

REPORT ON EXAMINATION

OF

PREFERRED ASSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2010

DATE OF REPORT

JULY 27, 2012

EXAMINER

JEFFREY L. USHER

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

July 27, 2012

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

Sir:

Pursuant to the requirements of the New York Insurance Law and acting in accordance with the instructions contained in Appointment Number 30737, dated September 13, 2011, attached hereto, I have made an examination into the financial condition and affairs of Preferred Assurance Company, Inc., a non-profit health corporation licensed pursuant to the provisions of Article 43 of the New York Insurance Law, as of December 31, 2010. The following report is respectfully submitted thereon.

The examination was conducted at the home office of Preferred Assurance Company, Inc. located at 625 State Street, Schenectady, New York.

Wherever the designations the “Plan” or “PAC” appear herein, without qualification, they should be understood to indicate Preferred Assurance Company, Inc.

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

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

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

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

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

1. SCOPE OF THE EXAMINATION

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

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

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, and Statutory Accounting Principles, as adopted by the Department, and annual statement instructions.

Information concerning the Plan's organizational structure, business approach and control environment were utilized to develop the examination approach. The examination evaluated the Plan's risks and management activities in accordance with the NAIC's nine branded risk categories.

These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit
- Market
- Liquidity
- Legal
- Reputational

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

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.

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.

2. **DESCRIPTION OF THE PLAN**

Preferred Assurance Company, Inc. was incorporated on June 2, 1992, pursuant to Section 402 of the New York Not-For-Profit Corporation Law. The Plan is licensed to write insurance business within New York State as a non-profit health corporation pursuant to the provisions of Article 43 of the New York Insurance Law. The Plan commenced operations in New York State in 1993. Pursuant to Article I of its by-laws, the Plan has MVPRT Holdings, Inc. as its sole member.

On January 6, 2006, MVPHP combined with Preferred Care, Inc. (PC). Under terms of the agreement, MVPHP and PC reorganized their respective enterprises under a holding company structure with MVP Health Care, Inc. established as the ultimate holding company.

On May 1, 2009, MVPHP merged with Rochester Area Health Maintenance Organization, Inc. ("RAHMO"), a related party not-for-profit corporation operating as a federally qualified HMO. MVPHP, the surviving corporation, became the sole subsidiary of MVPHP Holding Company, Inc., which is a wholly-owned subsidiary of MVP Health Care, Inc. (the ultimate parent). The merger was approved by the Department on May 1, 2009.

MVPRT Holdings, Inc. ("MVPRT"), is a holding company for three New York State and two New Hampshire regulated entities within the MVP Health Care, Inc. holding company

system. MVPRT is a wholly-owned subsidiary of MVPHIC Holding Corporation. MVPHIC Holding Corporation is a wholly-owned subsidiary of MVP Health Care, Inc., the ultimate parent.

A. Management and Controls

Pursuant to the Plan's charter and by-laws, management of the Plan is to be vested in a board of directors consisting of not less than four members. As of December 31, 2010, the board of directors consisted of seven members, as set forth below:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
<u>Provider representative</u>	
Michael Schneider, MD Rochester, New York	Internal Medicine, University of Rochester
<u>Subscriber representatives</u>	
Anthony M. Costanza Webster, New York	Retired
William Reddy Rochester, New York	Retired
Wilfred J. Schrouder, Jr. Penn Yan, New York	Retired
<u>Community representatives</u>	
Gary Bonadonna Webster, New York	Trade Union Manager, Rochester Joint Board, Unite Here
Michael Copeland Rochester, New York	Human Resources Manager, Alstom Signaling, Inc.
<u>Officer</u>	
David W. Oliker Schenectady, New York	President and Chief Executive Officer MVP Health Care, Inc.

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

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

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

B. Corporate Governance

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

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

Enterprise Risk Management

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

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

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

Internal Audit Department

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

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

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

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

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

Per the IIA:

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

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

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

Model Audit Rule

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

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

C. Territory and Plan of Operation

The Plan provides hospital, medical and other health services through out New York State, including indemnity contracts or preferred provider arrangements. Indemnity contracts are issued to small groups and individuals on a community rated basis and to large groups on an experience rated basis. The Plan also provides managed care coverage, based on a preferred provider organization (PPO).

During the examination period, the Plan provided coverage for hospital, medical and other health services for the out-of-network component of Rochester Area Health Maintenance Organization Inc.'s ("RAHMO") (an affiliated health maintenance organization, licensed pursuant to Article 44 of the New York Public Health Law) point-of-service product in the Rochester metropolitan area. RAHMO merged with and into MVP Health Plan, Inc. on May 1, 2009. In addition, the Plan offered administrative service contracts (ASC), which provided indemnity or preferred provider benefits to certain large self-insured groups, who reimbursed the Plan for the cost of claims plus administrative charges.

