

REPORT ON EXAMINATION
OF
MVP HEALTH SERVICES CORP.
AS OF
DECEMBER 31, 2010

DATE OF REPORT

JULY 27, 2012

EXAMINER

JEFFREY USHER

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

July 27, 2012

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

Sir:

Pursuant to the requirements of the New York Insurance Law, and acting in accordance with the instructions contained in Appointment Number 30735, dated September 13, 2011, attached hereto, I have made an examination into the financial condition and affairs of MVP Health Services Corp., a not-for-profit health services corporation licensed pursuant to the provisions of Article 43 of the New York Insurance Law, as of December 31, 2010. The following report is respectfully submitted thereon.

The examination was conducted at the home office of MVP Health Services Corp. located at 625 State Street, Schenectady, New York.

Wherever the designations the “Plan” or “MVPHSC” appear herein, without qualification, they should be understood to indicate MVP Health Services Corp.

Wherever the designation “MVP” appears herein without qualification, it should be understood to indicate “MVP Health Care, Inc., the ultimate parent of MVPHSC.

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

On October 3, 2011, the New York State Insurance Department merged with the New York State Banking Department to become the New York State Department of Financial Services.

A separate market conduct examination reviewing the manner in which MVPHSC conducts its business practices and fulfills its contractual obligations to policyholders and claimants is being conducted as of December 31, 2010. A separate report will be submitted thereon.

Concurrent examinations were made of MVP Health Insurance Company (“MVPHIC”), a New York for-profit insurance company, licensed pursuant to the provisions of Article 42 of New York Insurance Law, Preferred Assurance Company, Inc. (“PAC”), a not-for-profit corporation licensed pursuant to the provisions of Article 43 of New York Insurance Law and MVP Health Plan, Inc. (“MVPHP”), a not-for-profit health maintenance organization licensed pursuant to the provisions of Article 44 of the New York Public Health Law. These three companies are affiliates within the MVP holding company system as detailed herein. Separate financial reports thereon have been submitted for each of the above entities.

1. SCOPE OF THE EXAMINATION

The Plan was previously examined as of December 31, 2007. This examination of the Plan is a financial examination as defined in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook, 2010 Edition* (the “Handbook”) and it covers the three year-period from January 1, 2008 through December 31, 2010. The examination was conducted observing the guidelines and procedures in the Handbook. Where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2010, were also reviewed.

The examination was conducted using a risk-focused approach 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 the Plan’s operations and utilized that evaluation in formulating the nature and extent of the examination. The risk-focused examination approach was included in the Handbook for the first time in 2007; thus, this examination was the first such type of examination of the Plan. The examiner planned and performed the examination to evaluate the Plan’s current financial condition, as well as identify prospective risks that may threaten the future solvency of MVPHSC.

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 Plan's organizational structure, business approach and control environment were utilized to develop the examination approach. The examination evaluated the Plan'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 Plan was audited annually, for calendar years 2008 through 2010, by the accounting firm of PricewaterhouseCoopers LLP ("PwC"). The Plan received an unqualified opinion in each of those years. Certain audit work papers of PwC were reviewed and relied upon in conjunction with this examination. A review was also made of the ultimate parent's (MVP Health Care, Inc.) corporate governance structure, which included its internal audit function, enterprise risk management program and model audit rule compliance, as they relate to the Plan.

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.

The examiner reviewed the corrective actions taken by the Plan with respect to the recommendations concerning financial issues contained in the prior report on examination. The result of the examiner's review is contained in item 5 of this report.

2. DESCRIPTION OF THE PLAN

MVP Health Services Corp. was incorporated on October 8, 1992, and filed its Certificate of Incorporation with the New York Department of State on October 16, 1992.

The Plan was incorporated under Section 402 of the Not-for-Profit Corporation Law and licensed pursuant to Article 43 of the New York Insurance Law as a not-for-profit health services corporation. Prior to January 2002, MVPHSC offered point-of-service (POS) health insurance products. At the examination date the Plan provided only dental insurance to its subscribers.

The Plan is a Type D membership corporation as defined in Section 201 of the New York Not-for-Profit Corporation Law. MVPHSC is a subsidiary of MVPRT Holdings, Inc., which is a wholly-owned subsidiary of MVPHIC Holding Corporation. MVPHIC Holding Corporation is a wholly-owned subsidiary of MVP Health Care, Inc. Pursuant to its by-laws, the Plan has one corporate member, MVPRT Holdings, Inc.

