

REPORT ON EXAMINATION
OF THE
MEDCO CONTAINMENT INSURANCE COMPANY OF NEW YORK
AS OF
DECEMBER 31, 2000

DATE OF REPORT

OCTOBER 12, 2001

EXAMINER

KENNETH I. MERRITT

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

October 12, 2001

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21753, dated August 2, 2001 attached hereto, I have made an examination into the condition and affairs of the Medco Containment Insurance Company of New York, as of December 31, 2000 and submit the following report thereon.

The examination was conducted at the Company's administrative office located at 110 Clifton Corporate Park, Building 100, Clifton Park, New York 12065.

Wherever the designation "the Company" appears herein, without qualification, it should be understood to indicate the Medco Containment Insurance Company of New York. Where the term "Department" appears herein without qualification, such term shall refer to the New York State Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1995. This examination covers the five year period from January 1, 1996 through December 31, 2000 and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including invested assets, loss and loss adjustment expense reserves and the provision for reinsurance. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Business in-force by states
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

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

2. DESCRIPTION OF COMPANY

The Company was incorporated in the State of New York on February 15, 1989 under the name American Nisshin Insurance Company (“American Nisshin”). The Company received its licensing authority on July 15, 1989 with an original paid in capital of \$1,000,000 consisting of 1,000,000 common shares with a par value of \$1 per share.

On August 31, 1994, American Nisshin was acquired by Medco Containment Services, a subsidiary of Merck & Co. With the Department’s approval, American Nisshin effected a name change on November 1, 1994, to its present form of Medco Containment Insurance Company of New York. In addition, Medco Containment Services Inc., the immediate parent company, also effected name changes to Merck-Medco Managed Care, Inc. on December 19, 1995 and again to its present name of Merck-Medco Managed Care, L.L.C. on January 1, 1997.

A. Management

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members.

As of December 31, 2000, the board of directors was comprised of thirteen members. The board met four times during each calendar year. The directors as of December 31, 2000 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Richard T. Clark Furlong, PA	Chairman of the Board and President, Medco Containment Insurance Co. of NY
Sarina Dos Santos Clifton, NJ	Associate Controller, Medco Containment Insurance Co. of NY
Jane Hulse Essex, NJ	Vice-President & Controller, Medco Containment Insurance Co. of NY
Roger A. Jones Greenwich, CT	Vice-President, Marketing Medco Containment Insurance Co. of NY
Robert B. McGovern Glen Ridge, NJ	Vice-President, Taxes Medco Containment Insurance Co. of NY
Margery F. Nathanson Cliffside, NJ	Vice-President, General Counsel & Secretary, Medco Containment Insurance Co. of NY
Barbara A. Schisani-Randa New York, NY	Vice-President & Chief Underwriter, Medco Containment Insurance Co. of NY
JoAnn A. Reed Matawan, NJ	Senior Vice-President, Merck-Medco Managed Care, L.L.C.
David J. Reilly New York, NY	Vice-President, Labor Relations Merck-Medco Managed Care, L.L.C.
Peter T. Sherman Montclair, NJ	Vice-President, Legal Merck-Medco Managed Care, L.L.C.
George L. Shiebler Short Hills, NJ	Vice-President, Legal Merck & Co. Inc.
Leo M. Walsh, Jr. New York, NY	Vice-President & Treasurer, Medco Containment Insurance Co. of NY
Daniel C. Walden New Rochelle, NY	Vice-President, Legal & Assistant Secretary, Medco Containment Insurance Co. of NY

The minutes of all meetings of the board of directors and committees thereof held during the examination period were reviewed. Such meetings were well attended.

The following were the principal officers of the Company as of December 31, 2000:

<u>Name</u>	<u>Title</u>
Richard T. Clark	President
Gabrielle R. Cappucci	Associate Controller
Caroline D. Dorsa	Vice-President
Jane Hulse	Vice-President
Roger A. Jones	Vice-President
Robert B. McGovern	Vice-President
Margery F. Nathanson	Vice-President
Barbara Schisani-Ranta	Vice-President
Sarina Dos Santos	Associate Controller
Leo M. Walsh, Jr.	Vice-President
Daniel C. Walden	Vice-President

B. Territory and Plan of Operation

As of December 31, 2000, the Company was licensed to transact the kinds of insurance as set forth in the following numbered paragraphs of Section 1113(a) of the NYIL:

<u>Paragraph</u>	<u>Kinds of Insurance</u>
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company is also empowered to transact such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including insurance described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law 803, 69th Congress, as amended; 33 USC Section 901 et seq. as amended).

As of December 31, 2000, the Company was licensed only in the State of New York.

Prescription drug programs offered to large groups on a stop loss basis are the only source of business written by the company since its acquisition by Merck-Medco Managed Care, L.L.C. The Company has not written business since 1997.

Based on the lines of business for which the Company is licensed, its current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$3,500,000.