The Plan offers a variety of insurance products, such as a preferred provider option (PPO), an exclusive provider option (EPO), a point of service option (POS) and a traditional indemnity insurance product.

The Plan provides health insurance coverage to private and public sector employer groups.

Starting in January 2008, the Plan began to aggressively market new PPO and EPO products (first offered in January, 2004).

These products were not adequately priced, which resulted in the Plan being impaired at various times during the exam period as follows:

<u>Date</u>	<u>Amount of impairment</u>	<u>Amount and type of capital infusion</u>	<u>Date and provider of capital infusion</u>
June 30, 2008	\$3.8 million	\$30 million, capital contribution	Fourth quarter 2008, RAHMO
September 30, 2009	\$941,641	\$6.5 million, capital contribution	December 17, 2009, MVP Health Care, Inc.
December 31, 2009	\$2.9 million	\$6 million, capital contribution	May 10, 2010, MVP Health Care, Inc.

The Plan's 2010 financial condition improved mainly because of the \$6 million capital contribution from MVP Health Care, Inc. The Plan's capital and surplus increased by 22.5% from 2009; resulting in its capital and surplus being \$750,282 in excess of its required statutory reserve as of December 31, 2010.

The Plan's enrollment for each year under examination, by product type, was as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
PPO	26,308	26,298	15,919
POS	<u>17,032</u>	<u>12,251</u>	<u>4,929</u>
Total	<u>43,340</u>	<u>38,549</u>	<u>20,848</u>

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

<u>2008</u>	<u>2009</u>	<u>2010</u>
\$53,986,653	\$81,133,233	\$64,638,661

As noted above, the Plan's aggressive marketing and not adequately pricing the PPO and EPO products resulted in the 2009 increase of 50%. The decrease in premium of 20% in 2010 was the result of shifting the EPO and PPO products' members to MVP Health Insurance Company, the Plan's affiliate.

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

D. Reinsurance

On January 1, 2008, the Plan had a reinsurance agreement with HCC Life (“HCC”), an authorized reinsurer. The agreement covered eligible health care services provided under the Plan’s point-of-service policies as follows:

<u>Lines of Business Covered</u>	<u>Type of Cession</u>	<u>Limits</u>
<u>Commercial PPO and EPO</u>		
Eligible healthcare services	Excess of Loss	90% excess of \$300,000 of loss per member. Maximum benefit payable per covered member, per policy year is \$2,000,000.

On January 1, 2009, the Plan entered into an excess of loss reinsurance agreement with Zurich American Insurance Plan, an authorized reinsurer, replacing the agreement with HCC with the same limits as mentioned above.

