REPORT ON EXAMINATION

OF THE

HIP INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2006

DATE OF REPORT	**JULY 26, 2012**
EXAMINERS	**CATHIE STEWART**
	WAI WONG

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NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

July 26, 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 No. 22549, dated December 22, 2006, and annexed hereto, an examination has been made into the financial condition and affairs of the HIP Insurance Company of New York, an accident and health insurer licensed pursuant to Article 42 of the New York Insurance Law, as of December 31, 2006, and the following report thereon is respectfully submitted.

The examination was conducted at the home office of the HIP Insurance Company of New York, located at 55 Water Street, New York, New York.

Wherever the designations the "Company" or "HIPIC" appear herein, without qualification, they should be understood to refer to the HIP Insurance Company of New York.

Wherever the designation the "Department" appears herein, without qualification, it should be understood to indicate the New York State Department of Insurance. The New York State Department of Insurance merged with the New York State Banking Department on October 3, 2011, to become the New York State Department of Financial Services ("DFS").

1. EXECUTIVE SUMMARY

The results of this examination revealed certain operational deficiencies during the examination period. The most significant findings of this examination include the following:

- A number of the Board of the Directors failed to attend at least one-half of the regular meetings they were eligible to attend.
- The Company's Audit Committee did not convene during 2006, with a written consent being the only form of documentation evincing any Committee determination in that year. The Audit Committee's charter clearly states that the Committee is to meet at least two times annually, or more frequently as circumstances dictate.
- The Company failed to notify the Department (at least) thirty (30) days prior to entering into an excess of loss reinsurance agreement with PerfectHealth Insurance Company, an affiliated company, in violation of Section 1505(a)(3)(d) of the New York Insurance Law.
- The Company failed to settle the reinsurance premium activities with PerfectHealth Insurance Company within 30 days after each calendar month, in violation of the aforementioned reinsurance agreement.

The above findings, as well as others, are described in greater detail in the remainder of this report.

2. SCOPE OF THE EXAMINATION

The Company was previously examined as of December 31, 2001. This examination of the Company was a financial examination as defined in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook, 2007 Edition* (the "Handbook") and it covers the five-year period January 1, 2002 through December 31, 2006. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiners, transactions occurring subsequent to December 31, 2006, were also reviewed.

Concurrently, an examination into the financial condition and affairs of the Health Insurance Plan of Greater New York ("HIPNY"), an affiliated not-for-profit health service corporation licensed under the provisions of Article 43 of the New York Insurance Law, and the Parent of HIP Holdings, Inc., was performed. A separate report thereon has been submitted. Additionally, simultaneous examinations were performed on the manner in which HIPIC and HIPNY conduct their business practices and fulfill their contractual obligations to policyholders and claimants. The reports of significant findings of these examinations were issued under separate cover.

This 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 examiners' assessment of risk in the Company's operations and utilizes 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 was the first such type of examination for the Company.

The examiners 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 HIPIC.

The examiners 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 annual statement instructions.

Information concerning the Company's organization 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 Company was audited annually, for the years 2002 through 2006, by the accounting firm of Deloitte & Touche LLP ("D&T"). The Company received an unqualified opinion in each of those years. Certain audit workpapers of D&T were reviewed and relied upon in conjunction with this examination. HIPNY has an Internal Audit Department and a separate Internal Control Department which have been given the task of assessing the internal control structure and eventual compliance with the Sarbanes-Oxley Act of 2002 ("SOX") for HIPNY and HIPIC. Where applicable, SOX workpapers and reports were reviewed and portions thereof were relied upon for this examination.

The examiners reviewed the corrective actions taken by the Company with respect to the recommendations concerning financial issues contained in the prior report on examination. The results of the examiners' review are contained in Item 7 of this report.

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

3. DESCRIPTION OF THE COMPANY

HIPIC was incorporated under the laws of the State of New York as a for-profit health insurance company on September 7, 1994. On January 12, 1995, HIPIC issued 30,000 shares of $10 par value per share common stock to its immediate Parent, HIP Holdings, Inc., for a consideration of $5,000,000, bringing its authorized capital to $300,000 and contributed capital to $4,700,000. On June 5, 1995, the Department granted HIPIC a license to operate as an accident and health insurance company, as defined in paragraphs 3(i) and (ii) of Section 1113(a) of the New York Insurance Law. HIPIC commenced its operations in September 1995.