A. Management and Controls

Pursuant to the Plan's charter and by-laws, management of the Plan is to be vested in a board of directors consisting of not less than three nor more than nineteen members. As of December 31, 2010, the board of directors consisted of four members, as set forth below:

Name and Residence

Principal Business Affiliation

Physician Representative

Herschel R. Lessin, M.D.
Poughkeepsie, New York

Pediatrician,
Children's Medical Group, PLLC

Subscriber Representative

Karen B. Johnson
Schenectady, New York

Director of Development,
Proctors Theatre

Community Representatives

David W. Olikier
Charlton, New York

President and Chief Executive Officer,
MVP Health Care, Inc.

Jon K. Rich
Alplaus, New York

Retired

The minutes of all meetings of the board of directors, and committees thereof held during the examination period were reviewed. Board meetings were generally well attended, with all directors attending at least one-half of the meetings they were eligible to attend.

The principal officers of the Plan as of December 31, 2010 were as follows:

<u>Name</u>	<u>Title</u>
David W. Oliker	President and Chief Executive Officer
Mark A. Fish	Executive Vice-President and Chief Financial Officer
Denise V. Gonick, Esq.	Executive Vice-President and Chief Legal Officer

B. Corporate Governance

Corporate governance, enterprise risk management (“ERM”), internal audit department (“IAD”), and model audit rule (“MAR”) processes for the Plan are provided by MVP Health Care, Inc. (“MVP”), the ultimate parent of the Plan.

Exhibit M of the Handbook (Understanding the Corporate Governance Structure) was utilized by the examiner as guidance for assessing the Plan’s Corporate Governance. Overall, it was determined that the Plan’s Corporate Governance structure is adequate, sets an appropriate “tone at the top”, supports a proactive approach to operational risk management, and contributes to an effective system of internal controls. It was found that the corporate Board of Directors and key executives encourage integrity and ethical behavior throughout the organization and that senior management promotes a corporate culture that acknowledges, understands and maintains an effective control environment.

Enterprise Risk Management

The Plan has not formally adopted an ERM framework for proactively addressing and mitigating risks, including prospective business risks. It is a prudent business practice for the Plan to consider utilizing the services of an independent risk management specialist or officially appoint a Chief Risk Officer (“CRO”) and establish a Risk Committee (“RC”) to further its ERM initiatives.

It is recommended that the Plan officially appoint a Chief Risk Officer and establish a Risk Committee accountable for the overall ERM function. The Risk Committee would report directly to the Board of Directors.

The examiner identified prospective risks to MVPHSC, relative to the effects of the Patient Protection and Affordable Care Act and the overall regulatory environment. However, MVP identified these potential risks and established a government affairs department, to address emerging policy issues within the health insurance industry and those facing MVP. As the issues are identified, MVP establishes leadership teams to gain an understanding of the impact to MVP. These leadership teams are developed to provide recommendations to the members of the executive team responsible for MVP’s strategy on emerging issues. The leadership teams also work with internal stakeholders to inform them on emerging issues, and the necessary actions needed to support MVP’s strategy.

Internal Audit Department

MVP Health Care, Inc., the ultimate parent, established an Internal Audit Department to serve all the subsidiaries within its holding company system, including MVPHSC. The Audit Committee of the Board of Directors (the “AC”), is comprised entirely of members independent of MVP and MVPHSC.

The IAD assists all levels of management by reviewing and testing financial and operational controls and processes established by management to ensure compliance with laws, regulations and policies. The scope of the IAD program is coordinated with PwC, MVP’s independent certified public accountant, to ensure optimal audit coverage and maximum efficiency.

The examiner’s interview of MVP’s Audit Committee chairman as well as the review of the 2008-2010 evaluations of the IAD director revealed that the annual evaluation of the IAD director is prepared and signed by the Chief Financial Officer (“CFO”). Also, the IAD director’s compensation is determined by the CFO.

Preferred corporate governance protocols call for the responsibilities and performance of the internal audit department to be measured by the Audit Committee, to ensure independence from senior management.

This position is supported throughout the audit industry, including specific guidance from organizations such as the American Institute of Certified Public Accountants (“AICPA”) and the Institute of Internal Auditors (“IIA”).

