiated a new reinsurance policy with Zurich American Insurance Company (“Zurich”). The Zurich policy replaced the Everest policy and has the same coverage limits.

The reinsurance agreement contains all the required standard clauses, including the insolvency clause required by Section 1308(a)(2)(A) of the New York Insurance Law.

D. Holding Company System

Below is a chart of the holding company system applicable to the Company and its related parties, as of the examination date:



** Crystal Run Reciprocal Risk Retention Group provides professional liability insurance to certain of the physicians practicing at Crystal Run Healthcare LLP. Crystal Run Healthcare LLP, and each partner of Crystal Run Healthcare LLP (individually) are subscribers in Crystal Run Reciprocal Risk Retention Group.

Hal Teitelbaum, MD, is deemed the ultimate controlling person in CRHIC's holding company system because he is the managing partner of Crystal Run Healthcare LLP ("CRHLLP").

CRHLLP is a New York limited liability partnership and a multi-specialty physician practice, with a principal business address of 155 Crystal Run Road, Middletown, NY 10941. CRHLLP is owned by 114 physician partners, each of whom holds an equal partnership interest.

Crystal Run Reciprocal Risk Retention Group ("CRRRG") is 100% held by CRHLLP. CRRRG is domiciled in Vermont and writes malpractice coverage for CRHLLP, its 114 physician owners and most of CRHLLP's employed physicians.

Crystal Run Ambulatory Surgery Center of Middletown, LLC, a New York limited liability company is held jointly by CRHLLP, which owns 60% of the membership interest, and Orange Regional Medical Center, which holds 40%.

Crystal Run Health Group, LLC, a New York limited liability company is owned 100% by CRHLLP and is the sole shareholder (immediate parent) of the Company.

CRHP is a for-profit health maintenance organization, organized in the State of New York under Article 44 of the New York State Public Health Law. CRHP obtained a Certificate of Authority ("COA") from the New York State Department of Health ("DOH"), effective August 1, 2015.

New York Insurance Law Section 1505(c) states in part:

“The superintendent's prior approval shall be required for the following transactions between a domestic controlled insurer and any person in its holding company system: sales, purchases, exchanges, loans or extensions of credit, or investments, involving five percent or more of the insurer's admitted assets at last year-end.”

New York Insurance Law Section 1505(d)(3) states in part:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or with regard to reinsurance treaties or agreements at least forty-five days prior thereto, or such shorter period as the superintendent may permit, and the superintendent has not disapproved it within such period:

(3) rendering of services on a regular or systematic basis;”

CRHIC reported in its December 31, 2015 Schedule Y – Part 2, “Summary of Insurer’s Transactions with any Affiliates”, approximately \$0.6 million and \$0.8 million paid to CRHP and Crystal Run Healthcare LLP, respectively for Management Agreements and Service Contracts. These amounts were 8.5% and 11.9% of CRHIC’s admitted assets as of December 31, 2015, respectively. CRHIC violated Section 1505(c) of the New York Insurance Law (“NYIL”) during 2015 as it conducted transactions over 5% of CRHIC’s admitted assets at year-end without obtaining the Superintendent’s approval.

CRHIC also entered into transactions with CRHLP during 2015 which involved rendering of services on a regular and systematic basis. CRHIC did not notify the Superintendent 30 days prior to entering into these transactions, as required by Section 1505(d)(3).

It is recommended that the Company comply with the requirements of Section 1505(c) of the New York Insurance Law by obtaining prior approval from the superintendent for all Management Agreements and Service Contracts where the conducted transactions exceed five percent of CRHIC's admitted assets at year-end.

It is also recommended that the Company comply with the requirements of Section 1505(d)(3) of the New York Insurance Law by providing the Superintendent written notice of its intention to enter into any transactions involving the rendering of services on a regular or systematic basis, at least thirty days prior thereto.

