REPORT ON EXAMINATION

OF

UNITED HEALTHCARE INSURANCE COMPANY OF NEW YORK, INC.

AS OF

DECEMBER 31, 1999

DATE OF REPORT	**OCTOBER 17, 2000**
EXAMINER	**BRUCE BOROFSKY**

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

October 17, 2000

Honorable Neil D. Levin
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to instructions contained in Appointment Number 21709, dated February 16, 1999, attached hereto, I have made an examination into the condition and affairs of United Healthcare Insurance Company of New York, Inc., an Article 42 Accident and Health insurance company, as of December 31, 1999 and submit the following report thereon. A separate report has been submitted as regards market conduct findings.

The examination was conducted at the Company's office located at 450 Columbus Blvd., Hartford, CT 06115. United Healthcare of Insurance Company of New York, Inc. is a wholly owned subsidiary of United Healthcare Insurance Company, Inc, which is a wholly owned subsidiary of United Healthcare Group.

Whenever the terms "UHIC", or "the Company" appear herein without qualification, they should be understood to mean United Healthcare Insurance Company of New York, Inc. Whenever the term "the Parent" appears herein without qualification, it should be understood to mean United Health Group.

1. SCOPE OF EXAMINATION

The Company was previously examined as of September 5, 1995 in a Report on Organization.

The examination comprised a complete verification of assets and liabilities as of December 31, 1999 in accordance with statutory accounting principles (SAP), a review or audit of income and disbursements deemed necessary for such verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items:

History of the Company
Management and control
Corporate records
Fidelity bonds and other insurance
Territory and plan of operation
Growth of the Company
Business in force
Reinsurance
Accounts and records
Loss experience
Financial statements
Treatment of policyholders and claimants

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

2. DESCRIPTION OF COMPANY

The Company was originally incorporated on February 8, 1995, as The MetraHealth Insurance Company of New York. The Company commenced business on December 28, 1995. The Company is a wholly owned subsidiary of United HealthCare Insurance Company, (formerly known as The MetraHealth Insurance Company and Travelers Insurance Company of Illinois), a Connecticut stock corporation.

The Company is a domestic insurer licensed to write Accident and Health insurance, as defined in Paragraphs 3(i) and 3(ii) of Subsection (a) of Section 1113 of the New York Insurance Law

On September 1, 1994, The Travelers Insurance Company ("TIC"), a subsidiary of The Travelers Group, Inc., and Metropolitan Life Insurance Company ("MET"), hereinafter being referred to collectively as the "Companies", signed definitive agreements on behalf of themselves and their affiliates to combine their respective group health insurance and managed care operations to form a jointly-owned but independently managed company. In November 1994, the Companies established The MetraHealth Companies, Inc., ("MHC"), a Delaware general business corporation. The Companies each transferred the shares of various affiliates, and contributed cash and operating assets to MHC to conduct operations effective as of January 3, 1995.

On June 25, 1995, UnitedHealth Group Incorporated (formerly known as United HealthCare Corporation) ("UHG"), a Minnesota corporation, acquired control of MHC.

Effective October 2, 1995, after all regulatory approvals were obtained, MHC became a direct wholly-owned subsidiary of UHG. UHG then became the ultimate parent in the insurance holding company system. UHG is a publicly traded company, providing health care management services to purchasers, consumers, managers and providers of health care since 1977.

On May 31, 1996, MHC was merged with and into its direct wholly owed subsidiary, United HealthCare Insurance Company (formerly known as Travelers Insurance Company of Illinois and The MetraHealth Insurance Company), a Connecticut stock corporation. As a result of the merger, MHC ceased to exist as a separate legal entity, and United Health Care Insurance Company (then known as The MetraHealth Insurance Company) became a direct wholly-owned subsidiary of UHG.

On December 31, 1996, the Company changed its name to United HealthCare Insurance Company of New York. The Company is a wholly-owned subsidiary of United HealthCare Insurance Company, a Connecticut stock corporation, licensed to transact the business of insurance in Guam, Puerto Rico, the U.S. Virgin Islands, the District of Columbus and all 50 states except New York. United HealthCare Insurance Company became an indirect wholly-owned subsidiary of UnitedHealth Group Incorporated as of June 30, 2000.