Per the IIA:

“The internal auditor occupies a unique position, he or she is employed by management but is also expected to review the conduct of management which can create significant tension since the internal auditor’s independence from management is necessary for the auditor to objectively assess management’s action, but the internal auditor’s dependence on management for employment is very clear; and to maintain objectivity, internal auditors should have no personal or professional involvement with or allegiance to the area being audited; and should maintain an un-biased and impartial mindset in regard to all engagements.”

In order to enhance the independence of the internal audit function, it is recommended that MVP revise the Internal Audit and Audit Committee charters to clearly indicate that the Audit Committee has primary responsibility for the performance evaluation and compensation of the IAD director.

It is also recommended that the MVP Audit Committee maintains documentation to support the Audit Committee’s review of the IAD director’s performance. Details for the IAD director’s compensation should also be included.

Model Audit Rule

Neither the Plan's parent, MVPRT Holdings, Inc., nor its ultimate parent MVP Health Care, Inc. are publicly traded companies and therefore not subject to the Sarbanes-Oxley Act of 2002. However, the ultimate parent and its subsidiaries are subject to the provision of the Model Audit Rule and therefore are subject to its requirements. The Department's Regulation No. 118 (NYCRR 98) – Audited Financial Statements, represents MAR requirements for the New York regulated entities, including MVPHSC. Regulation No. 118 was promulgated on an emergency basis in December 2009 and was effective January 1, 2010.

MVP's management of general controls is applied to its subsidiaries, which include the Plan. As part of its MAR analysis, risks from various operations were identified and segregated by operational cycles and entity level controls. In coordination with the Plan's management, risks identified were labeled and cataloged using specific control codes. The IAD performed its own control testing and accumulated its findings. The examiner's review of control testing showed that general controls appear to be working at a satisfactory level. The examiner relied upon work performed by the IAD, as recommended by the NAIC Handbook.

C. Territory and Plan of Operation

The Plan was authorized to write insurance business as a not-for-profit health service corporation within the State of New York pursuant to Article 43 of the New York

Insurance Law. During the examination period, the Plan wrote only stand-alone indemnity dental insurance.

The Plan's enrollment during the examination period was as follows:

<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>8,801</u>	<u>8,167</u>	<u>7,258</u>

The Plan's direct written premium for each year under examination was as follows:

<u>2008</u>	<u>2009</u>	<u>2010</u>
\$3,993,424	\$3,544,256	\$3,211,983

The Plan indicated that the decrease in premium is a direct relationship to the decrease in membership.

During the examination period, MVPHSC solicited business as a direct writer through the use of the Plan's in-house licensed agents. The Plan also contracted with licensed agents and brokers for the production of business.

