

**REPORT ON EXAMINATION**

**OF THE**

**HIP INSURANCE COMPANY OF NEW YORK**

**AS OF**

**DECEMBER 31, 2011**

**DATE OF REPORT**

**DECEMBER 31, 2015**

**EXAMINER**

**JO LO HSIA**

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

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Andrew M. Cuomo  
Governor

Shirin Emami  
Acting Superintendent

December 31, 2015

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

Madam:

Pursuant to the requirements of the New York Insurance Law, and acting in accordance, with the instructions contained in Appointment No. 30866 dated July 31, 2012 and annexed hereto, an examination has been made into the financial condition and affairs of the HIP Insurance Company of New York, an accident and health insurer licensed pursuant to Article 42 of the New York Insurance Law, as of December 31, 2011, and the following report thereon is respectfully submitted.

The examination was conducted at the home office of the HIP Insurance Company of New York, located at 55 Water Street, New York, NY.

Whenever, the designations the “Company” or “HIPIC” appear herein, without qualification, they should be understood to indicate HIP Insurance Company of New York.

Wherever the designation “HIPNY” appears herein, without qualification, it should be understood to indicate Health Insurance Plan of Greater New York.

Wherever the designation “EmblemHealth” appears herein, without qualification, it should be understood to indicate EmblemHealth, Inc., the ultimate Parent of HIPIC.

Wherever the designation “GHI” appears herein, without qualification, it should be understood to indicate Group Health Incorporated, an affiliate of HIPIC.

Wherever the designation “GHI HMO” appears herein, without qualification, it should be understood indicate GHI HMO Select, Inc., an affiliate of HIPIC.

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 reviewing the manner in which HIPIC conducts its business practices and fulfill its contractual obligations to policyholders and claimants is currently being conducted as of December 31, 2011. A separate report will be submitted thereon.

Concurrent examination was made of HIPNY, a non-for-profit health insurance company licensed pursuant to the provisions of Article 43 of the New York Insurance Law, and the Parent of HIP Holdings, Inc. A separate report thereon has been submitted for HIPNY.

## 1. **EXECUTIVE SUMMARY**

The examination revealed several operational deficiencies that occurred during the examination period. The following are the significant findings included within this report on examination:

- Three members of the Company's Board of Directors attended less than 50% of the scheduled Board meetings that they were eligible to attend during the examination period.
- The Company did not comply with the requirements of Section 1505(d)(2) of the New York Insurance Law when it failed to file its intercompany reinsurance agreements with its affiliates, ConnectiCare Inc., ConnectiCare of New York, ConnectiCare Insurance Company, and ConnectiCare of Massachusetts.
- The Company did not comply with the requirement of Part 89.5(e)(2) of Insurance Regulation No. 118 when it failed to attach the required statement to its filed audited financial statements for reporting years 2010 and 2011.

The above findings, as well as others, are described in greater detail in the remainder of this report.

## 2. SCOPE OF THE EXAMINATION

The Company was previously examined as of December 31, 2006. This examination of the Company was a financial examination as defined in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook, 2012 Edition* (the “Handbook”) and it covers the five-year period January 1, 2007 through December 31, 2011. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2011 were also reviewed.

The examination was conducted on 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 Company’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 Company’s current financial condition, as well as identify prospective risks that may threaten the future solvency of HIPIC.

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 Company’s organization structure, business approach and control environment were utilized to develop the examination approach. The examination

evaluated the Company'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 Company was audited annually, for calendar years 2007 through 2011, by the accounting firm of Deloitte & Touche LLP ("D&T"). The Company received an unqualified opinion in each of those years. Certain audit workpapers of D&T were reviewed and relied upon in conjunction with this examination.

EmblemHealth has an Internal Audit Department and a separate Internal Control Department which has been given the task of assessing the internal control structure and compliance with the Sarbanes-Oxley Act of 2002 ("SOX") for its subsidiaries including HIPNY and HIPIC. Where applicable, SOX workpapers and reports were reviewed and portions thereof were relied upon for this examination. As a non-public company, HIPIC is not obligated to comply with SOX directives, and accordingly, is not required to submit an assessment of its internal control structure to the U.S. Securities and Exchange Commissions. However, HIPIC has nonetheless decided to move toward becoming SOX compliant and established a department to achieve this goal. Where applicable, SOX workpapers and reports were reviewed and portions thereof were relied upon for this examination.

