

REPORT ON EXAMINATION

OF

MVP HEALTH SERVICES CORP.

AS OF

DECEMBER 31, 2013

DATE OF REPORT

FEBRUARY 2, 2016

EXAMINER

JEFFREY L. USHER, CFE

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Shirin Emami
Acting Superintendent

February 2, 2016

Honorable Shirin Emami
Acting Superintendent of Financial Services
Albany, New York 12257

Madam:

Pursuant to the provisions of the New York Insurance Law and acting in accordance with the instructions contained in Appointment Number 31183, dated April 30, 2014, 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, 2013. 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 “MVPHSC” or the “Plan” appear herein, without qualification, they should be understood to indicate MVP Health Services Corp.

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

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

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

A separate market conduct examination of MVPHSC was conducted as of December 31, 2013 to review the manner in which MVPHSC conducted its business practices and fulfilled its contractual obligations to policyholders and claimants. A separate report will be submitted thereon.

Concurrent financial and market conduct examinations were made of MVP Health Plan, Inc. (“MVPHP”), a not-for-profit health maintenance organization (HMO) licensed pursuant to the provisions of Article 44 of the New York Public Health Law and 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. These two companies are affiliates within the MVP holding company system as detailed herein. Separate reports thereon have been submitted for each of the above entities.

1. SCOPE OF THE EXAMINATION

I have performed an examination of MVP Health Services Corp. The previous examination covered the three year period of January 1, 2008 through December 31, 2010. This examination of the Plan is a financial examination as defined in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook, 2014 Edition* (the “Handbook”) and it covered the three-year period from January 1, 2011 through December 31, 2013. The examination was conducted observing the guidelines and procedures in the Handbook. Where deemed appropriate by the examiners, transactions occurring subsequent to December 31, 2013 were also reviewed.

The examination was conducted using a risk-focused basis in accordance with the provisions of the Handbook, which provides guidance for the establishment of an examination plan based on the examiner’s assessment of risk in the Plan’s operations and utilizes that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the Plan’s current financial condition, as well as to 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 examination also evaluated the Plan's critical risk categories in accordance with the NAIC's ten critical risk categories. These categories are as follows:

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

The Plan was audited annually, for the years 2011 through 2013, by the accounting firm of PricewaterhouseCoopers LLP (“PwC”). The Plan received an unmodified 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 (Insurance Regulation No. 118) 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 charitable 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 Corp. MVPHIC Holding Corp. 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. Corporate Governance

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 directors. As of December 31, 2013, the board of directors consisted of four members, as set forth below.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
<u>Officer-Employee</u>	
Denise V. Gonick, Esq. Schenectady, New York	President and Chief Executive Officer, MVP
<u>Provider Representative</u>	
Herschel R. Lessin, M.D. Poughkeepsie, New York	Physician, Pediatrics, Children's Medical Group, PLLC
<u>Subscriber and Public Representatives</u>	
Karen B. Johnson Schenectady, New York	Director of the Capital Campaign, Proctors Theatre Schenectady County Legislator
Jon K. Rich Alplaus, New York	Retired

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

During the examiner's review of the Jurat Pages of 2011 to 2013 annual statements of MVPHSC, it was noted that three of the board members of MVPHSC, Karen Johnson, Herschel Lessin, and Jon Rich, served as directors for more than ten consecutive years, which is not in compliance with New York Insurance Law Section 4301(k)(3).

Section 4301(k)(3) of the New York Insurance Law states:

“No person who has served as a director of any corporation subject to this article for ten consecutive years shall thereafter be elected for an additional term of office as such until at least one year has elapsed since the expiration of his prior term of office.”

It is recommended that MVPHSC ensure compliance with Section 4301(k)(3) of the New York Insurance Law.

During the examiner's review of the members of the executive committee for MVPHSC, it was noted that the list of members of the executive committee did not include the vice-chairperson of the board, which is not in compliance with MVPHSC's by-laws.