The Companies administrative offices are located at 2929 Express Drive North, Hauppauge, NY 11787.

A. Management

At December 31, 1999, the thirteen members of the Board of Directors were as follows:

Director	Principal Business Affiliation
Ronald B. Colby Minnestrista, MN	President, United Healthcare Insurance Company of New York, Inc.
R. Channing Wheeler Westport, CT	Chief Executive Officer and Executive Vice President, United Healthcare Insurance Company of New York, Inc.
Arnold H. Kaplan Wayzata, MN	Vice-President and Treasurer, United Healthcare Insurance Company of New York, Inc.
Jeffrey W. Kagan Manlius, NY	Vice-President, United Healthcare Insurance Company of New York, Inc.
Laurie Wasserstein Albany, NY	Vice-President, Underwriting, United Healthcare Services, Inc.
Cecilia Walepole Griffin Columbia, CT	Assistant Treasurer, United Healthcare Insurance Company of New York, Inc.
Jeannine M. Rivet Minnestrista, MN	Chief Executive Officer, United Healthcare, Inc.
Loretta D. Eisele East Islip, NY	Healthplan Operations, United Healthcare of New York, Inc.
P. Alain McMahon Hebron, CT	Assistant Secretary, United Healthcare Insurance Co. of New York, Inc.
Matthew L. Friedman West Hartford, CT	Secretary, United Healthcare Insurance Company of New York, Inc.
Nancy J. Sika Ridge, NY	Vice-President, United Healthcare Insurance Company of New York, Inc.

Amy K. Knapp New York, NY	President and Chief Executive Officer, United Healthcare of New York, Inc. and United Healthcare of Upstate New York, Inc.
Lee N. Neewcomer, M.D. Wayzata, MN	Medical Director, United HealthCare Services, Inc.

The principal officers of the Company as of December 31, 1999 were as follows:

Name	Title
Ronald B. Colby	President
Arnold H. Kaplan	Vice President and Treasurer
Matthew L. Friedman	Secretary

After four board meetings, the Company adopted a procedure where they would no longer physically meet. Rather, the directors would sign off on each executive decision made by the President. It is noted, however, that the by-laws of the Company dictate that meetings are to take place at least quarterly. As such, it is recommended that the board comply with the by-laws and hold quarterly meetings.

B. Territory and Plan of Operation

As of December 31, 1999, the Company was licensed in the State of New York and in the District of Columbia. During the examination period it only wrote business in the State of New York.

The Company provides point of service (POS) indemnity coverage in conjunction with HMO coverage offered by two affiliates, United Healthcare of Upstate New York, Inc. and United Healthcare of New York, Inc. Members of those Companies have the option of going out of their HMO networks. When that occurs, the coverage is picked up by UHIC.

The Company also has a relationship with the American Association of Retired Persons (AARP). The Company offers Medicare Supplemental coverage to members of AARP.

The Company contracts with independent professional associations (IPAs), hospitals and other ancillary providers to render health care services to the enrollees of its employer groups. The Company pays negotiated fees for services rendered by these providers.

Upon visiting a Company physician for medical services, subscribers are responsible for a varying range of co-payments, depending on the contract that covers the member.

