

REPORT ON EXAMINATION
OF THE
UNITED CONCORDIA INSURANCE COMPANY OF NEW YORK
AS OF
DECEMBER 31, 2001

DATE OF REPORT

JANUARY 30, 2003

EXAMINER

JOSEPH S. KRUG

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

January 30, 2003

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 instructions contained in Appointment Number 21936, dated September 5, 2002 and annexed hereto, I have made an examination into the financial condition and affairs of the United Concordia Insurance Company of New York, an accident and health insurance Company licensed under Article 42 of the New York Insurance Law, and submit the following report thereon.

The examination was conducted at the Company's main administrative office located at 4401 Deer Path Road, Harrisburg, PA 17110.

Wherever the designations "the Company" or "UCICNY" appear herein without qualification, they should be understood to indicate the United Concordia Insurance Company of New York.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1992. This examination covers the nine-year period from January 1, 1993 through December 31, 2001. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2001, in accordance with Statutory Accounting Principles, as adopted by the New York Insurance Department, a review of income and disbursements deemed necessary to accomplish 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 as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of the Company
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Officers' and employees' welfare and pension plans
- Territory and plan of operation
- Growth of Company
- Business in force
- Loss experience
- Accounts and records
- Treatment of policyholders and claimants

A review was also made to ascertain what action was taken by the Company with regard to comments 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 January 10, 1990 as the "Citadel Insurance Company," under the laws of the State of New York. It commenced business on September 25, 1990. On December 31, 1996, United Concordia Companies, Inc. (UCCI) acquired 100% of the outstanding common stock of Citadel Insurance Company. On January 8, 1997, Citadel Insurance Company's name was changed to United Concordia Insurance Company of New York (UCICNY). UCICNY is a for-profit corporation authorized to write accident and health insurance in the State of New York. The Company is a wholly owned subsidiary of UCCI. On July 11, 1997, the New York State Insurance Department approved the Company's license change from a property and casualty insurer to an Article 42 accident and health insurer.

On December 6, 1996, UCCI's parent corporation, Medical Service Association of Pennsylvania (d/b/a Pennsylvania Blue Shield), combined with Veritus Inc. (d/b/a Blue Cross of Western Pennsylvania) to form Highmark Inc. (Highmark). As a result, UCCI became a wholly owned subsidiary of Highmark.

A. Management

Pursuant to the UCICNY's charter and by-laws, management of the Company is vested in a board of directors consisting of thirteen members. At December 31, 2001, the directors of the Company were as follows:

Name and Residence**Principal Business Affiliation**

Joseph Carlomusto,
Old Brookville, NY

Executive Vice President and Chief Marketing Officer, Davis Vision, Inc.

Thomas A. Dzuryachko,
Harrisburg, PA

Chairman of the Board,
President and CEO, United Concordia Companies, Inc.

Jeffrey R. Ernst,
Carlisle, PA

Vice President,
United Concordia Insurance Company of New York

Walter F. Froh,
Lemoyne, PA

President, Clarity Vision, Inc. and Davis Vision, Inc.

Lawrence M. Gabel,
Franklin Square, NY

Executive Vice President, CFO, Treasurer and Assistant Secretary, Davis Vision, Inc.

Michael P. Graydon,
New York, NY

Member of the Board of Directors,
United Concordia Companies, Inc.

Thomas A. Harbold,
East Berlin, PA

Senior Vice President TDP,
United Concordia Companies, Inc.

Nathan C. Kleinberg,
Phoenix, AZ

Senior Vice President, Marketing, United Concordia Companies, Inc.

Stephen M. Massini,
Harrisburg, PA

Director, Mergers and Acquisitions,
Highmark Inc.

Frederick Gerard "Chip" Merkel,
Harrisburg, PA

President and Chief Executive Officer,
United Concordia Insurance Company of New York

Carl Moroff, O.D.,
Commack, NY

Executive Vice President, COO Vision Care and Chief Quality Officer, Davis Vision, Inc.

Jon K. Seltenheim,
Lemoyne, PA

Senior Vice President, Customer Service Operations, United Concordia Companies, Inc.