New York Insurance Law Section 1505(a) states in part:

“Transactions within a holding company system to which a controlled insurer is a party shall be subject to the following:

- (a) The terms shall be fair and equitable;
- (b) Charges or fees for services performed shall be reasonable...”

New York Insurance Law Section 1505(b) states:

“The books, accounts and records of each party to all such transactions shall be so maintained as to clearly and accurately disclose the nature and details of the transactions including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties.”

Part 106.6(b) of Insurance Regulation No. 30 (11 NYCRR 106.6) states:

“The effects of the application, to each operating expense classification of all bases of allocation shall be shown on records kept in clear and legible form. Such records shall be readily available for examination.”

The Crystal Run Companies maintain an expense allocation agreement with their ultimate parent, CRHLLP and affiliates that was approved by the Department, effective January

1, 2016. However, CRHLLP allocated expenses to CRHIC in 2015, prior to the implementation of that agreement.

The approved agreement, which was implemented subsequent to the examination, included the requirement that CRHLLP allocate expenses to the Company based on a special study to determine the expense cost of each employee. The Company did not comply with either the approved agreement or the cited statutory requirements, as no special studies were performed or documented to support the allocation of employee compensation from the Parent to the Company.

It is recommended that the Company comply with the requirements of Sections 1505(a) and (b) of the New York Insurance Law and its own expense allocation agreement with regard to transactions within its holding company system.

It is also recommended that the Company comply with Part 106.6 of Insurance Regulation No. 30 (11 NYCRR 106.6) by maintaining proper records to support the allocation percentages used for its expenses.

E. Significant operating ratios

The following ratios have been computed as of December 31, 2015, based upon the results of this examination:

Net premiums written to capital and surplus	0.88 to 1
Uncollected premiums to surplus	2.8%
Cash and invested assets to unpaid claims	6.1 to 1
Surplus to unpaid claims	213.1%

The above ratios fall within the NAIC benchmarks.

The underwriting ratios presented below are on an earned-incurred basis for the year 2015.

	<u>Amounts</u>	<u>Percentage</u>
Claims	\$1,883,209	88.35%
Claims adjustment expenses	448,934	21.06%
General administrative expenses	3,252,999	152.61%
Net underwriting loss	<u>(3,453,602)</u>	<u>(162.02%)</u>
Net premiums earned	<u>\$2,131,539</u>	<u>100.00%</u>

3. MEDICAL LOSS RATIO REPORTING

The Company's 2015 Medical Loss Ratio ("MLR") Annual Reporting Forms were reviewed to determine compliance with Title 45 of the U.S. Code of Federal Regulations ("CFR") (45 CFR §158.110(b)), which implements Section 2718 of the Public Health Service Act (PHS Act). Section 2718 of the PHS Act, as added by the Affordable Care Act ("ACA"), generally requires health insurance companies to submit to the Secretary of the U.S. Department of Health and Human Services, an annual report on their MLRs. The MLR is the proportion of premium revenue expended by a company on clinical services and activities that improve health care

quality in a given state and market. Section 2718 of the PHS Act also requires a company to provide rebates to consumers if it does not meet the MLR standard (generally, 80% in the individual and small group markets and 85% in the large group market).

This is the first examination of the Company's MLR Annual Reporting Form. The examination covered the reporting period from the Company's inception through December 31, 2015.

The examination was conducted in accordance with the Center for Consumer Information and Insurance Oversight ("CCIIO) Medical Loss Ratio Examination Handbook (the "MLR Handbook"). The MLR Handbook sets forth the guidelines and procedures for planning and performing an examination to evaluate the validity and accuracy of the data elements and calculated amounts reported on the MLR Reporting Form, and the accuracy and timeliness of any rebate payments. The examination included assessing the principles used and significant estimates made by the Company, evaluating the reasonableness of expense allocations, and determining compliance with relevant statutory accounting standards, MLR regulations and guidance, and the MLR Reporting Form Filing Instructions.