The examiner reviewed the corrective actions taken by the Company with respect to the recommendations concerning financial issues contained in the prior report on examination. The results of the examiner's review are contained in Item 6 of this report.

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

### **3. DESCRIPTION OF THE COMPANY**

HIPIC was incorporated under the laws of the State of New York as a for-profit health insurance company on September 7, 1994. On January 12, 1995, HIPIC issued 30,000 shares of \$10 par value per share common stock to its immediate Parent, HIP Holdings, Inc., for a consideration of \$5,000,000, bringing its authorized capital to \$300,000 and contributed capital to \$4,700,000. On June 5, 1995, the Department granted HIPIC a license to operate as an accident and health insurance company, as defined in paragraphs 3(i) and (ii) of Section 1113(a) of the New York Insurance Law. HIPIC commenced its operations on September 7, 1994.

On November 15, 2006, having received regulatory approval from the Department, HIPIC's intermediate Parent, HIPNY, became an affiliate of GHI. As a result of this transaction EmblemHealth became the sole member and ultimate Parent of HIPNY, GHI and their subsidiaries. HIPNY and GHI named an equal number of Directors to the Board of EmblemHealth. In December 2010, HIPNY replaced EmblemHealth as the sole corporate member and Parent corporation of GHI.



On March 6, 2007, EmblemHealth Services Company, LLC (“EHS”) was formed as a joint venture of HIPNY and GHI in order to integrate the operations of these two entities. On January 1, 2008, assets such as vendor agreements and employees were transferred to EHS. HIPNY, HIPIC, GHI, and GHI HMO, controlled by EmblemHealth then began receiving management and other services from EHS. Also on that date, with the approval of the Department, HIPNY and GHI entered into a written guarantee of all liabilities of EHS.

A. Management and Controls

1. Corporate Governance

Corporate governance, internal audit department (“IAD”), and model audit rule (“MAR”) processes for HIPIC are provided by EmblemHealth, Inc., the ultimate parent of the Company.

Exhibit M of the Handbook (Understanding the Corporate Governance Structure) was utilized by the examiner as guidance for assessing the Company’s Corporate Governance.

2. Board of Directors

In accordance with its by-laws, the Company is managed by a Board of Directors consisting of not less than seven (7) nor more than twenty-one (21) directors. Directors are elected for a period of one year at the annual meeting of the shareholders. As of December 31, 2011, the Board of Directors consisted of eleven members.

The eleven (11) Board of Directors and their principal business affiliations as of December 31, 2011, were as follows:

<b><u>Name and Residence</u></b>	<b><u>Principal Business Affiliation</u></b>
Frank J. Branchini New York, NY	President and Chief Operating Officer, EmblemHealth, Inc.
Thomas K. Dwyer Middletown, NJ	Senior Vice President - Operations, EmblemHealth, Inc.
Daniel P. Finke Madison, CT	Executive Vice President - HealthCare Operations, EmblemHealth, Inc.
Michael D. Fullwood, Esq. New York, NY	Executive Vice President, Chief Financial Officer, General Counsel, EmblemHealth, Inc.
Paul E. Gibson Uniondale, NY	Assistant Vice President - Investment Administration, Continental Grain Company
William Gillespie, MD New York, NY	Senior Vice President, Chief Medical Officer EmblemHealth, Inc.
William Mastro Brooklyn, NY	Senior Vice President, Deputy General Counsel & Corporate Secretary, EmblemHealth, Inc.
Michael Palmateer Long Branch, NJ	Senior Vice President – Finance, EmblemHealth, Inc.
Ronald I. Platt, MD Parkland, FL	Retired
John H. Steber West Windsor, NJ	Executive Vice President and Chief Information Officer, EmblemHealth, Inc.
Anthony L. Watson West Orange, NJ	Chairman and Chief Executive Officer, EmblemHealth, Inc.

In 2011, the Company's charter was amended to change the number of directors to not less than seven (7) nor more than twenty-one (21). The amendment was approved by the Department on June 22, 2011. Subsequently, for calendar year 2012 - 2013, the Company's Board consisted of seven directors.