Daniel J. Wright,
Harrisburg, PA

Treasurer of United Concordia Insurance Company of New York, Senior Vice President, Finance and Treasurer, United Concordia Companies, Inc.

Article II, Section 2 of UCICNY's by-laws states that there shall be four regular meetings of the board of directors held each year. Our review indicated that the board of directors only meets twice each year. It is recommended that the Company comply with its by-laws and hold four regular meetings of the board of directors each year. A similar comment was contained in the prior report on examination.

The minutes of all meetings of the board of directors were reviewed. All such meetings were well attended. However, it was noted that Harvey Z. Werblowsky failed to attend at least one-half of the meetings he was eligible to attend. His absences were not excused.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the Company. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such obligation.

It is recommended that the members of the board of directors attend at least one-half of the regular board meetings. Board members who are unable or unwilling to attend meetings consistently, should resign or be replaced.

The Company's principal officers, at December 31, 2001, were as follows:

<u>Name</u>	<u>Title</u>
Thomas A. Dzuryachko	Chairman of the Board
Frederick G. Merkel	President and Chief Executive Officer
Richard J. Enterline, Esq.	Secretary
Daniel J. Wright	Treasurer
Timothy D. Billow	Assistant Treasurer

B. Territory and Plan of Operation

UCICNY was licensed, as of December 31, 2001, to transact an accident and health insurance business as defined by Section 1113(a)(3)(i) of the New York Insurance Law.

The Company writes business in New York State only. In 2001, the Company wrote total direct premiums in the amount of \$978,206.

The following chart depicts the membership of its subscribers at each year-end:

<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
0	2	55	0	1,523	5,314

The primary reason for the significant change in membership between 2001 and 2002 is the addition of one large group.

Based upon the line of business for which the Company is licensed under Article 11 of the New York Insurance Law, and pursuant to the requirements of Article 42 of the New York Insurance Law, the Company is required to maintain minimum capital of \$300,000.

The Company used the services of independent brokers and agents during the period under examination. All business was dental business.

C. Reinsurance

There were no reinsurance contracts in effect during the period under examination.

D. Holding Company System



It should be noted that at December 31, 2001, United Concordia Companies, Inc. owned or controlled directly or indirectly a total of eighteen (18) subsidiaries consisting of seventeen (17) dental plans and one (1) consulting firm.

As detailed in section 2 of this report, on December 31, 1996, United Concordia Companies, Inc. (UCCI) acquired 100% of the outstanding common stock of Citadel Insurance Company. On January 8, 1997, Citadel Insurance Company's name was changed to United Concordia Insurance Company of New York (UCICNY). UCICNY is a for-profit corporation authorized to write accident and health insurance in the State of New York. The Company is a wholly owned subsidiary of UCCI.

On December 6, 1996, UCCI's parent corporation, Medical Service Association of Pennsylvania (d/b/a Pennsylvania Blue Shield), combined with Veritus Inc. (d/b/a Blue Cross of Western Pennsylvania) to form Highmark Inc. (Highmark). As a result, UCCI became a wholly owned subsidiary of Highmark.

A review was conducted of the Company filings required by Article 15 of the New York Insurance Law and Part 80-1.4 of Department Regulation 52 (11 NYCRR 80-1.4). It was determined that the Company was in compliance with those requirements.

The following is a description of the inter-company agreements in effect as of the examination date:

1. Management Agreement

As of December 31, 2001, UCICNY maintained a management agreement with UCCI which was approved by the New York State Insurance Department. This agreement automatically renews for successive one-year terms commencing on December 31, 1996, unless either party gives the other written

notice of termination at least sixty (60) days prior to the end of the then-current term or if terminated immediately upon mutual consent. The management agreement provides for UCCI to render certain services to UCICNY. These services include management information systems, utilization review services, claims administration, marketing, collection of premiums, review of staffing and scheduling, and other related services.

A review of the allocation of costs under this agreement revealed that these costs appear to have been allocated in a fair and equitable manner.