A. Medical Loss Ratio Reporting Form

Title 45 of CFR §158.110(b) requires that a report for each MLR reporting year is to be submitted to the Secretary of the U.S. Department of Health and Human Services ("HHS") by July 31st of the year following the end of an MLR reporting year, on a form and in the manner prescribed by the Secretary of HHS. Based on the examiner's review, CRHIC failed to file an

acceptable form by July 31, 2016 for the 2015 reporting year, and therefore was not in compliance with Title 45 CFR §158.110(b). CRHIC did file a Report after being advised of its omission.

Title 45 CFR §158.210 (c) requires that an issuer must provide a rebate to enrollees if the issuer has an MLR of less than 80% for the individual and small group markets and 85% in the large group market. The Company's MLR and rebate calculation from the MLR Annual Reporting Form, was as follows:

MLR Components	Small Group	Large Group
Adjusted Incurred Claims	\$ 1,026,862	\$ 360,301
<i>Plus:</i> Quality Improvement Expenses	0	0
Net expected risk adjustment payments	578,572	
MLR Numerator	\$ 1,605,434	\$360,301
Premium Earned	1,429,054	\$786,305
<i>Less:</i> Federal & State Taxes and Licensing/Regulatory Fees	54,152	5,146
MLR Denominator	\$ 1,374,902	\$ 781,159
Preliminary MLR Before Credibility Adjustment	116.7 %	46.1%
Credibility Adjustment	0 %	0%
Credibility-Adjusted MLR	+80%	+85%
MLR Standard	80 %	85 %
Rebate Amount	\$0	\$0

B. Medical Loss Ratio Numerator

According to Title 45 of CFR §158.221(b), the numerator of the MLR calculation is comprised of incurred claims, as defined in 45 CFR §158.140, plus expenditures for activities that improve health care quality, as defined in Title 45 CFR §158.150, and Title 45 CFR §158.151. The examiner verified the data used to calculate the numerator and noted that the Company did not account for Quality Improvement expenses. The inclusion of these expenses would have increased the medical loss ratio and thus, served to reduce the possibility of the Company having to pay rebates.

C. Medical Loss Ratio Denominator

According to 45 CFR §158.22(c), the denominator of the MLR calculation is comprised of premium revenue, as defined in 45 CFR §158.130, minus federal and state taxes and licensing and regulatory fees, described in 45 CFR §158.161(a), and 45 CFR §158.162(a)(1) and (b)(1). The examiner verified the data used to calculate the denominator and noted that the Company failed to account for agent commissions in its calculations. The inclusion of these expenses would have increased the medical loss ratio and thus, served to reduce the possibility of the Company having to pay rebates.

D. Credibility Adjustment

According to 45 CFR §158.230, the credibility of an issuer's experience is based upon the number of life-years covered by the issuer. Life-years means the total number of months of coverage for enrollees whose premiums and claims experience is included in the report to the Secretary required by §158.110 of this part, divided by 12. Part 45 CFR §158.230(c)(3) stipulates

that an MLR is non-credible if it is based on experience of less than 1,000 lives. The Company's calculated Life-Years was below that level and so, under Part 45 CFR §158.230(d), the Company's MLR is presumed to exceed the minimum percentage required by §158.210 or §158.211 of this subpart and so, no rebate is required.

It is recommended that the Company comply with Title 45 of the U.S. Code Federal Regulations (CFR) §158.110(b) and file a Medical Loss Ratio reporting form by the filing deadline.

4. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, and surplus as of December 31, 2015, as contained in the Company's 2015 filed annual statement, a condensed summary of operations and a reconciliation of the surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2015 filed annual statement.

The firm of PKF O'Connor Davies was retained by the Company to audit the Company's combined statutory bases statements of financial position for the year ended December 31, 2015, and the related statutory-basis statements of operations, surplus, and cash flows for the year then ended.

PKF O'Connor Davies concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company's at the respective audits date.

Balances reported in these audited financial statements were reconciled to the corresponding year's annual statement with no discrepancies noted.