Article VI, Section 6.02 of the Plan's by-laws states:

“The members of the Executive Committee shall be chosen in accordance with the same qualifications and descriptions and in the same proportions as those of the Directors as set forth in Section 3.03, provided that the Chairperson, Vice-Chairperson and President shall be members of the Executive Committee.”

It is recommended that MVPHSC comply with Article VI, Section 6.02 of its by-laws.

The principal officers of the Plan as of December 31, 2013 were as follows:

<u>Name</u>	<u>Title</u>
Denise V. Gonick, Esq.	President and Chief Executive Officer
Dawn K Jablonski, Esq.	Secretary
Daniel Drislane	Interim Chief Financial Officer

Corporate governance, enterprise risk management (“ERM”), internal audit department (“IAD”), and Insurance Regulation No. 118 processes for the Plan are provided by MVP Health Care, Inc., the ultimate parent of MVPHSC.

Enterprise Risk Management (ERM)

The MVP Companies did not have in place an ERM framework during the examination period to proactively identify and mitigate various business risks, including prospective business risks. In accordance with Insurance Regulation No. 203 (11 NYCRR 82) “Enterprise Risk Management and Own Risk and Solvency Assessment,” the Plan’s holding company was required to adopt a formal enterprise risk management function effective June 25, 2014. In 2014, the MVP Companies started the process of

developing an ERM framework by forming a steering committee and entering into a consultation agreement to guide the MVP companies in establishing and implementing an effective ERM framework. MVP appointed a Chief Risk Officer in July 2014. The examiner noted that the process for completion of MVP's ERM framework is on track to be completed in the 3rd quarter of 2015.

In addition, MVP has established a government affairs department to address emerging policy issues within the health insurance industry and those facing MVP and all of its affiliates, including MVPHSC. As issues are identified, MVP establishes leadership teams to gain an understanding of the impact to the MVP Companies. These leadership teams are developed to provide recommendations to the members of the executive team which have the responsibility for MVP's strategy on emerging issues.

Internal Audit Department (IAD)

MVP Health Care, Inc., the Plan's ultimate parent, established an Internal Audit Department to serve all the subsidiaries within its holding company system, including MVPHSC. The IAD reports to the Audit Committee of the Board of Directors (the "AC") which 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 efficiency.

Insurance Regulation No. 118

The Plan's parent, MVPRT Holdings, Inc., as well as its ultimate parent MVP Health Care, Inc., are both non-publicly traded companies and therefore not subject to the Sarbanes-Oxley Act of 2002. However, the ultimate parent and the New York entities are subject to the provisions of Insurance Regulation No. 118. Insurance Regulation No. 118 (11 NYCRR 89) – "Audited Financial Statements," is similar to the NAIC's Model Audit Rule ("MAR"), and applies to certain New York regulated entities, including MVPHSC. Insurance Regulation No. 118 became effective January 1, 2010.

MVP's general controls are applied to all its subsidiaries and affiliates, which include the Plan. As part of its Insurance Regulation No. 118 analysis, risks from various operations were identified and segregated by operational cycles and entity level controls.

B. 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 as of December 31, 2013. During the examination period, the Plan wrote only stand-alone indemnity dental insurance.

The Plan's enrollment in New York State for each year under examination and 2014 was as follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
PPO				35,031
Dental	<u>6,245</u>	<u>5,269</u>	<u>4,138</u>	<u>3,403</u>
Total	<u>6,245</u>	<u>5,269</u>	<u>4,138</u>	<u>38,434</u>

During the examination period, the membership of the Plan decreased to 4,138 a 33.74% decrease from calendar year 2011. However, in 2014 the membership of the Plan increased to 38,434. The reason for the large increase in enrollment is due primarily to the Plan entering the small group health benefit plan market.