The minutes of all meetings of the Board of Directors, and committees thereof held during the examination period were reviewed. The following directors were found to have attended 50% or less of the scheduled Board meetings they were eligible to attend during this period:

<b><u>Director's Name</u></b>	<b><u>No. of Meetings Attended</u></b>	<b><u>No. of Meetings Eligible to Attend</u></b>	<b><u>Attendance Percentage</u></b>
Anthony L. Watson	0	10	0%
Marc Wolfert	2	4	50%
Peter Meringolo	2	8	25%

Attendance of directors at Board meetings is critical in exercising their duties in a management oversight function. 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 appropriate policy decisions may be reached. Members who fail to attend at least one-half of the regular meetings do not fulfill such criteria.

It is recommended that the Company take corrective action by developing a policy to evaluate whether Board members who are unable or unwilling to attend meetings consistently should resign or be replaced. Furthermore, in selecting prospective Board members, a key criterion should be their willingness and commitment to attend meetings and participate in the Board's responsibility to oversee the operations of the Company.

A similar recommendation was contained in the prior report on examination.

It should be noted that these three directors are no longer serving on HIPIC's Board.

### 3. Committees of the Board of Directors

The only standing committee of the Board of Directors is the Audit Committee. In addition to the requirements set forth in the by-laws of the Board of Directors, the Audit Committee is also subject to its own charter. Individuals serving on the Audit Committee at December 31, 2011 were Paul E. Gibson and Ronald Platt.

Section III (Meetings) of HIPIC's Audit Committee charter states in part:

“...The Committee shall meet at least two (2) times annually, or more frequently as circumstance dictate.”

It was noted during the examination period that the Audit Committee violated Section III of its Audit Committee charter by meeting only once in each of the calendar years 2007, 2008 and 2009. For calendar years 2010 and 2011, the Audit Committee issued a unanimous written Consent in lieu of a Committee meeting.

It is recommended that the HIPIC Audit Committee adhere to its charter and meet no less than twice annually.

A similar recommendation appeared in the Company's prior report on examination.

### 4. Executive Officers

Executive Officers of the Company are elected by the Board of Directors at its annual meeting, for a term of one year, and serve at the discretion of the Board. The Executive Officers of HIPIC at December 31, 2011 were as follows:

<u>Name</u>	<u>Position</u>
Frank J. Branchini	President
Michael D. Fullwood	Treasurer
Craig H. Effrain	Secretary

For calendar year 2012, subsequent the examination period, Daniel P. Finke replaced Frank J. Branchini as President, and Mathew Rubin replaced Michael D. Fullwood as Treasurer. Daniel P. Finke subsequently left the Company in early 2013 and was succeeded by Edward Mailander.

B. Territory and Plan of Operation

HIPIC is authorized to write accident and health insurance as defined in paragraphs 3(i) and (ii) of Section 1113(a) of the New York Insurance Law. The Company is licensed to do business in New York State only.

HIPIC underwrites the out-of-network portion of the Point-of-Service (“POS”) products offered jointly with HIP. In addition, HIPIC also underwrites the Exclusive Provider Organization (“EPO”) and Preferred Provider Organization (“PPO”) products. The Company was also a sponsor plan for Medicare Part D prescription drug for Centers for Medicare & Medicaid Services for calendar years 2007 through 2010.

As HIPIC was formed primarily to market insurance products primarily to members of HIP, it is economically dependent on HIP. All HIPIC and HIP products are currently marketed under EmblemHealth.

Total enrollment declined by 72.71% during the examination period. The following chart shows the number of members enrolled and corresponding net premiums written at the end of each year of the five-year examination period:

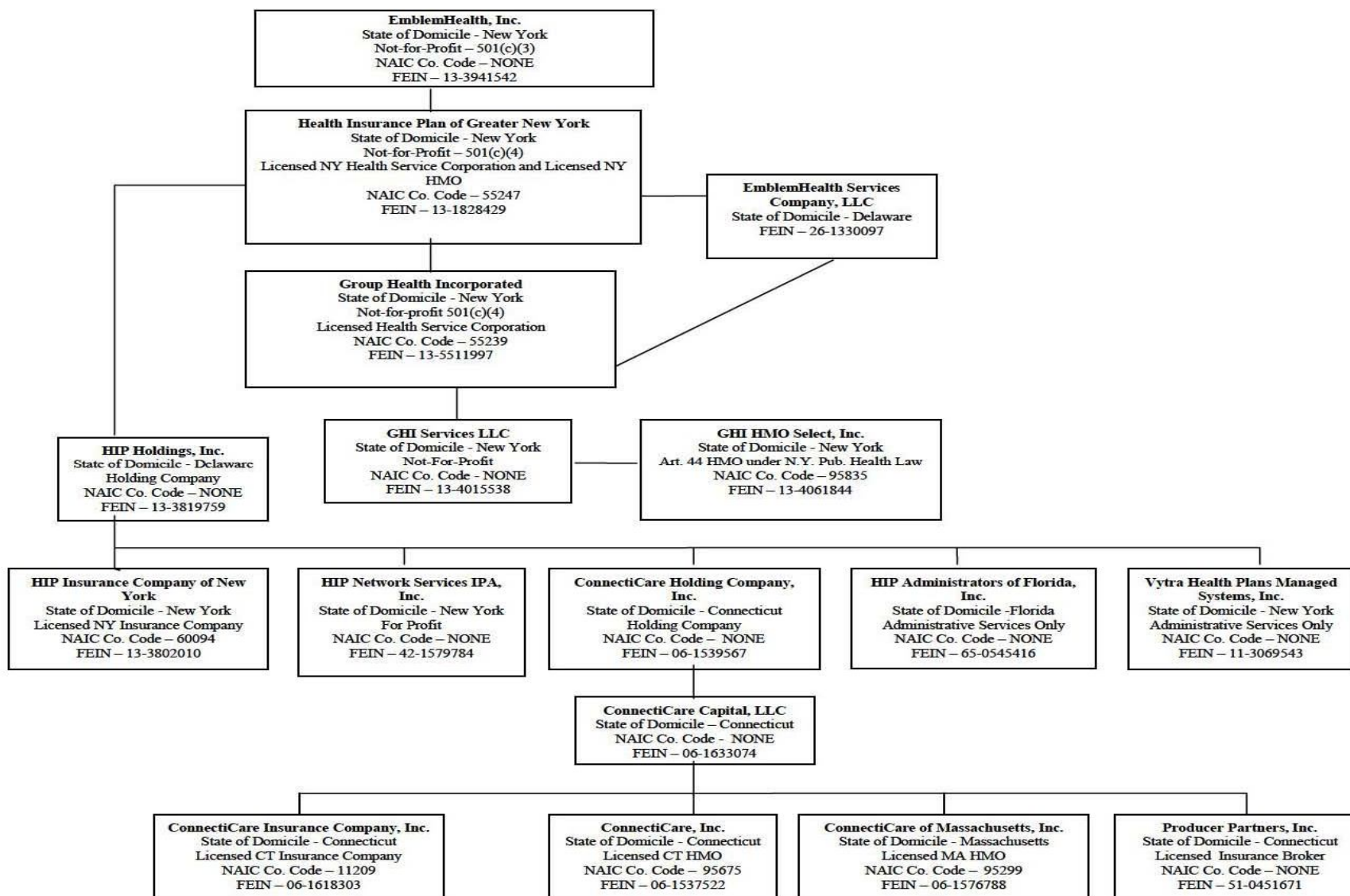
<u>Year</u>	<u>Enrollment</u>	<u>Net Premiums Written</u>
2007	152,484	\$ 174,281,361
2008	89,998	\$ 149,483,858
2009	95,912	\$ 187,875,284
2010	84,791	\$ 201,840,791
2011	41,608	\$ 153,249,589

As of December 31, 2011, the total number of members reported by the Plan was 41,608, which represented a decline of 110,876 members over the examination period. Such decline in membership was primarily due to membership reduction in the Company's EPO, PPO, and POS products over the examination period, and the discontinuance of the Company's Medicare Part D program at the end of 2010. The Company experienced consecutive underwriting losses for calendar years 2008 to 2011.

The Company utilizes an internal sales force as well as independent agents and brokers.