C. <u>Reinsurance</u>

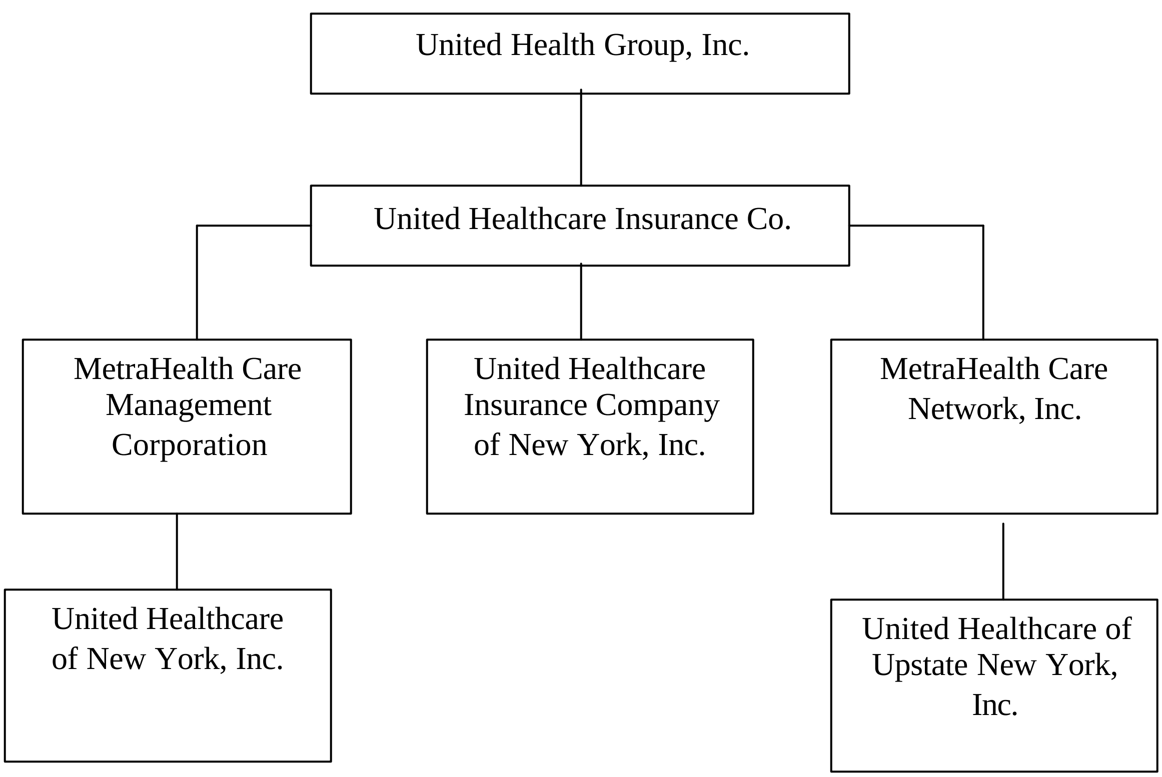
The Company maintains a 50% Quota Share Reinsurance Agreement with its immediate parent, the United Healthcare Insurance Company, Inc. The agreement requires the parent to cover 50% of all of the Insurance Company’s claims and allocated loss adjustment expenses. The reinsurer also pays an equal portion of all other costs, including but not limited to commissions, taxes, assessments, licenses and fees. In return, the Company is required to submit 50% of its premium income to the parent.

The reinsurance agreement contains all of the standard clauses required by the New York Insurance Department and has been approved by the Superintendent.

The accounts are settled on a quarterly basis. Additionally, the Company withholds funds constituting amounts due and payable to the Reinsurer. Net settlements due are deducted from and offset against this withheld funds account unless such settlement will result in a loss of credit for reinsurance under NY Insurance Law.

D. Holding Company System

The Company is a wholly owned subsidiary of United Healthcare Insurance Company. The ultimate Parent is United Health Group, Inc. The following chart depicts the Insurance Company and the New York HMOs in relationship with its parent companies and its affiliated New York-licensed HMOs at the examination date:



The Parent has an additional 113 subsidiaries not shown within this diagram. Those entities range from HMOs registered and operating in other states to health care providers and reinsurers.

Annual registration statements were filed as required pursuant to the provisions of Article 15 of the New York Insurance Law and Department Regulation No. 52.

The Company has various agreements in effect with its affiliates. Following is an analysis of such agreements:

- United Healthcare Services Corporation, Inc. (UHSC) provides administrative, financial and managerial services to the Company for a fee based on estimates of actual costs of providing the services. This agreement is explained in more detail below.

- United Behavioral Health, Inc. provides employee assistance, mental health and substance abuse services for the Company's enrollees.

- OPTUM, Inc. provides consumer information and resources that address health and well being issues for enrollees. Under this agreement, OPTUM provides a 24-hour call-in service called NurseLine and an Employee Assistance Program.

- United Resource Network provides access to a network of transplant providers.