On November 15, 2006, having received regulatory approval from the New York State Insurance Department, HIPIC's intermediate Parent, Health Insurance Plan of Greater New York ("HIPNY"), agreed to an affiliation with Group Health Incorporated ("GHI"), a not-for-profit health service corporation licensed under the provisions of Article 43 of the New York Insurance Law. As a result of the transaction EmblemHealth, Inc. ("Emblem") became the sole member and Parent corporation of HIPNY, GHI and their subsidiaries. HIPNY and GHI named an equal number of directors to the Emblem board.

On March 6, 2007, EmblemHealth Services Company, LLC ("EHS") was formed by a joint venture of HIPNY and GHI in order to integrate the operations of these two entities. On January 1, 2008, items such as vendor agreements and employees were transferred to EHS. HIPNY and GHI then began receiving management and other services from EHS. Also on that date, with the approval of the Department, HIPNY and GHI entered into a written guarantee of all liabilities of EHS.

In April 2007, a change in the New York Insurance Law was enacted to permit not-for-profit insurers such as HIPNY and GHI to convert to for-profit status. On April 16, 2007, EmblemHealth submitted an application to the Department, to convert HIPNY and GHI to for-profit status. The application was approved by the board of directors of both HIPNY and GHI.

Under the plan of conversion submitted, EmblemHealth would form a for-profit, publicly traded holding company, which would be the ultimate parent of HIPNY and GHI. The application calls for approximately 20% of the stock of the publicly traded holding company to be sold at the time of conversion, with the proceeds transferred to New York State. The remaining shares would be held by New York State and sold over time at the State's discretion.

As of the date of this report, the Department has not yet issued a decision regarding the proposed conversion.

A. Management and Controls

1. Corporate Governance

Corporate governance is provided by the HIPIC Board of Directors, subject to its by-laws and to such rules and regulations as the Board may adopt for that purpose and for the conduct of its meetings. This governance is carried out by the Company's management, as well as various management committees. The Internal Audit Department ("IAD") and Internal Controls Standards and Procedures Department ("ICSP") of HIPNY perform testing of the internal control structure of HIPIC, on behalf of its management. As a non-public company, HIPIC is not obligated to comply with SOX directives and, accordingly, is not required to submit an assessment of its internal control structure. HIPIC has nonetheless decided to move toward becoming SOX compliant and established a department to achieve this goal.

2. *Board of Directors*

In accordance with its by-laws, the Company is managed by a Board of Directors consisting of not less than thirteen (13) or more than twenty-one (21) directors. Directors are elected for a period of one year at the annual meeting of the shareholders, held in May of each year. As of December 31, 2006, the Board of Directors consisted of thirteen members.

The thirteen Board members and their principal business affiliations as of December 31, 2006, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Rosalind Berrin* Far Rockaway, NY	Retired	1995
Fred Blickman Scarsdale, NY	Senior Vice President, Human Resources, Health Insurance Plan of Greater New York	2001
Michael D. Fullwood, Esq. Bridgewater, CT	Executive Vice President, Chief Financial Officer, Secretary and General Counsel, Health Insurance Plan of Greater New York	1999
Paul Gibson* Uniondale, NY	Manager Capital Funding, Conti Group Companies, Inc.	1995
Ronald Jones* Brooklyn, NY	Secretary/Executive Assistant to the President, United Federation of Teachers	2004
Edward Lucy Staten Island, NY	Senior Vice President, Delivery Systems Management and Strategy, Health Insurance Plan of Greater New York	2001
Daniel McGowan Centerpoint, NY	President and Chief Operating Officer, Health Insurance Plan of Greater New York	2000
Peter Meringolo* Holtsville, NY	Correction Captain and Union President, New York City Department of Corrections	2002

Name and Residence	Principal Business Affiliation	Year First Elected
Ralph Ranghelli* Brookhaven, NY	Business Manager, IBEW Local 1049	2005
John Steber West Windsor, NJ	Executive Vice President for Operations and Chief Information Officer, Health Insurance Plan of Greater New York	2001
Leslie Strassberg, F.S.A. Scarsdale, NY	Senior Vice President, Health Insurance Plan of Greater New York	1996
Anthony Watson West Orange, NJ	Chairman and Chief Executive Officer, Health Insurance Plan of Greater New York	1994
Marc Wolfert New York, NY	Senior Vice President and Chief Operating Officer, Centralized Laboratory Services, A Division of Health Insurance Plan of Greater New York	1999

* Not affiliated with the Company or any other company in the holding company system.