C. Holding Company System

An organizational chart depicting the relationship between the Company and significant entities in its holding company system as of December 31, 2011 is as follows:



The Company is a wholly-owned subsidiary of HIP Holdings, Inc., (“HIP Holdings”), a Delaware holding corporation. HIP Holdings, in turn, is a wholly-owned subsidiary of Health Insurance Plan of Greater New York, a not-for-profit health insurer licensed under the provisions of Article 43 of the New York Insurance Law. The ultimate Parent of these companies is EmblemHealth, Inc., formerly HIP Foundation, Inc.

During the examination period, the Company’s federal income tax returns were consolidated with its direct Parent, HIP Holdings, Inc., HIP Administrators of Florida, Inc., Vytra Health Plans Managed Systems Inc., HIP Network Services IPA, Inc., and ConnectiCare Holding Co. Inc., pursuant to a consolidated tax sharing agreement approved by the Department on January 30, 2006. The tax allocation was performed annually based on separate return calculations with credit for losses utilized by the consolidated group. The balances were settled annually via intercompany settlements. HIPIC was reimbursed a total of \$14.3 million for the credits generated by its losses from calendar years 2008 through 2011.

D. Reinsurance

The Company had an Excess Medical Reinsurance Agreement with RGA Reinsurance Company for calendar year 2011 and with ReliaStar Life Insurance Company for calendar years 2007 through 2010, to obtain individual stop-loss coverage for claims incurred by its Preferred Provider Organization (“PPO”), Exclusive Provider Organization (“EPO”) or Point-of-Service (“POS”) covered members during the examination period. The Company’s retention amount was \$1,000,000 per covered member per coverage period for calendar years 2007-2008 and 2010-2011; and \$1,250,000 per covered member per coverage period for 2009. Both RGA



Reinsurance Company and ReliaStar Life Insurance Company are licensed NY Life, Accident and Health insurers.

Section 1505(d)(2) of New York Insurance Law states, in part:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least 30 days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period...

(2) reinsurance treaties or agreements”

From calendar years 2007 through 2012, HIPIC had reinsurance agreements with its affiliates, ConnectiCare Inc., ConnectiCare of New York, ConnectiCare Insurance Company, and ConnectiCare of Massachusetts, whereby HIPIC assumed risk over the deductibles listed below:

		<u>Calendar Years</u>			
		<u>Deductible (\$,000s)</u>			
		<u>2007</u>			
		-			
<u>Ceded Parties</u>	<u>Product</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
ConnectiCare, Inc. (CCI)	Commercial	750	750	750	1,000
ConnectiCare, Inc. (CCI)	Medicare Advantage	250	250	500	1,000
ConnectiCare of Massachusetts (CMI)	Commercial	250	250	500	1,000
ConnectiCare of New York (CMI)	Commercial	100	100	100	N/A
ConnectiCare Insurance Company (CICI)	PPO	250	250	500	1,000
ConnectiCare Insurance Company (CICI)	POS	250	250	500	1,000

The Company violated the requirements of Section 1505(d)(2) of the New York Insurance Law by failing to file these reinsurance agreements with the Department thirty days prior to the execution of these agreements. It should be noted that these reinsurance agreements were submitted to the Connecticut Insurance Department. It should be further noted that these agreements were not renewed for calendar year 2013.

It is recommended that HIPIC comply with the requirements of Section 1505(d)(2) of the New York Insurance Law.

On October 21, 2013, subsequent to the examination period, HIPIC filed its 2007 through 2011 intercompany reinsurance agreements with the Department.

E. Insurance Regulation No. 118 (11 NYCRR 89) – Model Audit Rule

Part 89.5(e)(2) of Insurance Regulation No. 118 (11 NYCRR 89) states:

“The company shall attach a statement to its audited annual financial statement, when filed, that the CPA does not function in the role of management, does not audit his or her own work, and does not serve in an advocacy role for the company.”

HIPIC failed to attach the statement required by Part 89.5(e)(2) of Insurance Regulation No. 118 (11 NYCRR 89) when it filed its audited financial statements with the Department for reporting years 2010 and 2011.

It is recommended that HIPIC comply with the requirement of Part 89.5(e)(2) of Insurance Regulation No. 118 (11 NYCRR 89) by attaching the required statement to its filed audited financial statements.

#### 4. FINANCIAL STATEMENTS

##### A. Balance Sheet

The following shows the assets, liabilities and capital and surplus as contained in the Company's 2011 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 materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2011 filed annual statement.