2. Consolidated Tax Allocation Agreement

On April 29, 1999, UCICNY entered into a consolidated tax allocation agreement with its ultimate parent company, Highmark Inc. The April 29, 1999 Agreement superseded a prior agreement to which the Company was a party with Highmark Inc., dated December 31, 1996. The new Agreement was entered for ease of administration and provides for apportionment calculations to be performed on a biannual basis. This Agreement was approved by the New York Insurance Department.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2001, based upon the results of this examination:

Net premiums written in 2001 to Surplus as regards policyholders	0.40 to 1
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Liabilities to Liquid assets (cash and invested assets less investments in affiliates)	7.0%
Premiums in course of collection to Surplus as regards policyholders	0.004%

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

F. UNLICENSED AGENTS

During the course of the examination, it was noted that several employees of UCCI were receiving commissions or other compensation directly dependent upon the amount of business done, for soliciting or accepting from the public, applications on behalf of UCICNY even though they were not licensed as insurance agents or brokers in New York State.

Section 2114(a)(3) of the New York Insurance Law states:

“No insurer, fraternal benefit society or health maintenance organization doing business in this state and no agent or other representative thereof shall pay any commission or other compensation to any person, firm, association or corporation for services in soliciting or procuring in this state any new contract of accident or health insurance or any new health maintenance organization contract, except to a licensed accident and health insurance agent of such insurer, such society or health maintenance organization, or to a licensed insurance broker of this state, and except to a person described in paragraph two or three of subsection (a) of section two thousand one hundred one of this article.”

Section 2101(a)(2) of the New York Insurance Law states:

“any regular salaried officer or employee of any insurer or health maintenance organization, who devotes substantially all of his services to activities other than the solicitation of insurance business and health maintenance organization contracts from the insuring public, and who receives for the solicitation of such insurance and health maintenance organization contracts no commission or other compensation directly dependent upon the amount of business obtained;”

It was noted that two unlicensed employees received commissions of \$12,951 on a total of 127 policies for writing New York business during the years 2001 and 2002. Furthermore, two employees in supervisory positions received \$16,804 in override commissions. It is recommended that pursuant to Section 2114(a)(3) of the New York Insurance Law that UCCI refrain from paying any commissions or compensation directly dependent upon the amount of business obtained to any person that does not possess a valid agent's or broker's license.

G. FRAUD PREVENTION PLAN

During the course of the examination, it was determined that the Company failed to file a fraud prevention plan as required by Section 409 of the New York Insurance Law. Once the Company was made aware of this omission by the on-site examiners, a fraud prevention plan was submitted to the New York State Insurance Department for approval. The submission was made on January 27, 2003. It is recommended that the Company operate under a New York Insurance Department approved fraud prevention plan.

3. FINANCIAL STATEMENTS

A. Balance sheet

The following shows UCICNY's assets, liabilities and surplus funds as determined by this examination as of December 31, 2001. This statement is the same as the balance sheet filed by the Company in its annual statement filed with the Department.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$1,936,473	\$ 0	\$1,936,473
Cash and short-term investments	687,488		687,488
Accident and health premiums due and unpaid	92		92
Investment income due and accrued	<u>7,156</u>	<u>0</u>	<u>7,156</u>
Total assets	<u>\$2,631,209</u>	<u>\$ 0</u>	<u>\$2,631,209</u>

LIABILITIES, RESERVES & OTHER FUNDS

Policy and contract claims:			
accident and health			\$75,850
Premiums and annuity considerations for life and			
accident and health policies and contracts received in			
advance			17,334
General expenses due or accrued			8,026
Taxes, licenses and fees due or accrued			
(excluding Federal Income Taxes)			22,316
Federal and foreign income taxes			46,639
Miscellaneous liabilities:			
Asset Valuation Reserve			3,760
Payable to parent, subsidiaries and affiliates			<u>9,467</u>
Total liabilities			<u>\$183,392</u>

SURPLUS AND OTHER FUNDS

Common capital stock			\$1,000,000
Gross paid in and contributed surplus			550,000
Unassigned funds			<u>897,817</u>
Total capital and surplus			<u>\$2,447,817</u>
Total liabilities, surplus and other funds			<u>\$2,631,209</u>

The Internal Revenue Service has completed its audits of the consolidated federal income tax returns filed on behalf of the Company through tax year 2000. An audit covering tax year 2001 has yet to commence. 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. Summary of Operations