A. Balance Sheet

Assets

Cash	\$6,848,473
Common stocks	303
Uncollected premiums	<u>67,676</u>
Total assets	\$ <u>6,916,452</u>

Liabilities

Claims unpaid	\$ 1,131,528
Unpaid claims adjustment expense	33,946
Premiums received in advance	416,689
General expenses due and accrued	559,462
Amount due to parent, subsidiaries and affiliates	<u>2,363,694</u>
Total Liabilities	\$ <u>4,505,319</u>

Capital and Surplus

Common capital stock	\$ 200,000
Gross paid-in and contributed surplus	6,600,000
Unassigned surplus	<u>(4,388,867)</u>
Total capital and surplus	\$ <u>2,411,133</u>
Total liabilities and surplus	\$ <u>6,916,452</u>

B. Statement of Revenue and Expenses and Change in Capital and Surplus

Capital and surplus decreased during the examination period, January 1, 2015 through December 31, 2015, detailed as follows:

<u>Revenue</u>		
Net premium income		\$ 2,131,539
<u>Expenses</u>		
Hospital/medical benefits	\$1,550,777	
Other professional services	84,560	
Emergency room and out of area	71,409	
Prescription drugs	<u>176,463</u>	
Total hospital and medical	\$1,883,209	
<u>Administrative expenses</u>		
Claim adjustment expenses	\$ 448,934	
General administrative expenses	<u>3,252,999</u>	
Total administrative expenses	\$3,701,933	
Total underwriting deductions		<u>5,585,141</u>
Net underwriting loss		<u>\$(3,453,602)</u>
Net investment income earned	1,463	
Net realized capital gain (or loss)	<u>0</u>	
Net investment gains		<u>\$ 1,463</u>
Net loss before federal income taxes		(3,452,139)
Federal income taxes incurred		<u>0</u>
Net loss		<u>\$(3,452,139)</u>

Capital and surplus, per report on examination, as of December 29, 2014			\$6,800,000
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net loss		\$ 3,452,139	
Change in net unrealized capital gains	\$ 0		
Change in non-admitted assets	0		
Capital Changes: paid in:	0		
Surplus adjustments: paid in:	0		
Aggregate write-ins for losses in surplus			
Prior year pre-operational costs	<u> </u>	<u>936,727</u>	
Net change in capital and surplus			<u>\$(4,388,866)</u>
Capital and surplus, per report on examination, as of December 31, 2015			<u>\$ 2,411,134</u>

5. SUBSEQUENT EVENTS

On December 29, 2017, the Department approved the acquisition of Crystal Run Health Insurance Company by Crystal Run Health Transformation Holdings, LLC (owned 66.67% by the Crystal Run Branch and 33.33% by the Montefiore Branch).

The Montefiore Branch includes CRHT Acquisition, Inc. a New York Limited Liability Company and CRHT's 33.33% membership interest holder ("CRHT Acquisition"); Montefiore Consolidated Ventures, Inc., a New York corporation and CRHT Acquisition's sole shareholder("MCV"); Montefiore Health System Inc. a New York not-for-profit corporation and MCV's sole shareholder ("MHS"); and Montefiore Medicine Academic Health System, Inc., a New York not-for-profit corporation and MHS's sole member ("MMAHS").

Crystal Run and Montefiore's stated objective was to create a linkage between two healthcare providers which are equally focused on the reform of the healthcare delivery system in the Hudson Valley region of New York State, and the Bronx and Westchester counties abutting the Hudson Valley.

The Crystal Run medical practice consisted of over 400 physicians and allied health professionals, while Montefiore and its controlled affiliated hospitals and healthcare providers employ approximately 3,350 physicians and operate nine acute care hospitals and approximately 189 outpatient centers.

Subsequent to the examination date, the Company received loans from the Parent, under New York Insurance Law §1307, in the amounts of \$1,591,596 and \$265,000 effective June 30, 2016 and December 31, 2016, respectively.