The Plan's direct written premiums for each year under examination and 2014 was as follows:

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<u>\$2,790,663</u>	<u>\$2,442,052</u>	<u>\$1,974,653</u>	<u>\$101,522,303</u>

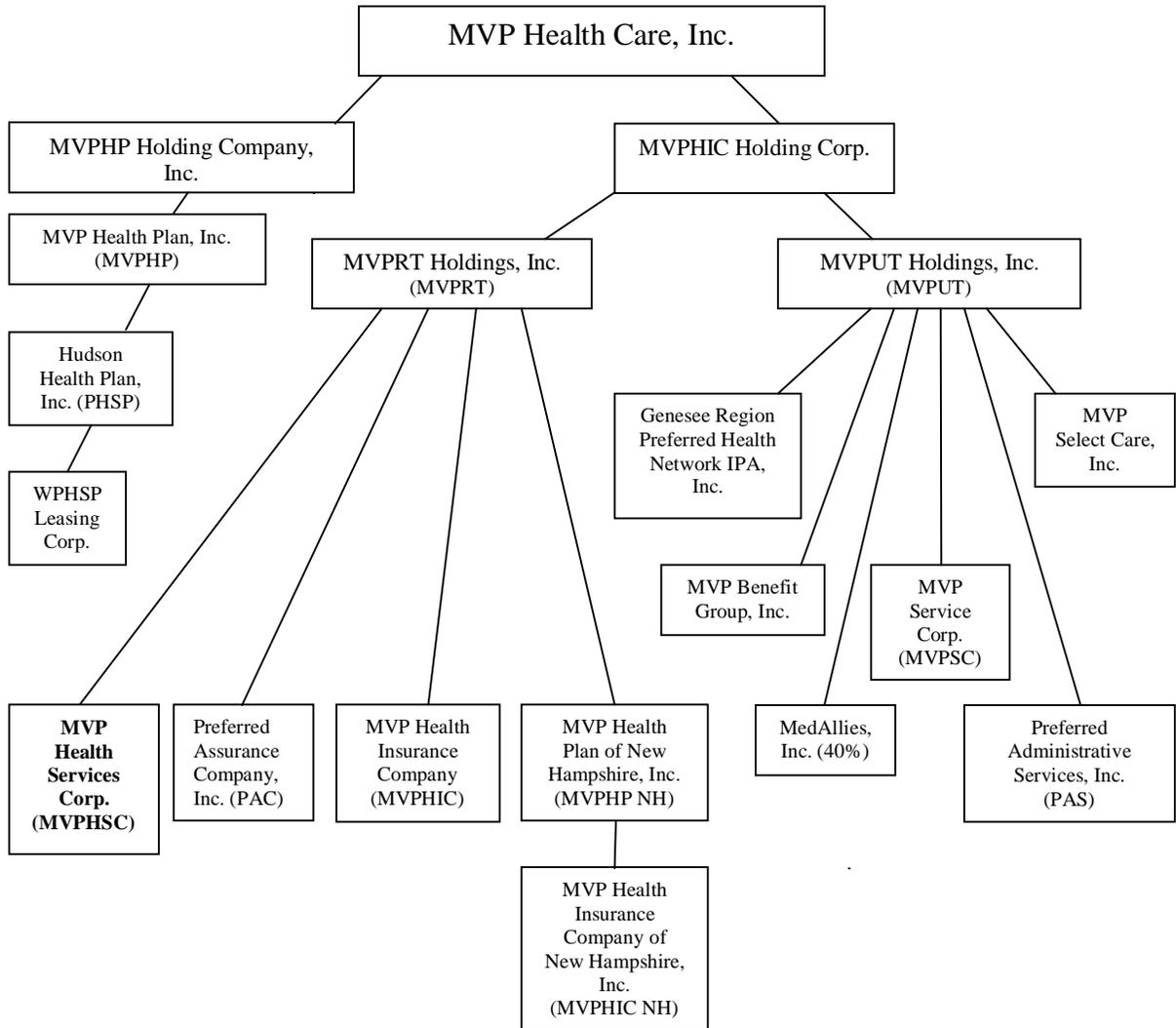
The premiums written have a direct relationship to the membership, as noted above.

C. Reinsurance

The Plan did not assume or cede any business during the examination period.