Surplus funds increased \$445,304 during the five-year period from January 1, 1997 to December 31, 2001,

detailed as follows:

Premiums and annuity considerations	\$1,057,422
Net investment income	511,554
Miscellaneous income	<u>17,287</u>
Total	<u>\$1,586,263</u>
Disability benefits and benefits under accident and health policies	\$ 754,645
Commissions on premium considerations	18,340
General insurance expenses:	118,323
Taxes, licenses and fees	<u>25,598</u>
Total benefits, expenses and taxes	<u>\$ 916,906</u>
Net gain from operations before federal income taxes	\$ 669,357
Federal income taxes	<u>224,053</u>
Net gain from operations after federal income taxes	<u>\$ 445,304</u>

Surplus Account

Surplus funds on December 31, 1996	\$2,002,513
	Gain in <u>Surplus</u>
Net gain from operations	<u>\$445,304</u>
Total gain	<u>\$445,304</u>
Net increase in surplus	<u>445,304</u>
Surplus funds, per report on examination, December 31, 2001	<u>\$2,447,817</u>

4. POLICY AND CONTRACT CLAIMS: ACCIDENT AND HEALTH

The examination liability of \$75,850 is the same as reported by the Company as of the examination date.

The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Plan conducts its business practices and fulfills its contractual obligations to subscribers and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct examination.

The general review was directed at practices of the Plan in the following major areas:

- A) Sales and advertising
- B) Underwriting and rating
- C) Treatment of subscribers and claimants

No problem areas were encountered during the review.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The examiner reviewed the Company's compliance with the following seven comments and recommendations of the prior report on examination (page numbers refer to prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
1. It is recommended that the Company comply with its by-laws and hold four regular board of directors' meetings each year.	4
The Company has not complied with this recommendation. A similar comment is repeated in this report.	
2. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
The Company has not complied with this recommendation. A similar comment is repeated in this report.	
B. <u>Reinsurance</u>	
It is recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law.	7
As a result of the change in ownership, the prior recommendation is not relevant.	
C. <u>Holding Company System</u>	
1. It is recommended that the Company immediately cease doing business with CTI and Hamond unless approved by this Department.	11
As a result of the change in ownership, the prior recommendation is not relevant.	
2. It is recommended that the Company formalize any oral agreements that exist between itself and Hamond and submit them to this Department.	11

As a result of the change in ownership, the prior recommendation is not relevant.

<u>ITEM</u>		<u>PAGE NO.</u>
D.	<u>Fidelity Bond</u>	
	It is recommended that the Company maintain adequate fidelity bond coverage at all times.	12
	The Company has complied with this recommendation	
E	<u>Treatment of Policyholders and Claimants</u>	
	It is recommended that the Company comply with Article 23 of the New York Insurance Law.	17
	As a result of the change in ownership, the prior recommendation is not relevant.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
1. It is recommended that the Company comply with its by-laws and hold four regular board of directors' meetings each year.	5
2. It is recommended that the members of the board of directors attend at least one-half of the regular board meetings. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
B. <u>Unlicensed agents</u>	
It is recommended that pursuant to Section 2114(a)(3) of the New York Insurance Law that UCCI refrain from paying any commissions or compensation directly dependent upon the amount of business obtained to any person that does not possess a valid agent's or broker's license.	10
C. <u>Fraud Prevention Plan</u>	
It is recommended that the Company operate under a New York Insurance Department approved Fraud Prevention Plan.	11

Respectfully submitted,

Joseph S. Krug
Associate Insurance Examiner

STATE OF NEW YORK)
)SS
)
COUNTY OF NEW YORK)

JOSEPH S. KRUG, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

Joseph S. Krug

Subscribed and sworn to before me

this _____ day of _____ 2003.

Appointment No. 21936

**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:

Joseph Krug

as a proper person to examine into the affairs of the

United Concordia Insurance Company of New York

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

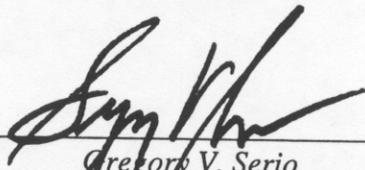
Company

with such 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 5th day of September 2002





Gregory V. Serio
Superintendent of Insurance