Where required pursuant to Section 1505(c) of the Insurance Law, these agreements have been approved by the Superintendent.

E. Management Agreement

Under the terms of a management agreement between United Healthcare Services Corporation ("UHSC") and the Company, UHSC provides financial, accounting, legal systems, provider, member, medical management, marketing, development, employee management and benefit, information systems and other general and administrative services. The Company pays UHSC a management fee equal to the actual costs of UHSC for providing these services.

Reports are required to be submitted to the Company by UHSC on a monthly basis and are to consist of a written statement of the services performed and the amount estimated to be owed for the services provided pursuant to the agreement. It appears that these monthly reports are currently not being provided. As such, it is recommended that the administrative service provider submit itemized monthly statements listing the services provided and the amount of estimated charges to the Company for such services in compliance with the requirements of its service agreement.

F. Underwriting Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the period covered by this examination:

Health Benefits and Changes in Reserves	$616,731,319	79%
Commissions and other expenses (net of reinsurance allowances	147,811,549	19%
Underwriting gain	17,181,614	2%
Premium Income	$781,724,482	100%
	=========	====

G. Abandoned Property Report

During the period covered by this examination, the Company complied with Section 1316 of the New York Abandoned Property Law. Attempts were made to locate payees and appropriate filings were delivered to the state comptroller.

H. Section 1307 Loan

Pursuant to the provisions of Section 1307 of the New York Insurance Law, the United Healthcare Insurance Co. of New York, Inc. was granted a loan from its Parent in the principal amount of $12,300,000. The funds were transferred on August 28, 1995. The note provides for simple interest at the rate of 6 percent per annum until the principal is paid in full. The agreement also requires that the permission of the Superintendent be obtained before any repayments are made.

I. Custodial Agreement

The Company maintains a custodial agreement with State Street Bank to protect its securities. Review of that agreement revealed that it does not contain all of the safeguards recommended by the Department. First, the agreement does not require the bank to maintain in-force Bankers Bond Insurance. Second, the agreement does not specify that written instructions from the Company to the bank be signed by two authorized officers. Finally, the custodial agreement should allow the insurer the opportunity to obtain the most recent report on the review of the custodian's system of internal controls.

Such flaws in the custodial agreement do not provide the Company with sufficient security against the completion of unauthorized transactions.

It is recommended that the Company amend its custodial agreement to include the following:

- A provision requiring the bank to have and maintain Bankers Blanket Bond Insurance of the broadest form available for commercial banks. Further, the bank should be required to give 60 days written notice to the Company of any material change in the form or amount of such coverage.

- A provision indicating to the bank that written instructions given to the bank by the Company are to be signed by at least two of its Authorized Officers. Said officers will be authorized in a list that will be furnished to the bank as necessary and signed by the treasurer or an assistant treasurer and certified under the corporate seal by the secretary or an assistant secretary.

- A provision that would give the insurer the opportunity to secure the most recent report on the review of the custodian's system of internal controls, pertaining to custodian record keeping, issued by internal or independent auditors.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and net worth as determined by this examination, as of December 31, 1999 and as reported by the Company:

	EXAMINATION			COMPANY	
Assets	Ledger Assets	Non-admitted assets	Admitted assets	Admitted assets	Surplus Increase / (Decrease)
Bonds	$ 227,688,717	$	$ 227,688,717	$ 227,688,717	$
Cash	36,985,852		36,985,852	36,985,852	
Receivable for securities	595		595	595	
Subtotals, cash and invested assets	264,675,164	0	264,675,164	264,675,164	
Reinsurance ceded					
Amounts recoverable from reinsurers	20,480,901		20,480,901	20,480,901	
Commissions and expense Allowances due	4,851,517		4,851,517	4,851,517	
Accident and health premiums Due and unpaid	23,019,009	4,003,541	19,015,468	20,890,966	(1,875,498)
Investment income due and accrued	2,959,740		2,959,740	2,959,740	
Receivable from parent, subsidiaries And affiliates	7,364,548		7,364,548	7,364,548	
Other invested assets	700,431	699,855	576	576	
Total other assets	59,376,146	4,703,396	54,672,750	56,548,248	(1,875,498)
Total assets	$ 324,051,310	$ 4,703,396	$ 319,347,914	$ 321,223,412	$(1,875,498)
Liabilities					
Aggregate reserve for life policies and Contracts	$ 14,370,948		$ 14,370,948	$ 14,370,948	
Accident and health policy claims	45,209,937		45,209,937	50,985,713	(5,775,776)
Premiums and annuity considerations Received in advance	674,741		674,741	674,741	
Provision for experience rating refunds	35,929,241		35,929,241	35,929,241	
Commissions to agents due or accrued	1,097,208		1,097,208	1,097,208	
General expenses due or accrued	8,189,054		8,189,054	8,189,054	
Taxes, licenses and fees due or accrued Excluding federal income taxes	3,281,926		3,281,926	3,281,926	
Federal income taxes due or accrued	4,457,055		4,457,055	4,457,055	
Amounts withheld or retained by Company as agent or trustee	17,314		17,314	17,314	
Asset valuation reserve	411676		411,676	411676	
Funds held under reinsurance treaties with unauthorized reinsurers	129,792,277		129,792,277	129,792,277	
Other liabilities	375,618		375,618	375,618	
Total liabilities	$ 243,806,995		$ 243,806,995	$ 249,582,771	$ (5,775,776)
Net worth					
Common capital stock	300,000		300,000	300,000	
Surplus notes	12,300,000		12,300,000	12,300,000	
Gross paid in and contributed surplus	38,200,000		38,200,000	38,200,000	
Unassigned funds (surplus)	24,740,919		24,740,919	20,840,641	3,900,278
Total net worth	$ 75,540,919		$ 75,540,919	$ 71,640,641	3,900,278
Total liabilities and net worth	$ 319,347,914		$ 319,347,914	$ 321,223,412	$ (1,875,498)

B. Statement of Revenue, Expenses and Net Worth

Net worth increased $75,540,919 during the examination period, January 1, 1996 through December 31, 1999, detailed as follows:

Income		
Premiums and annuity considerations	$ 781,724,482	
Net investment income	28,706,846	
Amortization of Interest Maintenance Reserve	140,448	
Commissions and expense allowances on reinsurance ceded	63,391,902	
Miscellaneous income	2,647,163	
Total revenue		$ 876,610,841
Expenses		
Benefits under accident and health policies	$ 613,587,491	
Increase in aggregate reserves for A&H policies and contracts	3,143,828	
Commissions on premiums	20,225,248	
Commissions and expense allowances on reinsurance assumed	6,337,608	
General insurance expenses	131,259,253	
Insurance taxes, licenses and fees (excluding federal income tax)	17,057,262	
Other deductions	36,324,080	
Subtotal		827,934,770
Net operating income		$ 48,676,071
Federal state income taxes incurred		17,451,512
Net realized capital gain transferred to the IMR		30
Net income		$ 31,224,529

Changes in Net Worth

	Gains	Losses	
Net worth per examination as of December 31, 1995			$ 0
Net income	$31,224,529	$	
Net increases in paid in surplus	38,200,000		
Increase in surplus notes	12,300,000		
Change in non-admitted assets		(2,827,898)	
Change asset valuation reserve		(411,676)	
Other changes in surplus		(3,244,036)	
Capital changes - paid in	$ 300,000		
	$82,024,529	$(6,483,610)	
Net increase in net worth			75,540,919
Net worth per examination as of December 31, 1999			$ 75,540,919

4. ACCIDENT AND HEALTH PREMIUMS DUE AND UNPAID

The examination admitted asset of $19,015,468 is $1,875,498 less than the $20,890,966 reported by the Company in its 1999 filed Annual Statement. The decrease resulted from the examiner reclassifying certain amounts as follows:

- The Company calculates uncollectible premium by netting overdue amounts from an actual listing of premiums receivable. This number is skewed, however, because system deficiencies do not consistently allow overdue amounts to be properly credited as premiums are received. As a result, there are cases where credits exist within the "overdue by greater than 90 days" column for groups that do not have premiums overdue by greater than 90 days. These credit balances are reducing the overall balance of the non-admitted receivables inappropriately. The account was decreased $52,490 to correct this deficiency.