D. Holding Company System

The following is the organizational chart of MVP Health Care, Inc., and its subsidiaries and affiliates as of December 31, 2013:



The Plan is a wholly-owned subsidiary of MVPRT Holdings, Inc., which is a wholly-owned subsidiary of MVPHIC Holding Corp. MVP Health Care, Inc., is the ultimate parent.

MVPHIC Holding Corp. (“MVPHICHC”)

MVPHIC Holding Corp. was incorporated on December 13, 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 Corp. holds and controls 100% ownership of both 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 Corp.

MVPRT and MVPUT are New York corporations. MVPRT controls subsidiaries which are regulated by the New York State Department of Financial Services, Vermont Department of Financial Regulation, and New Hampshire Insurance Department. MVPUT controls certain other subsidiaries which are not subject to such regulation.

During the examination period, MVPHIC Holding Corp. controlled five subsidiaries of MVPRT Holdings, Inc., and three of the five subsidiaries, MVP Health Services Corp., MVP Health Insurance Company and Preferred Assurance Company, Inc., were 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 (HMO), as such term is defined in Article 44 of the New York Public Health Law. MVPHP operates as an Independent Practice Association (IPA) model HMO.

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 Corp. 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 Exclusive Provider Organization (EPO), Preferred Provider Organization (PPO), point-of-service (out-of-network) and indemnity only products for large and small groups.

Staffing Services Agreement

The Plan has a staffing services agreement with MVP Service Corp. (“MVPSC”). MVPSC is wholly-controlled by MVPUT. MVPSC’s employees perform all the 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 an agreement approved by the Department on March 14, 2008.

Office Facilities, Equipment and Supplies Agreement

During the exam period, MVPHSC was party to an agreement with MVPHP, by which MVPHP provided MVPHSC with space, furnishings, equipment, supplies and facilities necessary for MVPHSC to operate its business. MVPHP bills MVPHSC periodically, but not less than quarterly, for access to the equipment provided. The Department approved this agreement on March 14, 2008.

Tax Allocation Agreement

MVPHIC Holding Corp., entered into a tax allocation agreement with its affiliates, including MVPHIC and MVPHSC, dated January 6, 2006, as amended on December 22, 2009. The amended agreement was approved by the Department on January 8, 2010.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2013, based upon the results of this examination:

Net premiums written to surplus	0.46 to 1
Uncollected premiums to surplus	0.55%
Cash and invested assets to unpaid claims	61 to 1
Surplus to unpaid claims	6226.3%

The above ratios fall within the National Association of Insurance Commissioners (NAIC) benchmarks.

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>Percentage</u>
Claims expenses	\$4,852,533	67.33%
Claims adjustment expenses	409,691	5.68%
General administrative expenses	1,206,247	16.74%
Net underwriting gain	<u>738,897</u>	<u>10.25%</u>
Net premiums earned	<u>\$7,207,368</u>	<u>100.00%</u>

As of December 31, 2013, the Plan's total adjusted surplus was \$4,297,173. This amount was well above the Plan's authorized control level risk-based capital of \$85,867. The 2013 risk-based capital ratio was 5,004.5%.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following statements show the assets, liabilities, and surplus as of December 31, 2013, as contained in the Plan's 2013 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which affected the Plan's financial condition as presented in its financial statements contained in the December 31, 2013 filed annual statement.

The firm of PwC was retained by the Plan to audit the Plan's GAAP basis statements of financial position as of December 31st of each year of the examination period, and the related statements of operations and changes in net assets and cash flows for the year then ended. A GAAP to statutory footnote has been presented within the financial statements of the Plan for each of the years audited for the changes in surplus.