The following changes have been made to the Board of Directors since the examination date. Rosalind Berrin, Fred Blickman, Edward Lucy, Ralph Ranghelli, Marc Wolfert, Leslie Strassberg and Daniel McGowan left the Board. Daniel McGowan and Leslie Strassberg also left EmblemHealth, Inc. and their positions as President and Chief Operating Officer and Senior Vice-President of Underwriting and Actuarial, respectively. The following Board members were elected to the Board subsequent to the examination date: Frank Joseph Branchini, Thomas Dwyer, William Gillespie, Michael Palmateer, Daniel Finke, Ronald Ira Platt M.D. and William Mastro.

A review was performed of the attendance of HIPIC's Directors at the twenty-three (23) Board meetings held during the examination period. The following directors were found to have attended less than 50% of the scheduled Board meetings that they were eligible to attend during this period:

Director's Name	No. of Meetings Attended	No. of Meetings Eligible to Attend	Attendance Percentage
Peter Meringolo	3	8	38%
Ralph Ranghelli	1	3	33%
Anthony Watson	2	10	20%
Sadie Winslow	1	6	17%

Attendance of directors at Board meetings is critical in exercising their duties in a management oversight function. Members of the Board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the Company. It is essential that Board members attend meetings consistently and set forth their views on relevant matters so that appropriate policy decisions may be reached. Members who fail to attend at least one-half of the regular meetings do not fulfill such criteria.

It is recommended that the Company take corrective action by developing a policy to evaluate whether Board members who are unable or unwilling to attend meetings consistently should resign or be replaced. Furthermore, in selecting prospective members, a key criterion should be their willingness and commitment to attend meetings and participate in the Board's responsibility to oversee the operations of the Company.

It was noted that this recommendation was contained in the prior report on examination and that overall attendance since such examination has declined even further.

3. *Committees of the Board of Directors*

The only standing committee of the Board of Directors is the Audit Committee. In addition to the requirements set forth in the by-laws of the Board of Directors, the Audit Committee is also subject to its own charter. Individuals serving on the Audit Committee at December 31, 2006, were: Ronald Jones (Chairperson), Paul Gibson and Peter Meringolo.

The Company's control environment is influenced significantly by its Board of Directors and Audit Committee. Factors to be considered are the Company's independence from management, experience and stature of members, extent of involvement and scrutiny of activities and appropriateness of its actions. The degree to which challenging questions are raised and pursued with management regarding the Company's plans and performance is also an important factor. Finally, interaction of the Board of Directors or Audit Committee with the internal and external auditors is a factor affecting the control environment.

The examiners noted that the Company's Audit Committee did not convene during 2006, with a written consent being the only form of documentation evincing any Audit Committee determination in that year. The Audit Committee's charter clearly states that the Audit Committee is to meet at least two times annually, or more frequently as circumstances dictate.

It is recommended that the HIPIC Audit Committee adhere to its charter and meet no less than two times annually.

4. Executive Officers

Officers of the Company are elected by the Board of Directors at its annual meeting, for a term of one year and serve at the discretion of the Board. The executive officers of HIPIC at December 31, 2006, were as follows:

Name	**Position**
Leslie Strassberg, F.S.A.	Chairman and President
Michael D. Fullwood, Esq.	Treasurer
Craig Effrain	Secretary
Daniel McGowan	Chief Operating Officer

5. Conflict of Interest Policy

A review of the Company's Conflict of Interest Disclosure Policy was conducted. In its 2002-2006 filed annual statements, the Company answered affirmatively to the *General Interrogatories* question of whether it had, "an established procedure for disclosures to its Board of Directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or likely to conflict with the official duties of such person." Newly hired employees at the level of Director and above are required to submit a Conflict of Interest Form as a condition of employment. Annually, officers, directors and all employees at the level of Director and above must complete a Conflict of Interest Form. Individuals are required to disclose any activities or relationships that are, or may be, in conflict to the interests of HIPIC. The Chief Operating Officer reviews all exceptions and determines if such exceptions represent actual or potential conflicts of interest. Any actual conflicts of interest must be resolved. The signed form is maintained by the Compliance Department.