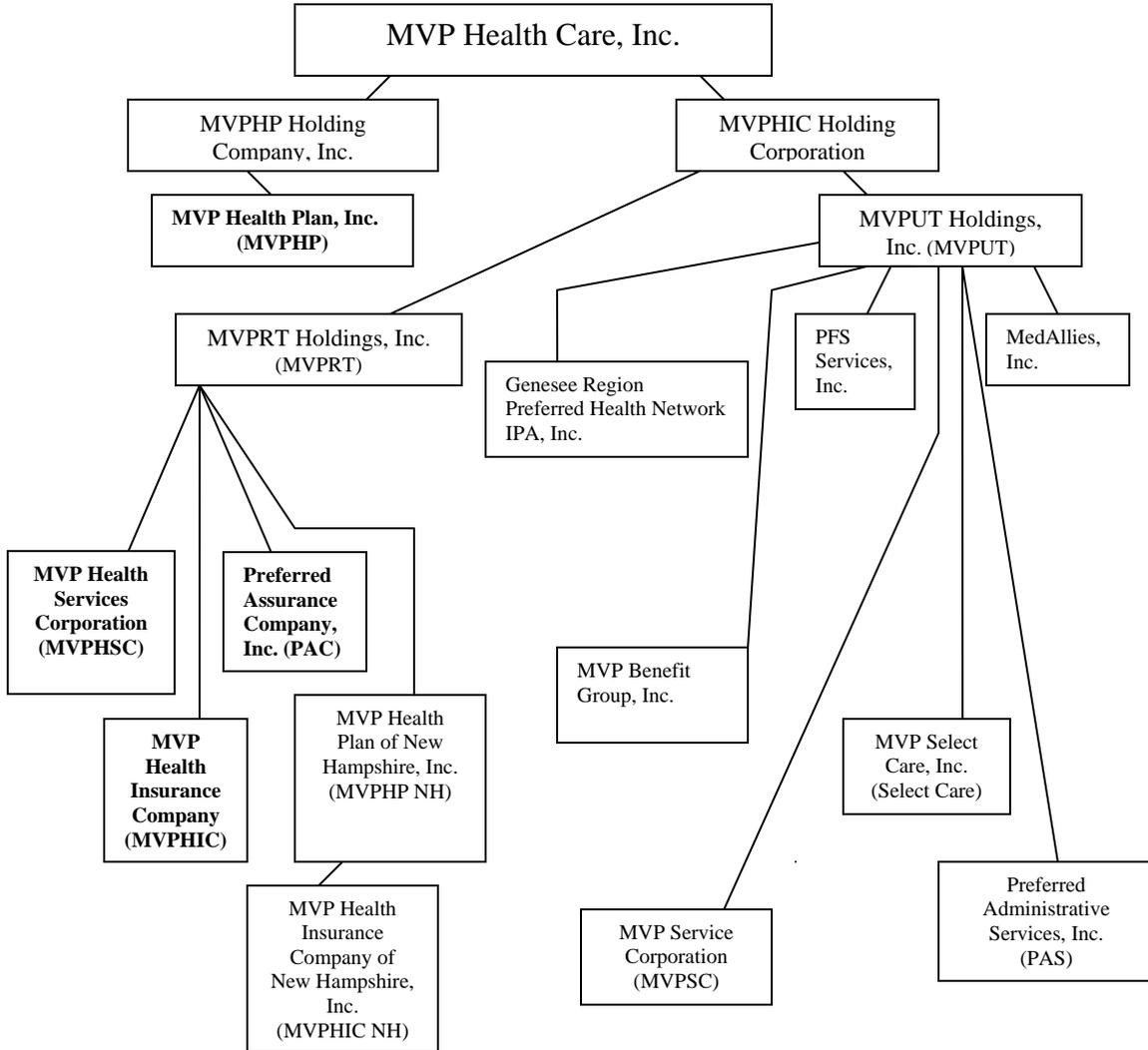
The reinsurance agreements contained all the required standard clauses, including the insolvency clause required by Section 1308(a)(2)(A)(i) of the New York Insurance Law.

E. Holding Company System

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

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

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



MVPHIC Holding Corporation (“MVPHICHC”)

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

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

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

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

MVP Health Insurance Company (“MVPHIC”)

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

MVP Health Plan, Inc. (“MVPHP”)

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

MVP Health Services Corporation (“MVPHSC”)

MVPHSC is a not-for-profit corporation, licensed under Article 43 of the New York Insurance Law. Prior to January 2002, MVPHSC offered point-of-service (POS) health insurance products. Currently MVPHSC issues only indemnity dental insurance products. MVPHSC is a subsidiary of MVPRT Holdings, Inc., which is a wholly-owned subsidiary of MVPHIC Holding Corporation. MVPHIC Holding Corporation is a wholly-owned subsidiary of MVP Health Care, Inc.

MVP Service Corporation (“MVPSC”)

The Plan has a management services and consulting agreement with MVP Service Corporation. MVPSC is wholly-controlled by MVPUT Holdings, Inc. MVP Service Corporation’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 the agreement, approved by the Department.

Tax Allocation Agreement

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

F. Significant Operating Ratios

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

Net premiums written to capital and surplus	7 to 1
Uncollected premiums to surplus	42%
Cash and invested assets to unpaid claims	3 to 1
Surplus to unpaid claims	128%

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.

	Amounts	Percentage
Claims	\$205,381,679	102.8%
Claims adjustment expenses	5,437,864	2.8%
General administrative expenses	23,655,908	11.8%
Net underwriting loss	<u>(34,716,904)</u>	<u>(17.4%)</u>
Premiums earned	<u>\$199,758,547</u>	<u>100.0%</u>

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets and liabilities as determined by this examination. This statement is the same as the balance sheet filed by the Plan as of December 31, 2010.