C. Reinsurance

The Company had no assumed or ceded reinsurance coverage in effect as of the December 31, 2000 examination date.

D. Holding Company System

Below is a list of those affiliates including Medco Containment Insurance Company of New York which are either controlled 100% by Merck-Medco Managed Care L.L.C. or have shared control with Merck & Co., Inc.:

Merck & Co., Inc. (ultimate parent company)

Merck-Medco Managed Care, L.L.C. (NJ) (immediate parent company)
 Medco Containment Insurance Company of New York (NY)
 Medco Containment Insurance Company of New Jersey (NJ)
 Medco Containment Life Insurance Company (PA)
 CM Delaware Corporation (DE)
 PAID Prescriptions, L.L.C. (NV)
 PAID Direct, Inc. (DE)
 Merck-Medco Rx Services of Florida No. 2, L.L.C. (FL)
 Merck-Medco Rx Services of Florida No. 4, L.L.C. (DE)
 Merck-Medco Rx Services of Florida No. 5, L.L.C. (FL)
 Merck-Medco Rx Services of Florida, L.L.C. (FL)
 Merck-Medco Rx Services of Massachusetts, L.L.C. (MS)
 Merck-Medco Rx Services of New Jersey, L.L.C. (NJ)
 Merck-Medco Rx Services of New York, L.L.C. (NY)
 Merck-Medco Rx Services of Ohio, No. 2, Ltd. (OH)
 Merck-Medco Rx Services of Ohio, Ltd. (OH)
 Merck-Medco Rx Services of Oklahoma, L.L.C. (OK)
 Merck-Medco Rx Services of Pennsylvania No. 2, L.L.C. (PA)
 Merck-Medco Rx Services of Pennsylvania, L.L.C. (PA)
 Merck-Medco Rx Services of Texas, L.L.C. (TX)
 Merck-Medco Rx Services of Virginia, L.L.C. (VA)
 NJRE, L.L.C. (NJ)
 New York Independent Practice Association, L.L.C. (NY)
 Systemed Pharmacy of Iowa, L.L.C. (DE)
 Systemed Pharmacy of Ohio, Ltd. (OH)
 Systemed, L.L.C. (DE)
 merckmedco.com, L.L.C. (NJ)
 DM-MG, L.L.C. (DE)
 MW Holdings, L.L.C. (DE)
 Merck Hamilton, Inc. (CA)
 Merck-Medco Managed Care of California, Inc. (CA)
 Merck-Medco Rx Services of Nevada, Inc. (NV)
 Merck-Medco Rx Services of Washington, Inc. (WA)
 Merck-Medco of Willingboro Urban Renewal, L.L.C. (NJ)
 Merck-Medco Rx Services of Willingboro, NJ, L.L.C. (NJ)
 NRx Federal Corp. (DE)
 National Rx Services No. 3, Inc. of Ohio (OH)
 National Rx Services, Inc. of Missouri (MO)
 ProVantage Health Services, Inc. (DE)
 Replacement Distribution Center, Inc. (OH)
 The Institute for Effectiveness Research, L.L.C. (DE)

As of the examination date, no individual or entity held control of ten percent or more of Merck & Co., Inc.

The following inter-company agreements, approved by the Department, were in effect between the Company and members of the holding company system as of December 31, 2000:

1. Service Agreement: Agreement between the Company and Merck-Medco Managed Care L.L.C. (“Merck-Medco”) dated August 31, 1994 and as amended in April 1998. Under the captioned agreement, Merck-Medco provides all of the Company’s accounting, underwriting, claims and investment services.
2. Tax Sharing Agreement: Agreement among the Company, Merck & Co., Inc., Merck-Medco Managed Care, L.L.C., and other affiliates dated November 18, 1996. Under the captioned agreement, the above parties file a consolidated federal income tax return with Merck & Co. Inc. as the lead company. In turn, the Company either pays the parent company or receives from it any tax amount due or refundable equal in amounts to what the Company would have paid or received back had it filed on a separate tax basis.

Both agreements have been filed with this Department pursuant to Section 1505 of the New York Insurance Law.

E. Abandoned Property Law

Management has indicated that during the examination period the Company had not filed any abandoned property reports with the Office of the New York State Comptroller pursuant to Section 1316 of the New York Abandoned Property Law because it had no reportable unclaimed funds. Although the Company has no unclaimed funds, it is required to file a negative abandoned property report with the State Comptroller’s Office. It is recommended that the Company comply with Section 1316 of the New York Abandoned Property Law, by filing, annually, such abandoned property report.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2000, based upon the results of this examination:

Net premiums written in 2000 to Surplus as regards policyholders	0.0 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	4.52%
Premiums in course of collection to Surplus as regards policyholders	0%