PwC concluded that the GAAP financial statements presented fairly, in all material respects, the financial position of the Plan at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

Assets

Bonds	\$ 3,177,789
Cash and short-term investments	1,021,177
Investment income due and accrued	20,469
Uncollected premium	23,977
Net deferred tax asset	2,615
Receivable from parent, subsidiaries and affiliates	223,044
Health care receivable	<u>2,130</u>
Total Assets	<u>\$4,471,201</u>

Liabilities

Claims unpaid	\$69,017
Unpaid claims adjustment expenses	9,000
Premiums received in advance	63,880
General expenses due and accrued	8,427
Current federal and foreign income tax payable and interest	<u>23,704</u>
Total Liabilities	<u>\$174,028</u>

Surplus

New York State Statutory Reserve	\$246,832
Unassigned funds (surplus)	<u>4,050,341</u>
Total surplus	<u>\$4,297,173</u>
Total liabilities and surplus	<u>\$4,471,201</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 Surplus

Surplus increased by \$501,562 during the examination period, January 1, 2011 through December 31, 2013, detailed as follows:

Revenue

Total revenue \$7,207,368

Expenses

Hospital/medical benefits	\$520	
Other professional services	4,852,013	
Total hospital and medical		\$ 4,852,533

Administrative expenses

Claim adjustment expenses	409,691	
General administrative expenses	<u>1,206,247</u>	
Total administrative expenses		<u>1,615,938</u>
Total underwriting deductions		<u>6,468,471</u>

Net underwriting gain 738,897

Net investment income earned	26,817	
Net realized capital gain (or loss)	<u>251</u>	
Net investment gains		<u>27,068</u>

Net income before federal income taxes 765,965

Federal income taxes incurred

		<u>263,794</u>
Net income		<u>\$502,171</u>

Change in Surplus Account

Surplus, per report on examination, as of December 31, 2010			\$3,795,611
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	<u>\$502,171</u>		
Change in non-admitted assets		<u>609</u>	
Total gains and losses	<u>\$502,171</u>	<u>\$609</u>	
Net increase in surplus			<u>\$501,562</u>
Surplus, per report on examination, as of December 31, 2013			<u>\$4,297,173</u>

4. SUBSEQUENT EVENTS

On February 28, 2014, Preferred Assurance Company, Inc. (PAC), a New York health insurance corporation licensed pursuant to Article 43 of the New York Insurance Law, merged into MVPHSC. The merger was approved by the New York State Department of Financial Services on December 6, 2013, and took effect as of February 28, 2014.

Also during 2014, MVPHSC began offering small group health benefit plans. These plans were not offered through the New York State of Health, The Official Health Plan Marketplace (the “Exchange”), but followed the MVPHP small group offerings made available through the Exchange. MVPHSC’s Accountable Care Act – compliant small group health plan portfolio included plans in all four metal levels. To-date, MVPHSC has enrolled over 30,000 members as a result of entering this market, driving significant increases to membership and premium for MVPHSC.

MVPHSC needed a significant amount of additional surplus to support this increase in premium writings per Section 4310. Accordingly, MVPHSC achieved this additional surplus via a \$40 million Section 1307 loan received from MVPHP in December of 2014.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination, as of December 31, 2010, contained three (3) financial related recommendations detailed as follows (page number refers to the prior report on examination):

<u>ITEM NO.</u>		<u>PAGE NO.</u>
	<u>Enterprise Risk Management</u>	
1.	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
	<i>The Plan has complied with this recommendation.</i>	
	<u>Internal Audit Department</u>	
2.	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
	<i>The Plan has complied with this recommendation.</i>	
3.	It is also recommended that 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
	<i>The Plan has complied with this recommendation.</i>	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Corporate Governance</u>	
i.	It is recommended that MVPHSC ensure compliance with Section 4301(k)(3) of the New York Insurance Law.	7
ii.	It is recommended that MVPHSC comply with Article VI, Section 6.02 of its by-laws.	8

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

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

Jeffrey Usher

as a proper person to examine the affairs of

MVP Health Services Corporation

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

Corporation

with such other information as he shall deem requisite.

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

this 30th day of April, 2014

*BENJAMIN M. LAWSKY
Superintendent of Financial Services*

By:



*Lisette Johnson
Bureau Chief
Health Bureau*