6. *Corporate Records*

Articles of Incorporation and By-laws

The Articles of Incorporation were filed on September 7, 1994, and have not been amended. The by-laws have not been amended since the previous examination.

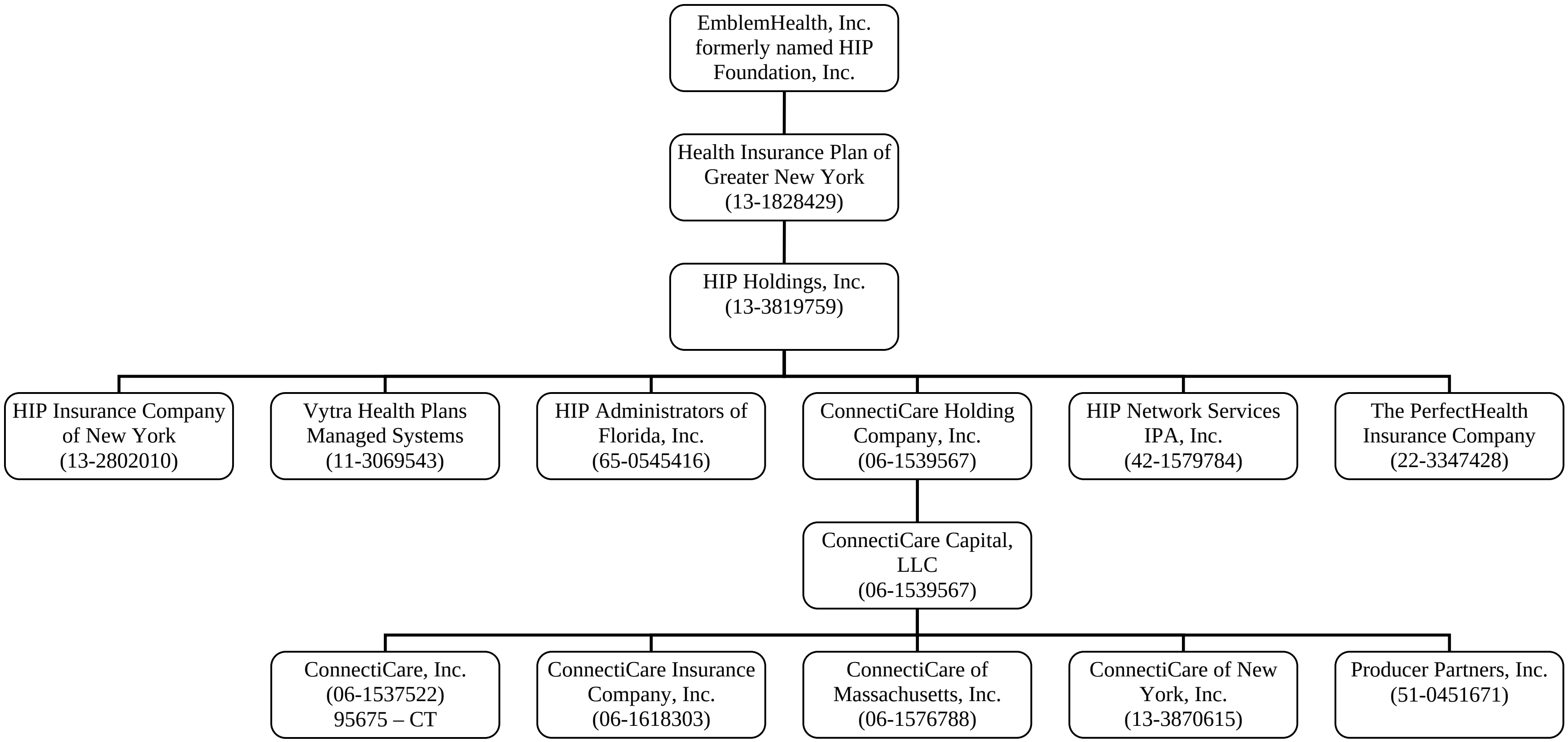
Minutes of Meetings of the Board of Directors and Committees

The minutes of the meetings of the Board of Directors and committees were reviewed for the period under examination and subsequent to the date of this report. The minutes reflected the elections of directors and officers, approvals of investment transactions and approvals of other pertinent matters requiring corporate review. In accordance with Section 312 of the New York Insurance Law, the previous examination report was reviewed and discussed by the Company's Board of Directors.