D. Reinsurance

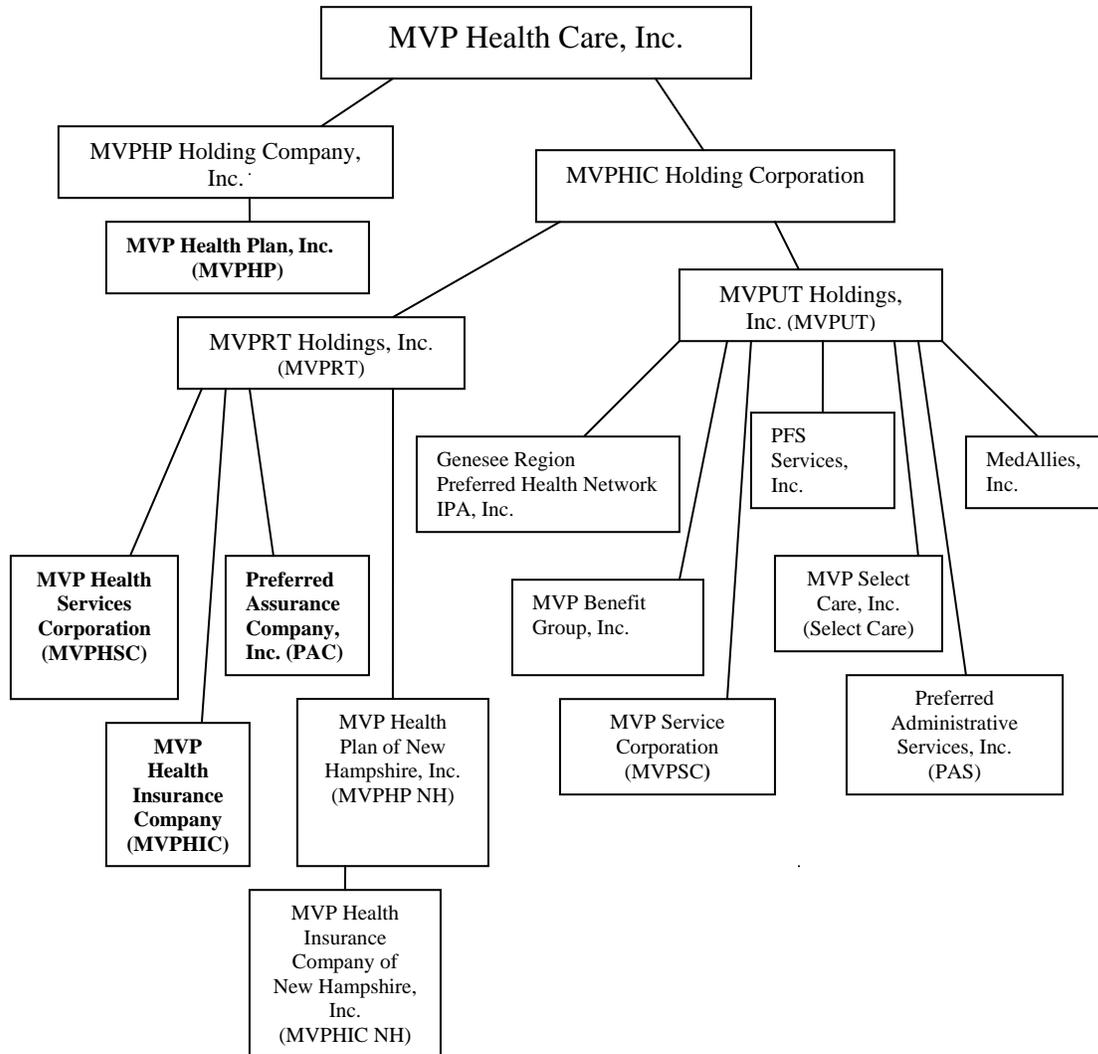
The Plan did not assume or cede any reinsurance during the three year period covered by this examination.

E. Holding Company System

The Plan is a wholly-owned subsidiary of MVPRT Holdings, Inc., which is a wholly-owned subsidiary of MVPHIC Holding Corporation. MVP Health Care, Inc. “MVP” is the ultimate parent. MVP and its subsidiaries comprise an integrated health benefits insurance and health benefit management holding company system.

On January 6, 2006, MVP Health Plan, Inc. (“HMO”), a tax-exempt New York State not-for-profit corporation, licensed as a health maintenance organization to deliver health care services in New York and Vermont, combined with Preferred Care, Inc. (“PC”), a tax-exempt New York State not-for-profit corporation. Under the terms of their agreement and plan of reorganization by and between Preferred Care, Inc. and MVP Health Plan, Inc., PC and HMO reorganized their respective enterprises under a holding company structure, with the ultimate holding company changed to MVP Health Care, Inc., which now serves as the direct or indirect parent company of all of the former PC affiliates and of the HMO and all of its affiliates.

The following is the organizational chart of MVP Health Care, Inc., the ultimate parent and its subsidiaries as of December 31, 2010.



MVPHIC Holding Corporation (“MVPHICHC”)

MVPHIC Holding Corporation was incorporated on November 22, 2000, pursuant to Section 402 of New York Business Corporation Law. It was specifically formed to hold the stock of MVPHIC. MVPHIC is an Article 42 for-profit accident and

health insurance company licensed in the State of New York. MVPHIC Holding Corporation holds and controls 100% ownership of MVPRT Holdings, Inc. (MVPRT) and MVPUT Holdings, Inc. (MVPUT), MVP Health Care, Inc., in turn, owns and controls 100% of the stock of MVPHIC Holding Corporation.

MVPRT and MVPUT are New York corporations. MVPRT controls subsidiaries which are regulated by the New York State Department of Financial Services and various Insurance Departments (Vermont Department of Financial Regulation and New Hampshire Insurance Department). MVPUT controls subsidiaries which are not regulated.