The above ratios fall within the benchmark ranges as set forth by the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned-incurred basis and encompass the five year period under examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$22,572,592	89.17%
Loss adjustment expenses incurred	300	0
Other underwriting expenses incurred	926,445	3.66
Net underwriting gain	<u>1,814,728</u>	<u>7.17</u>
Premiums earned	<u>\$25,314,065</u>	<u>100%</u>

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination and as reported by the Company as of December 31, 2000:

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-ledger Assets</u>	<u>Non-admitted Assets</u>	<u>Admitted Assets</u>
Bonds	\$6,097,258	\$	\$	\$6,097,258
Cash on hand and on deposit	51,905			51,905
Short-term investments	3,121,861			3,121,861
Interest due and accrued		184,958		184,958
Total assets	<u>\$9,271,024</u>	<u>\$ 184,958</u>	<u>\$ 0</u>	<u>\$9,455,982</u>
 <u>Liabilities</u>				
Other expenses				\$ 68,944
Taxes, licenses and fees				94,462
Federal and foreign income taxes				264,156
Total liabilities				<u>\$ 427,562</u>
 <u>Surplus</u>				
Common capital stock		\$1,000,000		
Gross paid in and contributed surplus		4,068,941		
Unassigned surplus		3,959,479		
Surplus as regards policyholders				<u>\$9,028,420</u>
Total liabilities and surplus				<u>\$ 9,455,982</u>

Note: The Internal Revenue Service has not performed any audits of the Company's consolidated federal income tax returns through tax year 2000. The examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$3,674,400 during the five year examination period, January 1, 1996 through December 31, 2000, detailed as follows:

Underwriting income

Premiums earned		\$25,314,065
Deductions:		
Losses incurred	\$22,572,592	
Loss adjustment expenses incurred	300	
Other underwriting expenses incurred	849,390	
Total underwriting deductions		<u>23,422,282</u>
Net underwriting gain		\$ 1,891,783
<u>Investment income</u>		
Net investment income earned	\$ 3,241,613	
Net realized capital losses	(4,960)	
Net investment gain		<u>3,236,653</u>
Net income before federal income taxes incurred		\$5,128,436
Federal income taxes incurred		<u>1,455,922</u>
Net income		<u>\$3,672,514</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 1995			\$5,354,020
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$3,672,514	\$	
Change in not admitted assets	<u>1,886</u>	<u> </u>	
Total gains and losses	<u>\$3,674,400</u>	<u>\$ 0</u>	
Net increase in surplus			<u>3,674,400</u>
Surplus as regards policyholders, per report on examination, as of December 31, 2000			<u>\$9,028,420</u>

4. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination as of December 31, 1995, contained several comments and recommendations. The current status of these matters is as follows (page numbers refer to the prior report):

ITEM

PAGE NO.

A. Attendance of Board Members

It is recommended that members attend meetings consistently. Board members unable or unwilling to do so should resign or be replaced.

5

The Company has complied with this recommendation.

ITEMPAGE NO.B. Holding Company System

It is recommended that the Company furnish the required registration statements on a timely basis.

7

The Company has complied with this recommendation.

C. Conflict of Interest Statements

It is recommended that the Company use conflict of interest questionnaires which require that each director and officer disclose organization(s) where a material financial interest exists or the individual holds the position of officer and/or director, thereby giving the Company the option of determining if a conflict of interest exists.

10

The Company has complied with this recommendation.

D. Allocation of Expenses

It is recommended that the parties to the agreement either comply with the terms of the agreement or amend the agreement to state their true intent and act accordingly to comply with Regulation 30.

10

The Company has complied with this recommendation.

E. Corporate Insurance

It is recommended that the Company obtain fidelity insurance in the amount suggested in the NAIC's Examiners Handbook.

11

The Company has complied with this recommendation.

F. Uncollected Premiums

It is recommended that the Company report the full amount of premiums in its filed annual statement, utilizing the proper line items of the annual statement blank and following the pertinent sections of the NAIC annual statement instructions.

16

The Company has complied with this recommendation.

G. Unearned Premiums

It is recommended that the Company report unearned premiums in its filed annual statement, utilizing the proper lines of the NAIC annual statement blank and following the pertinent sections of the NAIC annual statement instructions.

16

ITEMPAGE NO.

The Company has complied with this recommendation.

H. Losses and Loss Adjustment Expenses

It is recommended that the Company comply with the requirements of Section 4117(g) of the New York Insurance Law by establishing a reserve for loss adjustment expenses. 16

The Company has complied with this recommendation.

5. SUMMARY OF COMMENTS AND RECOMMENDATIONS

A. Abandoned Property Law

It is recommended that the Company comply with Section 1316 of the New York Abandoned Property Law by filing the necessary report annually with the Comptroller's Office of the State of New York. 8

Appointment No. 21753

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Kenneth Merritt

as proper person to examine into the affairs of the

MEDCO CONTAINMENT 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 2nd day of August, 2001





GREGORY V. SERIO
Superintendent of Insurance