B. Holding Company System

An organizational chart depicting the relationship between the Company and significant entities in its holding company system as of December 31, 2006, is shown on the following page:

Organizational Chart



The Company is a wholly-owned subsidiary of HIP Holdings, Inc., (“HIP Holdings”), a Delaware holding corporation. HIP Holdings, in turn, is a wholly-owned subsidiary of the Health Insurance Plan of Greater New York, a not-for-profit health insurer incorporated in the state of New York, operating under the provisions of Article 43 of the New York Insurance Law. The ultimate parent of these companies is EmblemHealth, Inc. (“Emblem”), whose name was changed from HIP Foundation, Inc. on November 15, 2006. Emblem is a New York not-for-profit charitable organization established to implement, expand and coordinate community outreach, medical research and other community based activities.

Since 1995, HIPIC has underwritten the out-of-network benefits for the Point-of-Service (“POS”) product jointly offered with HIPNY. As HIPIC has no dedicated employees or facilities, all services are provided to HIPIC by HIPNY, pursuant to an Administrative Services Agreement (“Agreement”) filed with the Department in 2001. The Department did not provide a written response reflecting its determination on this Agreement.

Section 1505(c) of the New York Insurance Law states:

> “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.”

The Company should comply with the provisions of Section 1505(c) of the New York Insurance Law by seeking to obtain the Superintendent’s prior approval for any administrative services agreement that the Company enters into with other members of its holding company system that involve five percent or more of its prior year-end admitted assets.

HIPIC files consolidated federal income tax returns with HIP Holdings and its subsidiaries. However, the examination revealed that a formal tax sharing agreement between the parties was never executed. On October 30, 2003, the Company submitted draft tax sharing agreement for the Department's approval and in February 2004, May 2005, December 2005 and January 2005 submitted revised draft tax sharing agreements reflecting the Department's comments. On January 30, 2006, the Department approved the tax sharing agreement, which was signed by the parties and made effective retroactively to March 10, 2005, the date the ConnectiCare affiliates were acquired. The fully executed version of the tax sharing agreement was submitted to the Department on June 5, 2006. Effective January 1, 2006, the PerfectHealth Insurance Company, an affiliate, was added as a party by way of a Joinder and Amendment Agreement submitted to the Department.

It is recommended that prior to engaging in any holding company transactions, HIPIC ensure that the agreements under which it intends to operate have been properly executed, and where applicable, approved by the Department.

C. Territory and Plan of Operation

HIPIC is authorized to write accident and health insurance as defined in paragraphs 3(i) and (ii) of Section 1113(a) of the New York Insurance Law. The Company is licensed to do business in New York State only. As of December 31, 2006, HIPIC served nearly 84,000 members throughout New York State.

As noted previously, HIPIC underwrites the out-of-network portion of the POS products offered jointly with HIPNY. As HIPIC was formed to market insurance products primarily to members of HIPNY, it is economically dependent on HIPNY.

D. Reinsurance

During the examination period, the Company entered into two reinsurance agreements. Effective January 1, 2006, the Company entered into an excess medical reinsurance agreement with ReliaStar Life Insurance Company, an authorized reinsurer, to limit its losses on individual claims. Under the terms of the agreement, HIPIC cedes all losses greater than $1,000,000 per covered member / per coverage period to ReliaStar Life Insurance Company, up to a maximum amount of $4,000,000 per covered member / per coverage period.

Effective July 1, 2006, HIPIC entered into an excess of loss reinsurance agreement with The PerfectHealth Insurance Company, an affiliated company. Under the terms of the agreement, HIPIC indemnifies The PerfectHealth Insurance Company for all medical expenses in excess of a $150,000 deductible per insured person, per contract term, subject to a maximum indemnification of $4,850,000 per insured, per contract term.

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

> "(d) 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 such shorter period as he may permit, and he has not disapproved it within such period..."

The Company's notice of intent for the abovementioned reinsurance agreement with The PerfectHealth Insurance Company, submitted to the Department, was dated August 29, 2006. Thus, HIPIC is in violation of Section 1505(d) of the New York Insurance Law for failing to notify the Department at least thirty (30) days prior to entering into this transaction with a member of its holding company system.

It is recommended that the Company adhere to the requirements of Section 1505(d) of the New York Insurance Law when entering into transactions within its holding company system.