MVPHIC Holding Corporation controls five subsidiaries of MVPRT Holdings, Inc. Three of the five subsidiaries, MVP Health Services Corporation, Preferred Assurance Company, Inc., and MVP Health Insurance Company, are regulated by the New York State Department of Financial Services.

MVP Health Plan, Inc. (“MVPHP”)

MVPHP was incorporated on July 30, 1982 pursuant to Section 402 of the New York Not-For-Profit Corporation Law for the purpose of operating as a health maintenance organization as such term is defined in Article 44 of the New York Public Health Law. MVPHP, which operates as an IPA model HMO, is also a federally qualified HMO.

Preferred Assurance Company, Inc. (“PAC”)

PAC is licensed to do business within New York State as a non-profit health corporation pursuant to the provisions of Article 43 of the New York Insurance Law. PAC provides coverage for hospital, medical and other health services for the out-of-network component of MVPHP’s point-of-service product in the Rochester metropolitan area. PAC markets Preferred Provider Organizations (PPO) and Exclusive Provider Organizations (EPO) products. PAC is a subsidiary of MVPRT Holdings, Inc.

MVP Health Insurance Company (“MVPHIC”)

MVPHIC is a for-profit New York corporation, wholly-owned by MVPRT Holdings Inc., which is a wholly-owned subsidiary of MVPHIC Holding Corporation. MVP Health Care, Inc. is the ultimate parent. MVPHIC was incorporated on April 24, 2000. MVPHIC is licensed in the State of New York as an accident and health insurance company pursuant to Article 42 of the New York Insurance Law. MVPHIC underwrites EPO, PPO, point-of-service (out-of-network) and indemnity only products for large and small groups.

MVP Service Corporation (“MVPSC”)

The Plan has a management service and consulting agreement with MVP Service Corporation. MVPSC is wholly-controlled by MVPUT Holdings, Inc. MVP Service Corporation’s employees perform all day-to-day operations of the Plan, and charges the

Plan for its share of costs based on a contractual cost allocation methodology pursuant to the agreement, approved by the Department.

Tax Allocation Agreement

MVPHIC Holding Corporation, entered into a tax allocation agreement with its affiliates, including the three New York State regulated entities, MVPHIC, MVPHSC and PAC dated January 6, 2006, and amended on December 22, 2009. The amended agreement complied with the Department's requirements and was approved on January 8, 2010.

F. Significant Operating Ratio

The following ratios have been computed as of December 31, 2010 based upon the results of this examination:

Net premiums written to capital and surplus	1 to 1
Uncollected premiums to surplus	1.1%
Cash and invested assets to unpaid claims	33 to 1
Surplus to unpaid claims	3455%

The above ratios fall within the National Association of Insurance Commissioners (NAIC) benchmarks, with the exception of cash and invested assets to unpaid claims and surplus to unpaid claims which far exceed the benchmarks set by the NAIC.

The underwriting ratios presented below are on an earned-incurred basis and encompass the three-year period covered by this examination.

	<u>Amounts</u>	<u>Percentages</u>
Claims	\$6,949,373	65%
Claim adjustment expenses	426,045	4%
General administrative expenses	1,931,165	18%
Net underwriting gain	<u>1,443,080</u>	<u>13%</u>
Premiums earned	<u>\$10,749,663</u>	<u>100%</u>

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets and liabilities as determined by this examination.

This statement is the same as the balance sheet filed by the Plan as of December 31, 2010.

<u>Assets</u>	<u>Examination</u>	<u>Plan</u>
Bonds	\$811,943	\$811,943
Cash and short term investment	2,795,708	2,795,708
Investment income due and accrued	13,122	13,122
Uncollected premium	42,119	42,119
Net deferred tax asset	646	646
Receivable from parent and affiliates	269,682	269,682
Total assets	<u>\$3,933,220</u>	<u>\$3,933,220</u>
 <u>Liabilities</u>		
Claims unpaid	\$109,835	\$109,835
Unpaid claims adjustment expenses	9,000	9,000
Premiums received in advance	4,423	4,423
General expenses due and accrued	5,552	5,552
Current federal income tax payable	<u>8,799</u>	<u>8,799</u>
Total liabilities	<u>\$137,609</u>	<u>\$137,609</u>
 <u>Capital and surplus</u>		
Common capital stock		
Gross paid in and contributed surplus		
Aggregate write-ins for other than special surplus funds	\$401,498	\$401,498
Unassigned funds (surplus)	<u>3,394,113</u>	<u>3,394,113</u>
Total capital and surplus	<u>\$3,795,611</u>	<u>\$3,795,611</u>
Total liabilities, capital and surplus	<u>\$3,933,220</u>	<u>\$3,933,220</u>

Note: The Internal Revenue Service has not conducted any audits of the income tax returns filed on behalf of the Plan during the period under this examination. The examiner is unaware of any potential exposure of the Plan to any further tax assessment, and no liability has been established relative to such contingency.