##### Independent Accountants

The accounting firm of Deloitte & Touche LLP ("D&T") was retained by the Company to audit the Company's combined statutory basis statements of financial position as of December 31<sup>st</sup> of each year in the examination period, and the related statutory-basis statements of operations, surplus and cash flows for the year then ended. The Company received an unqualified opinion in each of those years.

D&T concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company 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	\$ 26,314,270
Cash, cash equivalents and short-term investments	4,018,511
Receivables for securities	<u>589</u>
Total cash and invested assets	\$ 30,333,370
Investment income due and accrued	201,435
Uncollected premiums and agents' balance in course of collection	6,613,854
Accrued retrospective premiums	8,336,467
Amounts receivable relating to uninsured plans	29,170,325
Federal income tax recoverable and interest thereon	4,364,101
Health care and other amounts receivable	<u>1,047,125</u>
Total assets	<u>\$ 80,066,677</u>

Liabilities

Claims unpaid	\$ 22,162,376
Unpaid claims adjustment expenses	712,794
Aggregate health policy reserves	455,739
Premiums received in advance	48,699
General expenses due or accrued	37,600
Ceded reinsurance premium payable	334,567
Amounts due to parent, subsidiaries and affiliates	<u>44,061,768</u>
Total liabilities	<u>\$ 67,813,543</u>

Capital and Surplus

Common capital stock	\$ 300,000
Gross paid in and contributed surplus	22,100,000
Unassigned funds (surplus)	<u>(10,146,866)</u>
Total capital and surplus	<u>\$12,253,134</u>
Total liabilities, capital and surplus	<u>\$ 80,066,677</u>

Note: The IRS conducted examinations of HIP Holdings and its subsidiaries for tax years 2007, 2008, and 2009 tax returns in conjunction with carryback claims filed by HIP Holdings. The tentative determination of the IRS for tax years 2007, 2008, and 2009 was that there was no tax due or payable with respect to these years. In 2013, the IRS conducted a limited audit of HIP Holdings and its subsidiaries, including HIPIC for tax years 2010 and 2011. The examiner is unaware of any potential exposure of the Company to any tax assessments and no liability has been established herein relative to such contingency.

B. Statement of Revenue and Expenses and Capital and Surplus

Capital and surplus decreased \$9,030,951 during the five-year examination period, January 1, 2007 through December 31, 2011, detailed as follows:

Revenue

Net premium income	\$ 866,730,883	
Change in unearned premium reserves and reserve for rate credits	<u>(37,593)</u>	
Total revenue		\$ 866,693,290

Expense

Hospital/Medical benefits	\$ 591,826,165	
Prescription drugs	220,128,458	
Net reinsurance recoveries	<u>(6,780,586)</u>	
Total hospital and medical	818,735,209	
Claims adjustment expenses	20,148,667	
General administrative expenses	<u>72,329,946</u>	
Total underwriting expenses		<u>911,213,822</u>
Net underwriting loss		\$ (44,520,532)
Net investment gain		5,166,632
Net loss from agents' premium balances charged off		(778,645)
Aggregate write-ins for other income or expenses		<u>(428,917)</u>
Net loss before federal income taxes		(40,561,462)
Federal and foreign income taxes incurred		<u>(13,481,451)</u>
Net loss		\$ <u>(27,080,011)</u>

Changes in Surplus

	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Capital and surplus, per report on examination, as of December 31, 2006			\$ 21,284,085
Net loss		\$ 27,080,011	
Change in net unrealized capital gains	4,910		
Change in net deferred income tax	327,595		
Change in nonadmitted assets		403,084	
Cumulative effect of changes in accounting principles	347,564		
Surplus adjustments: paid-in capital	17,400,000		
Aggregate write-ins for gains or (losses) in surplus	<u>372,075</u>	<u>                    </u>	
Net decrease in capital and surplus			<u>(9,030,951)</u>
Capital and surplus, per report on examination, as of December 31, 2011			\$ <u>12,253,134</u>

## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

There were eight (8) comments and recommendations from the prior financial report on examination as of December 31, 2006. They are repeated herein as follows (page numbers refer to the prior report):