Article VIII, “Premiums and Accounts”, of the reinsurance agreement between HIPIC and The PerfectHealth Insurance Company states that a report detailing the number of covered policies and the premium due for those policies is due, “within 30 days after each calendar month that this Contract remains in effect”, and that “the balance due either party shall be paid immediately upon submission of the premium and loss reports required.” The Company stated that it was settling the reinsurance premium activities on a quarterly basis, which does not comply with the terms of the written and approved reinsurance agreement.

It is recommended that both HIPIC and The PerfectHealth Insurance Company abide by the terms of their reinsurance agreement and settle reinsurance premium payments on a monthly basis, as required by the terms of the reinsurance agreement.

E. Annual Statement Reporting

Subsequent to filing its 2006 Annual Statement, the Company determined that certain amounts were misstated. The amounts were related to the valuation of the cash and short-term investments. The changes would decrease HIPIC’s December 31, 2006 surplus by $226,180. The amounts are considered to be immaterial. Per discussion with the Department, it was decided that all changes would be reported in the first quarter of 2007, rather than restating the information contained in the 2006 Annual Statement.

Moreover, HIPIC's annual statements, as filed with the Department during the examination period, were found to contain various reporting errors and misclassification of accounts. For example, the following reporting errors were identified:

- Ronald Platt was incorrectly included as a member of the Board of Directors on the 2005 Annual Statement Jurat Page even though he was no longer a Board member as of December 12, 2005.
- In 2006, HIPIC had $4.9 million in prescription drug expenses and $.5 million in pharmacy rebates. HIPIC included the amounts in the Statement of Revenue and Expenses page on the hospital/medical benefits line (page 4, line 9). These amounts should have been reported on the prescription drugs line (page 4, line 13) of the Statement of Revenue and Expenses page.

It is recommended that the Company exercise greater care in the compilation of data for reporting purposes and comply with the Annual Statement instructions for health entities.

4. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and capital and surplus as determined by this examination with those reported by HIPIC as of December 31, 2006. This statement is the same as the balance sheet filed by HIPIC in its filed annual statement as of December 31, 2006:

	Examination	Company
Assets		
Bonds	$ 20,201,176	$ 20,201,176
Cash, cash equivalents and short-term investments	4,830,710	4,830,710
Receivable for securities	3,691	3,691
Total, cash and invested assets	$ 25,035,577	$ 25,035,577
Investment income due and accrued	145,537	145,537
Uncollected premiums and agents' balances in course of collection	1,504,081	1,504,081
Federal income tax recoverable and interest thereon	741,347	741,347
Receivables from parent, subsidiaries and affiliates	3,259,047	3,259,047
Health care and other amounts receivable	7,470	7,470
Total assets	$ 30,693,059	$ 30,693,059

	Examination	Company
Liabilities		
Claims unpaid	$ 9,115,317	$ 9,115,317
Unpaid claims adjustment expenses	133,383	133,383
Premiums received in advance	11,105	11,105
General expenses due or accrued	149,169	149,169
Total liabilities	$ 9,408,974	$ 9,408,974
Capital and Surplus		
Common capital stock	$ 300,000	$ 300,000
Gross paid-in and contributed surplus	4,700,000	4,700,000
Unassigned funds (surplus)	16,284,085	16,284,085
Total capital and surplus	$ 21,284,085	$ 21,284,085
Total liabilities, capital and surplus	$ 30,693,059	$ 30,693,059

Note: In April 2008, the IRS commenced an income tax examination of the 2005 and 2006 consolidated federal income tax returns of HIP Holdings and subsidiaries, which includes HIPIC. The statute of limitations for 2005 and 2006 has been extended to December 31, 2011. As a result of a carryback claim filed by HIP Holdings in October 2010, the IRS will also conduct a limited examination of the 2004 return. The examiner is unaware of any potential exposure of the Company to any tax assessments and no liability has been established herein relative to such contingency.