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

Capital and surplus increased \$1,057,422 during the three year examination period, January 1, 2008 through December 31, 2010, detailed as follows:

Revenue

Net premium income \$10,749,663

Expenses

Hospital/medical benefits \$ 3,280

Other professional services 6,946,093

Total hospital and medical \$6,949,373

Administrative expenses

Claim adjustment expenses 426,045

General administrative expenses 1,931,165

Total administrative expenses 2,357,210

Total underwriting deductions 9,306,583

Net underwriting gain 1,443,080

Net investment income earned 119,881

Net realized capital gain 4,828

Net investment gains 124,709

Aggregate write-ins for other income 11,873

Net gain before federal income taxes 1,579,662

Federal income taxes incurred (526,938)

Net income \$1,052,724

Changes in Capital and Surplus Account

Capital and surplus, per report on examination as of December 31, 2007			\$2,738,189
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net Income	\$1,052,724		
Change in non-admitted assets	<u>4,698</u>		
Total gains	<u>\$1,057,422</u>		
Net increase in capital and surplus			<u>\$1,057,422</u>
Capital and surplus, per report on examination as of December 31, 2010			<u>\$3,795,611</u>

4. CLAIMS UNPAID

The examination liability of \$109,835 is the same as the amount reported by MVPHSC as of December 31, 2010. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Plan's internal records and its filed annual statements as verified by the examiner.

The examination reserve was based upon actual claims payments made through a point in time, plus an estimate for claims remaining unpaid at that date. Such estimate was calculated based on actuarial principles, which utilized the Plan's experience in projecting the ultimate cost of claims incurred on or prior to December 31, 2010.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination included three recommendations detailed as follows (page number refers to the prior report on examination):

<u>ITEM NO.</u>		<u>PAGE NO.</u>
	<u>Holding Company System</u>	
1.	It is recommended that the Plan enter into a written consolidated tax agreement with MVPHIC Holding Corporation as required by Section 1505(d) of the New York Insurance Law. It is further recommended that said consolidated tax agreement be constructed in conformity with Circular Letter No. 33 (1979) and that the Plan file such agreement with the New York Insurance Department.	16
	The Plan has complied with this recommendation.	
	<u>Allocation of Expenses</u>	
2.	It is recommended that the Plan apply the guidelines of NAIC SSAP No. 70 and Department Regulation No. 30 by revising and updating its expense allocation methodology in order to reflect an appropriate allocation among the proper annual statement expense groupings within the Underwriting and Investment Exhibit of the Plan's annual statement.	17
	The Plan has complied with this recommendation.	
	<u>Abandoned Property Law</u>	
3.	It is recommended that the Plan comply with the (publishing of) notice requirements of Section 1316(3) of the New York Abandoned Property Law.	18
	The Plan has complied with this recommendation.	

6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Enterprise Risk Management</u>	
It is recommended that the Plan officially appoint a Chief Risk Officer and establish a Risk Committee accountable for the overall ERM function. The Risk Committee would report directly to the Board of Directors.	8
B. <u>Internal Audit Department</u>	
i. In order to enhance the independence of the internal audit function, it is recommended that MVP revise the Internal Audit and Audit Committee charters to clearly indicate that the Audit Committee has primary responsibility for the performance evaluation and compensation of the IAD director.	10
ii. It is also recommended that the MVP Audit Committee maintains documentation to support the Audit Committee's review of the IAD director's performance. Details for the IAD director's compensation should also be included.	10

Appointment No. 30735

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

I, **James J. Wrynn**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Jeffrey Usher

as a proper person to examine into the affairs of the

MVP Health Service Corporation

and to make a report to me in writing of the condition of the 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 this Department, at the City of New York.

This 13th day of September, 2011


James J. Wrynn

Superintendent of Insurance