<u>ITEM NO.</u>	<u>PAGE NO.</u>
<u>Board of Directors</u>	
1. It is recommended that the Company take corrective action by developing a policy to evaluate whether Board members who are unable or unwilling to attend meetings consistently should resign or be replaced. Furthermore, in selecting prospective members, a key criterion should be their willingness and commitment to attend meetings and participate in the Board's responsibility to oversee the operations of the Company.	10
It was noted that this recommendation was contained in the prior report on examination and that overall attendance since such examination has declined even further.	
<i>The Company has not complied with this recommendation. A similar recommendation appears in this report.</i>	
<u>Committees of the Board of Directors</u>	
2. It is recommended that the HIPIC Audit Committee adhere to its charter and meet no less than twice annually.	11
<i>The Company has not complied with this recommendation. A similar recommendation appears in this report.</i>	
<u>Holding Company System</u>	
3. The Company should comply with the provisions of Section 1505(c) of the New York Insurance Law by seeking to obtain the Superintendent's prior approval for any administrative services agreement that the Company enters into with other members of its holding company system that involve five percent or more of its prior year-end admitted assets.	15
<i>The Company has complied with this recommendation.</i>	

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4. It is recommended that, prior to engaging in any holding company transactions, HIPIC ensure that the agreements under which it intends to operate have been properly executed, and where applicable, approved by the Department. 16

*The Company has complied with this recommendation.*

**Reinsurance**

5. It is recommended that the Company adhere to the requirements of Section 1505(d) of the New York Insurance Law when entering into transactions within its holding company system. 18

*The Company has not complied with this recommendation. A similar recommendation appears in this report.*

6. It is recommended that both HIPIC and The PerfectHealth Insurance Company abide by the terms of their reinsurance agreement and settle reinsurance premium payments on a monthly basis, as required by the terms of the reinsurance agreement. 18

*This recommendation is no longer applicable as the PerfectHealth Insurance Company was dissolved when it merged into Group Health Incorporated.*

**Annual Statement Reporting**

7. It is recommended that the Company exercise greater care in the compilation of data for reporting purposes and comply with the Annual Statement instructions for health entities. 19

*The Company has complied with this recommendation.*

8. **Clearing/Suspense Account**

It is recommended that the Company perform monthly reconciliations of its clearing/suspense accounts to ensure that cash receipts are applied to the appropriate accounts in a timely manner. 24

*The Company has complied with this recommendation.*



6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<b><u>ITEM</u></b>	<b><u>PAGE NO.</u></b>
A. <u>Management and controls</u>	
i. It is recommended that the Company take corrective action by developing a policy to evaluate whether Board members who are unable or unwilling to attend meetings consistently should resign or be replaced. Furthermore, in selecting prospective Board members, a key criterion should be their willingness and commitment to attend meetings and participate in the Board's responsibility to oversee the operations of the Company.	9
A similar recommendation was contained in the prior report on examination	
ii. It is recommended that the HIPIC Audit Committee adhere to its charter and meet no less than twice annually.	10
A similar recommendation appeared in the Company's prior report on examination.	
B. <u>Reinsurance</u>	
It is recommended that HIPIC comply with the requirements of Section 1505(d)(2) of the New York Insurance Law.	16
C. <u>Insurance Regulation No. 118 (11 NYCRR 89) - Model Audit Rule</u>	
It is recommended that HIPIC comply with the requirement of Part 89.5(e)(2) of Insurance Regulation No. 118 (11 NYCRR 89) by attaching the required statement to its filed audited financial statements.	16

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
JoLo Hsia  
Associate Insurance Examiner

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

**JoLo Hsia**, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

\_\_\_\_\_/S/\_\_\_\_\_  
JoLo Hsia

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_ 2015.

**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:

**JoLo Hsia**

*as a proper person to examine the affairs of the*

**HIP Insurance Company of New York**

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

**Company**

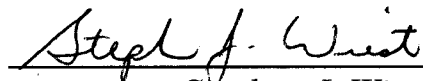
*with such other information as she shall deem requisite.*

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

*this 31st day of July, 2012*

**BENJAMIN M. LAWSKY**  
Superintendent of Financial Services

By:



Stephen J. Wiest  
Deputy Bureau Chief  
Health Bureau