B. Statement of Revenue and Expenses and Capital and Surplus

Capital and surplus increased $7,771,503 during the five-year examination period, January 1, 2002 through December 31, 2006, detailed as follows:

Revenue		
Net premium income	$ 142,116,887	
Change in unearned premium reserves and reserve for rate credits	49,526	
Total revenue		$ 142,166,413
Expenses		
Hospital/medical benefits	111,201,065	
Net reinsurance recoveries	(245,168)	
Total hospital and medical expenses	110,955,897	
Claims adjustment expenses	3,008,361	
General administrative expenses	21,107,883	
Total underwriting expenses		135,072,141
Net underwriting gain		$ 7,094,272
Net investment income earned		3,627,223
Net realized capital gains		517,887
Aggregate write-ins for other income or (expenses)		2,281,642
Net income before federal income taxes		13,521,024
Federal and foreign income taxes incurred		5,432,520
Net income		$ 8,088,504

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Capital and surplus, per report on examination, as of December 31, 2001			$ 13,512,582
Net income	$ 8,088,504	$	
Net unrealized capital gains	203,648		
Change in net deferred income tax		135,706	
Change in nonadmitted assets		384,943	
Net change in capital and surplus			7,771,503
Capital and surplus, per report on examination, as of December 31, 2006			$ 21,284,085

5. CLAIMS UNPAID

The examination liability of $9,115,317 for the above captioned account is the same as the amount reported by HIPIC in its 2006 filed annual statement.

The examination analysis of the claims unpaid reserve was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and its filed annual statements as verified during the examination. The examination reserve was based upon actual 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 Company's past experience in projecting the ultimate cost of claims incurred on or prior to December 31, 2006.

6. CLEARING/SUSPENSE ACCOUNT

During the examination it was noted that an account used by HIPIC as a clearing account had not been reconciled for over a year. As of December 31, 2006, the account had a balance of $9,733.82. The Company indicated that this amount represented an overpayment to a provider. In November 2006, the Company's Claims Department notified the Accounting Department of the receipt of cash to offset this outstanding item; however, this transaction was not offset against the above balance.

It is recommended that the Company perform monthly reconciliations of its clearing/suspense accounts to ensure that cash receipts are applied to the appropriate accounts in a timely manner.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

There were eighteen (18) comments and recommendations from the prior financial report on examination as of December 31, 2001. They are repeated herein as follows (page numbers refer to the prior report):

ITEM NO.		PAGE NO.
	Management and Controls	
1.	It is recommended that the Company take corrective action by developing a policy to evaluate whether board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
	The Company has not complied with this recommendation. A similar recommendation is contained in this Report.	
2.	It is recommended that HIPIC abide by its by-laws by convening the prescribed number of meetings.	6
	The Company has complied with this recommendation.	
3.	It is recommended that HIPIC establish an audit committee comprised solely of directors who are not officers or employees of the Company or any of its affiliated entities.	7
	The Company has complied with this recommendation.	
4.	It is recommended that the Company take greater care in carrying forward any revisions made to its by-laws.	7
	The Company has complied with this recommendation.	
5.	It is recommended that HIPIC continue to comply with its Conflict of Interest Policy and have its Conflict of Interest forms distributed, completed and reviewed on an annual basis.	7
	The Company has complied with this recommendation.	

ITEM NO.		PAGE NO.
	Management and Controls	
6.	It is recommended that, in order for the Company to make a truly informed decision regarding whether a conflict of interest may exist, the Company obtain full disclosure from its employees, officers, and directors with respect to their outside business affiliations.	8
	The Company has complied with this recommendation.	
	Holding Company	
7.	The Company violated Section 1505(d)(3) of the New York Insurance Law when it failed to notify the superintendent of its intention to enter into an Administrative Service Agreement with an affiliate for the purpose of receiving services on a regular or systematic basis.	10
	It is recommended that, prior to entering into transactions with any member of its holding company system involving either the rendering or receiving of services on a regular or systematic basis, HIPIC notify the Department of its intention in writing, pursuant to the provisions of Section 1505(d)(3) of the New York Insurance Law.	
	The Company has not complied with this recommendation. A similar recommendation is made in this Report.	
8.	It is recommended that HIPIC abide by the terms of its Administrative Service Agreement with HIP-NY and settle any outstanding balances on a monthly basis.	11
	The Company has complied with this recommendation.	

ITEM NO. **PAGE NO.**

Holding Company

9. HIPIC violated Section 1505(d)(3) of the New York Insurance Law by entering into a Tax Sharing Agreement with members of its holding company system without giving prior notice to the superintendent. 12

It is recommended that HIPIC immediately file the Tax Sharing Agreement with the Department and that such Agreement complies with the guidelines set forth in Department Circular Letter No. 33 (1979).

The Company has complied with this recommendation.