<u>Assets</u>	<u>Examination</u>	<u>Plan</u>
Bonds	\$10,085,867	\$10,085,867
Cash and short term investment	7,918,512	7,918,512
Receivables for securities	9,363	9,363
Investment income due and accrued	83,044	83,044
Uncollected premium	3,724,123	3,724,123
Reinsurance recoverable	470,084	470,084
Health care receivable	<u>714,361</u>	<u>714,361</u>
Total assets	<u>\$23,005,354</u>	<u>\$23,005,354</u>
<u>Liabilities</u>		
Claims unpaid	\$6,933,604	\$6,933,604
Unpaid claims adjustment expenses	207,000	207,000
Premiums received in advance	93,289	93,289
General expenses due and accrued	390,826	390,826
Amount due to parent and affiliates	<u>6,531,025</u>	<u>6,531,025</u>
Total liabilities	14,155,744	14,155,744
<u>Capital and surplus</u>		
Common capital stock		
Gross paid in and contributed surplus	42,500,000	42,500,000
Aggregate write-ins for other than special surplus funds	8,099,328	8,099,328
Unassigned funds (surplus)	<u>(41,749,718)</u>	<u>(41,749,718)</u>
Total capital and surplus	8,849,610	8,849,610
Total liabilities, capital and surplus	<u>\$23,005,354</u>	<u>\$23,005,354</u>

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

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

Capital and surplus increased \$7,426,551 during the three year examination period, January 1, 2008 through December 31, 2010, detailed as follows:

Revenue

Net premium income \$199,758,547

Expenses

Hospital/medical benefits \$150,566,184

Other professional services 1,456,924

Emergency room and out of area 10,677,952

Prescription drugs 37,813,254

Aggregate write-ins for other
hospital and medical 6,115,133

Net reinsurance recoveries (1,247,768)

Total hospital and medical expenses \$205,381,679

Administrative expenses

Claim adjustment expenses 5,437,864

General administrative expenses 23,655,908

Total administrative expenses 29,093,772

Total underwriting deductions 234,475,451

Net underwriting loss (34,716,904)

Net investment income earned 313,568

Net realized capital gain 49,555

Net investment gains 363,123

Net loss before federal income
taxes (34,353,781)

Federal income taxes incurred
(credit) (5,364,113)

Net loss (\$28,989,668)

Change in Capital and Surplus

Capital and surplus, per report on examination, as of December 31, 2007			\$1,423,059
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net loss		\$28,989,668	
Change in surplus notes		7,998,461	
Change in non-admitted assets		352,720	
Contribution to surplus	\$42,500,000		
Aggregate write-ins for gains in surplus	2,267,400		
Total gains and losses	<u>\$44,767,400</u>	<u>\$37,340,849</u>	
Net increase in capital and surplus			7,426,551
Capital and surplus, per report on examination as of December 31, 2010			<u>\$8,849,610</u>

4. CLAIMS UNPAID

The examination liability of \$6,933,604 is the same as the amount reported by PAC as of December 31, 2010. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Plan's internal records and its filed annual statements as verified by the examiner.

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

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM NO.</u>		<u>PAGE NO.</u>
	<u>Consolidated Tax Agreement</u>	
A.	It is recommended that the Plan, in the future, comply with the requirements of Section 1505(d) of the New York Insurance Law and Department Circular Letter 33 (1979).	18
	The Plan has complied with this recommendation.	
	<u>Allocation of Expenses</u>	
B.	It is recommended that the Plan apply the guidelines included in SSAP No. 70 of the NAIC Accounting Practices and Procedures Manual and Part 107 of Department Regulation 30 (11 NYCRR 107.3) by revising and updating its expense allocation methodology to reflect an appropriate allocation among the proper annual statement expense groupings within the Underwriting & Investment Exhibit of the Plan's annual statement.	21
	The Plan has complied with this recommendation.	
	<u>Abandoned Property Law</u>	
C.	It is recommended that the Plan comply with the (publishing of) notice requirements of Section 1316(3) of the New York Abandoned Property Law.	22
	The Plan has complied with this recommendation.	

6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Enterprise Risk Management</u></p> <p>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.</p>	<p>8</p>
<p>B. <u>Internal Audit Department</u></p> <p>i. In order to enhance the independence of the internal audit function, it is recommended that MVP revise the Internal Audit and Audit Committee charters to clearly indicate that the Audit Committee has primary responsibility for the performance evaluation and compensation of the IAD director.</p> <p>ii. It is also recommended that the MVP Audit Committee maintains documentation to support the Audit Committee's review of the IAD director's performance. Details for the IAD director's compensation should also be included.</p>	<p>10</p> <p>10</p>

Appointment No. 30737

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

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

Jeffrey Usher

as a proper person to examine into the affairs of the

Preferred Assurance Company, Inc.

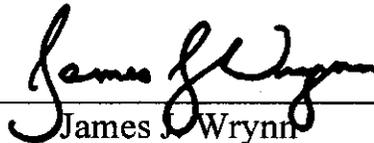
and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

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

This 13th day of September, 2011



James J. Wrynn
Superintendent of Insurance