It is recommended that the Company not reduce the total uncollectible premiums by netting unassociated credits against the overdue amounts.

- As noted previously in this section, the Company determines its uncollectible premiums balance through an itemized aging of premiums receivable. All premiums overdue by at least 90 days are determined to be uncollectible. Conversely, premiums overdue by less than 90 days are deemed to be collectible and are thus, admitted by the Company.

The Department's Circular Letter dated November 29, 1978 provides the following:

> "When original, deposit, endorsement or audit premiums are overdue, all premiums subsequently charged on the same policies or bonds should be classified as overdue, <u>except that if such overdue premiums do not exceed 20% of the subsequently charged premiums on the same policies or bonds, such subsequently charged premiums, if otherwise underdue, shall be allowed as admitted assets."</u>

This clause requires that, in the event that a group has overdue premiums that represent greater than 20% of the total due, all of the amount due shall be declared to be non-admitted. The account was decreased $1,823,008 to correct this deficiency.

It is recommended that the Company comply with the Department's Circular Letter dated November 29, 1978, "Rules for the Determination of Overdue Premiums, Other Than Life Insurance Premiums."

5. ACCIDENT AND HEALTH POLICY CLAIMS

The examination admitted asset of $45,209,937 is $5,775,776 less than the $50,985,713 reported by the Company in its 1999 filed Annual Statement. The adjustment was made to more accurately reflect the expected year-end 1999 liability of the Company for its unpaid claims.

The examination reserve was based upon actual payments made through June 30, 2000 plus an estimate for claims remaining unpaid at that date. Such estimate was calculated based on actuarial principles, which utilized the Plan's past experience in projecting the ultimate cost of claims incurred on or prior to December 31, 1999, that were still outstanding at June 30, 2000.

It is recommended that the Company review its reserving practices in order to develop more accurate claim reserves.

6. TREATMENT OF POLICYHOLDERS AND CLAIMANTS

In the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. A separate report was issued in regard to these findings.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	It is recommended that the board comply with the by-laws and hold quarterly meetings.	6
B.	It is recommended that the administrative service provider submit itemized monthly statements listing the services provided and the amount of estimated charges to the Company for such services in compliance with the requirements of its services agreement.	10
C.	It is recommended that the Company amend its custodial agreement to include the following: • A provision requiring the bank to have and maintain Bankers Blanket Bond Insurance of the broadest form available for commercial banks. Further, the bank should be required to give 60 days written notice to the Company of any material change in the form or amount of such coverage. • A provision indicating to the bank that written instructions given to the bank by the Company are to be signed by at least two of its Authorized Officers. Said officers will be authorized in a list that will be furnished to the bank as necessary and signed by the treasurer or an assistant treasurer and certified under the corporate seal by the secretary or an assistant secretary. • A provision that would give the insurer the opportunity to secure the most recent report on the review of the custodian's system of internal controls, pertaining to custodian record keeping, issued by internal or independent auditors.	12
D.	It is recommended that the Company not reduce the total uncollectible premiums by netting unassociated credits against the overdue amounts.	15
E.	It is recommended that the Company comply with the Department's Circular Letter dated November 29, 1978 "Rules	16

	for the Determination of Overdue Premiums, Other Than Life Insurance Premiums."	
F.	It is recommended that the Company review its reserving practices in order to develop more accurate claim reserves.	17

Respectfully submitted,

____________/s/_______________

Bruce Borofsky

Senior Insurance Examiner

STATE OF NEW YORK)

) SS.

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COUNTY OF NEW YORK)

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

_____________/s/__________________

Bruce Borofsky

Subscribed and sworn to before me

This _____ day of __________2001

Appointment No. 21709

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, NEIL D. LEVIN *, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Bruce Borofsky

as a proper person to examine into the affairs of the

UNITED HEALTHCARE INSURANCE COMPANY OF NEW YORK

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 the name and affixed the official Seal of this Department, at the City of New York,

this 16th *day of* February *1999*

NEIL D. LEVIN
Superintendent of Insurance

(by) Gregory Serio
First Deputy Superintendent