10 It is again recommended that, prior to entering into transactions with any member of its holding company system involving either the rendering or receiving of services on a regular or systematic basis, HIPIC notify the Department of its intention in writing, pursuant to the provisions of Section 1505(d)(3) of the New York Insurance Law. 12

The Company has not complied with this recommendation. A similar recommendation is made in this Report.

11. It is recommended that, prior to engaging in any holding company transactions, HIPIC ensure that the agreements under which it intends to operate have been properly executed. 12

The Company has complied with this recommendation.

Investment Activities

12. It is recommended that HIPIC either enter into separate agreements with its investment managers or take immediate action to become a named party, with the same powers as other named parties, to the existing agreements. 15

The Company has complied with this recommendation.

13. It is recommended that HIPIC be the named entity reflected on the custodial account. 15

The Company has complied with this recommendation.

ITEM NO.		PAGE NO.
	Investment Activities	
14.	The Company reported all bond investments held during the years 1995 through 2000 at fair market value, which was inconsistent with statutory accounting principles and accepted Department practices. In 2001, pursuant to statutory accounting principles, HIPIC began reporting its bond investments at amortized cost. However, the Company derived its amortized cost using the straight-line method of accounting, rather than the scientific interest method prescribed under Codification. It is recommended that, in its future filings with the Department, HIPIC report its bond investments using the prescribed amortization methodology. *The Company has complied with this recommendation.*	15
	Accounts and Records	
15.	It is recommended that HIPIC comply with the requirements of Department Regulation No. 33 in the determination of its expense allocations included in the financial statements filed with the Department. *The Company has complied with this recommendation.*	17
16.	It is recommended that the Company exercise greater care in the compilation of data for reporting purposes and comply with the annual statement instructions when preparing its Health Blank. *The Company has not complied with this recommendation. A similar recommendation is contained in this Report.*	18
	Claim Reserves	
17.	The amount reported by the Company as Aggregate Claim Reserves on page 3, line 5 of the annual statement should have instead been reported as Claims Unpaid on page 3, line 1. *The Company has complied with this recommendation.*	21

ITEM NO.		PAGE NO.
	Amounts Recoverable from Reinsurers	
18.	In its 2001 annual statement, HIPIC erroneously reported a reinsurance recoverable asset that did not exist. *The Company has complied with this recommendation.*	22

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Board of Directors	
	It is recommended that the Company take corrective action by developing a policy to evaluate whether Board members who are unable or unwilling to attend meetings consistently should resign or be replaced. Furthermore, in selecting prospective members, a key criterion should be their willingness and commitment to attend meetings and participate in the Board's responsibility to oversee the operations of the Company.	10
	It was noted that this recommendation was contained in the prior report on examination and that overall attendance since such examination has declined even further.	
B.	Committees of the Board of Directors	
	It is recommended that the HIPIC Audit Committee adhere to its charter and meet no less than two times annually.	11
C.	Holding Company System	
	i. The Company should comply with the provisions of Section 1505(c) of the New York Insurance Law by seeking to obtain the Superintendent's prior approval for any administrative services agreement that the Company enters into with other members of its holding company system that involve five percent or more of its prior year-end admitted assets.	15
	ii. It is recommended that, prior to engaging in any holding company transactions, HIPIC ensure that the agreements under which it intends to operate have been properly executed, and where applicable, approved by the Department.	16
D.	Reinsurance	
	i. It is recommended that the Company adhere to the requirements of Section 1505(d) of the New York Insurance Law when entering into transactions within its holding company system.	18

ITEM			PAGE NO.
D.		Reinsurance	
	ii.	It is recommended that both HIPIC and The PerfectHealth Insurance Company abide by the terms of their reinsurance agreement and settle reinsurance premium payments on a monthly basis, as required by the terms of the reinsurance agreement.	18
E.		Annual Statement Reporting	
		It is recommended that the Company exercise greater care in the compilation of data for reporting purposes and comply with the Annual Statement instructions for health entities.	19
F.		Clearing/Suspense Account	
		It is recommended that the Company perform monthly reconciliations of its clearing/suspense accounts to ensure that cash receipts are applied to the appropriate accounts in a timely manner.	24

Appointment No. *22549*

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, ***Howard Mills***, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

RSM McGladrey Inc.

as a proper person to examine into the affairs of the

HIP Insurance Company of New York

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

Company

with such information as it shall deem requisite.

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

this 22nd day of *December 2006*

Howard Mills
Superintendent of Insurance