

SPECIAL MARKET CONDUCT

REPORT ON EXAMINATION

OF

MDNY HEALTHCARE, INC.

AS OF

SEPTEMBER 30, 2002

DATE OF REPORT:

JANUARY 30, 2003

EXAMINER:

PEARSON A. GRIFFITH

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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 provisions of the New York Insurance Law and acting in accordance with directions contained in Appointment Number 21972 dated December 9th 2002, and annexed hereto, I have made a special market conduct examination into the affairs of MDNY HealthCare, Inc. ("MDNY"), a for-profit health maintenance organization (HMO) licensed pursuant to the provisions of Article 44 of the Public Health Law. This examination was conducted at the administrative office of the HMO located at One Huntington Quadrangle, Melville, New York 11747. The following report thereon is respectfully submitted,

Whenever the term "MDNY", "the Plan", the "HMO", or "the Company" appears herein without qualification, it should be understood to refer to MDNY HealthCare, Inc.

1. SCOPE OF EXAMINATION

A review of the manner in which MDNY Healthcare conducts its business practices and fulfills its contractual obligations to Direct Pay and Healthy NY policyholders and claimants has been performed. This review covers the period January 1, 2001 to September 30, 2002. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The primary purpose of this examination is to review the manner in which MDNY HealthCare developed and implemented its applications for premium rate increases filed with the Department pursuant to Section 4308(g)(1) of the New York Insurance Law effective January 1, 2003. The review was concentrated on verifying certain data for the Direct Pay and Healthy NY business segments included in MDNY's New York Data Requirements annual and quarterly statements filed with the Insurance Department in 2001 and 2002. The review also included data presented in loss ratio reports (H-1") that MDNY filed pursuant to Section 4308(h) of the New York Insurance Law.

In addition, the review was conducted to determine that the rate increase applications of the health maintenance organization and point of service products for Direct Pay and Healthy NY policyholders were neither excessive, inadequate nor unfairly discriminatory. Accordingly, this report is confined to comments on those issues that involve matters that deviate from laws, regulations and rules, or which are deemed to require an explanation or description.

2. **DESCRIPTION OF PLAN**

The Plan was incorporated in New York on June 21, 1995 under the name of MDLI Healthcare, Inc. The Company filed a Certificate of Amendment to its Certificate of Incorporation with the Department of State on October 12, 1995, thereby changing the name of the Company to MDNY Healthcare, Inc. The Plan commenced operations on January 1, 1996.

The Plan is licensed to operate a health maintenance organization under the provisions of Article 44 of the New York State Public Health Law in the Counties of Nassau and Suffolk.

In October 2000, MDNY was granted approval by HCFA to terminate its enrollment of Medicare eligible members effective January 1, 2001.

3. EXECUTIVE SUMMARY

The findings and recommendations noted herein reflect a deficiency in the management control structure as it pertains to the integration of the financial reporting and rate making claims functions. It also highlighted weaknesses in the HMO's ability to accurately compile data by business segments. Examples of this are reflected in:

- ◆ Submission of inaccurate business segment data in the 2001 annual and the 2002 quarterly New York Data Requirements quarterly statements in violation of Sections 307 and 308 of the New York Insurance Law.
- ◆ Discrepancies between the Healthy NY business segment financial data reported in MDNY's filed 2001 New York Data Requirements statement and the financial data presented in the loss ratio report (H-1") that MDNY filed pursuant to Section 4308(h) of the New York Insurance Law.

4. EXAMINATION FINDINGS

A. Financial Statement Reporting

A review of the Company's Annual New York Data Requirements supplement and related exhibits, filed with the Department for the year ended December 31, 2001, and Quarterly New York Data Requirements for the calendar quarters ended March 31, June 30 and September 30, 2002, revealed that MDNY misallocated paid claims by business segments. This resulted in the distortion of the underwriting results of these business segments.

The examination review also indicated that MDNY significantly understated the incurred claims for its Healthy NY business segment in the filed New York Data Requirements annual statement for the period ended December 31, 2001. The Company reported \$1,890 incurred claims on this statement compared with \$38,805 paid claims as determined from the examiner's runoff analysis. It should be noted that MDNY would still have realized a significant underwriting gain for 2001 on this line of business since 2001 premiums written were \$65,690. The Company did not exercise adequate care in the preparation of its loss ratio report and the New York Data Requirements relative to its Healthy NY business. The following table depicts the differences among the Plan's various data sources for the Healthy NY business segment and the results of the examiner's review:

Description	Per Examination	Per Rate Application 12/31/01 Experience	Per §4308(h) Report	Per 12/31/01 NY Data Requirements
Net Premium Income	\$ 65,690	\$ 70,565	\$ 65,690	\$ 65,690
Other Healthcare related revenues				386
Total Revenue	65,690	70,565	65,690	66,076
Medical & hospital expense	38,805	42,849	4,896	1,890
Claims adjustment expense				1,602
General & administrative expense				9,752
Total Expenses	38,805	42,849	4,896	13,244
Net Income	\$ 26,885	\$ 27,716	\$ 60,794	\$ 52,832

The Company showed a net underwriting gain of \$221,226 on its filed September 2002 quarterly statement for individual direct pay business. Several weeks earlier MDNY submitted an application for a premium rate increase ranging from 45% to 63.1% for calendar year 2003

for the same business segment. The review of underlying data indicated that MDNY had actually realized an underwriting loss of \$825,310 on the individual direct pay business. In addition, the \$18,984 underwriting gain for Healthy NY reported in the September 2002 quarterly statement would have been slightly greater were the correct data used. A review of the Company's September 30, 2002 internal management reports disclosed a medical claims expense prior period adjustment that realized a net savings of \$502,000 on the overall underwriting results. An analysis of this adjustment showed that MDNY realized actual nine-month deficiencies in the run off of its December 31, 2001 loss reserves for its individual direct pay and Long Island Association business segments of \$1.046 million and \$390,000 respectively. While it realized actual nine-month savings in the run off of its December 31, 2001 loss reserves for its Commercial and Healthy NY business segments of \$1.936 million and \$2,700 respectively.

The Annual New York Data Requirements filed with the Department pursuant to Section 307(a) of the New York Insurance Law, which states in pertinent part:

“(1) Every insurer and every fraternal benefit society which is authorized to do an insurance business in this state, and every pension fund, retirement system or state fund which is required, by any law of this state, to report to the superintendent or is subject to his examination, shall file in the office of the superintendent, annually on or before the first day of March, a statement, to be known as its annual statement, executed in duplicate, verified by the oath of at least two of its principal officers, showing its condition at last year-end or, in the case of a pension fund or retirement system, on such date in the year next preceding as the superintendent may approve. Such statement shall be in such form and shall contain such matters as the superintendent shall prescribe. (2) The superintendent shall from time to time prescribe the form of such annual statement, which may be a printed document and/or electronic media, and which may be varied as to different types of insurers, corporations, societies, pension funds and retirement systems, as shall seem to him best adapted to elicit a true exhibit of the condition of each such entity, in respect to every matter which he may deem material.”

Further, the Quarterly New York Data Requirements is filed with the Department pursuant to Section 308(b) of the New York Insurance Law which states:

“In addition to the other reports required by this article, the superintendent may also require the filing of quarterly or other statements, which shall be in such form and shall contain such matters as the superintendent shall prescribe.”

In addition, the Jurat Page of MDNY’s filed annual and quarterly financial statements contain the following sworn statements attested to by MDNY’s officers, which states in pertinent part:

“...and that this Statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to are a full and true statement of all the assets and liabilities and of the condition and affairs of the said HMO as of the reporting period stated above”

It is recommended that MDNY present accurate information in its financial statements pursuant to Sections 307(a) and 308(b) of the New York Insurance Law as attested to by its officers on the Jurat Page of its filed financial statements.

It is also recommended that the HMO exercise greater care regarding Healthy NY claims information presented in the Loss Ratio Report, Form HC-1 filed with the Superintendent pursuant to Section 4308(h) of the Insurance Law.

It is further recommended that MDNY management take immediate steps to develop, and put into use, a methodology for reporting claims by business segment that is based upon actual data for each such business segment.

5. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	It is recommended that MDNY present accurate information in its financial statements pursuant to Sections 307(a) and 308(b) of the New York Insurance Law as attested to by its officers on the Jurat Page of its filed financial statements	7
B.	It is also recommended that the HMO exercise greater care regarding Healthy NY claims information presented in the Loss Ratio Report, Form HC-1 filed with the Superintendent pursuant to Section 4308(h) of the Insurance Law.	7
C.	It is further recommended that MDNY management take immediate steps to develop, and put into use, a methodology for reporting claims by business segment that is based upon actual data for each such business segment.	7

Respectfully submitted,

Pearson A. Griffith
Senior Insurance Examiner

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

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

Pearson Griffith

Subscribed and sworn to before me

this _____ day of _____ 2003.

Appointment No. 21972

**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:

Pearson Griffith

as a proper person to examine into the affairs of the

MDNY Healthcare, Inc.

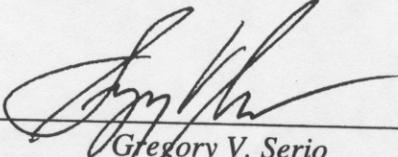
and to make a report to me in writing of the said

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 9th day of December 2002



Gregory V. Serio
Superintendent of Insurance