Additionally, the following amounts of paid-in capital were infused into the Company by Crystal Run Health Group, LLC on the dates noted:

January 30, 2017	\$ 400,000
January 31, 2017	1,895,000
March 31, 2017	450,000
April 28, 2017	150,000
May 31, 2017	765,000
July 12, 2017	1,854,275
October 12, 2017	<u>1,144,000</u>
Total	<u>\$6,658,275</u>

For the above listed amounts of \$400,000 on January 30, 2017 and \$1,895,000 on January 31, 2017, the Company did not obtain the prior approval of the Department, in violation of New York Insurance Law section 1505(c) as cited in Section 2 D of this report.

It is recommended that the Company comply with the requirements of Section 1505(c) of the New York Insurance Law by obtaining the prior approval of the superintendent for sales, purchases, exchanges, loans or extensions of credit, or investments, involving five percent or more of the Company's admitted assets at last year-end.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Enterprise Risk Management</u>	
It is recommended that CRHIC comply with Part 82.2(a) of Insurance Regulation No. 203 (11 NYCRR 82) by adopting a formal enterprise risk management function.	7
B. <u>Insurance Regulation No. 118</u>	
It is recommended that the Crystal Run Companies comply with Part 89.2(c) of Insurance Regulation No. 118 (11 NYCRR 89.2) by formally designating each respective company's entire Board of Directors or a group of individuals to constitute its audit committee.	9
C. <u>Holding Company System</u>	
i. It is recommended that the Company comply with the requirements of Section 1505(c) of the New York Insurance Law by obtaining prior approval from the superintendent for all Management Agreements and Service Contracts where the conducted transactions exceed five percent of CRHIC's admitted assets at year-end.	14
ii. It is also recommended that the Company comply with the requirements of Section 1505(d)(3) of the New York Insurance Law by providing the superintendent written notice of its intention to enter into any transactions involving the rendering of services on a regular or systematic basis, at least thirty days prior thereto.	14
iii. It is recommended that the Company comply with the requirements of Sections 1505(a) and (b) of the New York Insurance Law and its own expense allocation agreement with regard to transactions within its holding company system.	15

<u>ITEM</u>	<u>PAGE NO.</u>
iv. It is also recommended that the Company comply with Part 106.6 of Insurance Regulation No. 30 (11 NYCRR 106.6) by maintaining proper records to support the allocation percentages used for its expenses.	15
D. <u>Medical Loss Ratio</u>	
It is recommended that the Company comply with Title 45 of the U.S. Code Federal Regulations (CFR) §158.110(b) and file a Medical Loss Ratio reporting form by the filing deadline.	20
E <u>Subsequent Events</u>	
It is recommended that the Company comply with the requirements of Sections 1505(c) of the New York Insurance Law by obtaining the prior approval of the superintendent for sales, purchases, exchanges, loans or extensions of credit, or investments, involving five percent or more of the Company's admitted assets at last year-end.	25

Respectfully submitted,

Jeffrey Usher
Principal Insurance Examiner

STATE OF NEW YORK)
) SS.
)
COUNTY OF NEW YORK)

JEFFREY USHER, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

Jeffrey Usher

Subscribed and sworn to before me
this _____ day of _____ 2018.

NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES

I, MARIA T. VULLO, 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:

Jeffrey Usher

as a proper person to examine the affairs of

Crystal Run Health Insurance Company, Inc.

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

Company

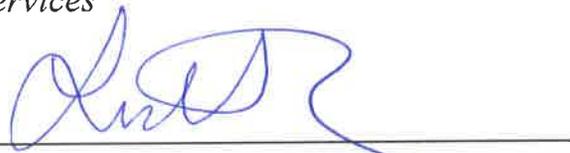
with such other information as he shall deem requisite.

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

this 4th day of August, 2016

MARIA T. VULLO
Superintendent of Financial
Services

By:



Lisette Johnson
Bureau Chief
Health Bureau

