REPORT ON EXAMINATION

OF

MEDAMERICA INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2006

DATE OF REPORT	**AUGUST 6, 2010**
EXAMINER	**EDOUARD MEDINA**

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

David A. Paterson
Governor

James J. Wrynn
Superintendent

August 6, 2010

Honorable James J. Wrynn
Superintendent of Insurance
Albany, NY 12257

Sir:

Pursuant to the provisions of the New York Insurance Law and acting in accordance with the instructions contained in Appointment Number 22095, dated October 2, 2003, attached hereto, I have made an examination into the condition and affairs of MedAmerica Insurance Company of New York, a domestic for-profit accident and health insurance company licensed under the provisions of Article 42 of the New York Insurance Law, as of December 31, 2006, and submit the following report thereon.

The examination was conducted at the home office of MedAmerica Insurance Company of New York, located at 165 Court Street, Rochester, New York 14647.

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

Wherever the designations the "Parent" or "MI" appear herein, without qualification, they should be understood to indicate MedAmerica, Inc., a wholly-owned subsidiary of Excellus Health Plan, Inc. and MANY's Parent.

Wherever the designations "Excellus" or "EHP" appear herein, without qualification, they should be understood to indicate Excellus Health Plan, Inc., the parent of MedAmerica, Inc.

Wherever the designation the "Department" appears herein, without qualification, it should be understood to refer to the New York State Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination of the Company was conducted as of December 31, 1997. This examination covered the nine-year period from January 1, 1998 through December 31, 2006. Transactions occurring subsequent to December 31, 2006, were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2006, in accordance with statutory accounting principles (SAP), as adopted by the 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 was also made of the following items as called for in the *Examiners Handbook of the National Association of Insurance Commissioners* (NAIC):

History of the Company
Management and controls
Corporate records
Fidelity bonds and other insurance
Territory and plan of operation
Growth of the Company
Business in force
Loss experience
Reinsurance
Accounts and records
Financial statements
Market conduct activities

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.

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

During this examination, a review of the Company's information systems and related operations was conducted by Ernst and Young, LLP, as directed by the Department. The review focused on general internal controls with regard to the Company's information technology processing environment, as well as controls over specific applications. The results of this review are included in Appendix A of this report.

2. DESCRIPTION OF THE COMPANY

The Company was incorporated in New York State on November 2, 1987, under the name Finger Lakes Long Term Care Insurance Company, as a stock accident and health insurance company, pursuant to Section 1201 of the New York Insurance Law. On that same date, the Company's declaration of intention and charter were approved by the Attorney General of the State of New York and filed with the Department. On November 13, 1987, the Company was licensed by the Department to do the business of accident and health insurance, pursuant to Section 1113(a)(3) of the New York Insurance Law.

The Company was formed by two corporations, Rochester Hospital Service Corporation and Genesee Valley Medical Care, Inc., for the purpose of underwriting long-term care insurance. Such coverage provides for health care at nursing homes and private residences.

As part of its formation, on November 2, 1987, the Company issued 1,000 shares of $300 par value per share common stock, with 667 shares issued to the Rochester Hospital Service Corporation, and 333 shares issued to Genesee Valley Medical Care, Inc., for a sale price of $600 per share; resulting in consideration of $600,000. Of this amount, $300,000 represented paid-in capital and $300,000 represented gross paid-in and contributed surplus. On January 17, 1990, the Company's board of directors authorized a charter amendment, increasing the Company's paid-in capital from $300,000 to $1,800,000. The amendment increased the number of shares (par value $300) the Company was authorized to issue from 1,000, to 6,000 shares. On January 17, 1990, the sale of 3,334 shares to Rochester Hospital Service Corporation, and 1,666 shares to Genesee Valley Medical Care, Inc. was completed.

The Rochester Hospital Service Corporation, which changed its name to Finger Lakes Health Insurance Company, Inc., and Genesee Valley Medical Care, Inc., which changed its name to Finger Lakes Medical Insurance Company, Inc., on December 31, 1998, merged with each other and with other corporations and became Excellus Health Plan, Inc. (EHP). As a result, EHP directly owned all of the outstanding shares of the Company.

On January 11, 2000, MedAmerica, Inc. (formerly Excellus Long-Term Care Holding Company) was formed under the New York Business Corporation Law, with EHP as its sole shareholder. On April 24, 2000, 6,000 shares of the former Finger Lakes Long Term Care Insurance Company which, on December 18, 2000, changed its name to MedAmerica Insurance Company of New York, were issued to MedAmerica, Inc. Additionally, on May 12, 2000, 10,000 shares of MedAmerica, Inc. were issued to Excellus Health Plan, Inc.

MANY's long-term care products, marketed under the name "Simplicity", provide coverage for care in nursing facilities, adult care centers, hospices and home care. MedAmerica Insurance Company of New York and MedAmerica Insurance Company operate under common management and administration in a Rochester, New York office. MANY is licensed to issue long-term care policies in only the state of New York, while its affiliates, MedAmerica Insurance Company, a Pennsylvania domestic insurance company, was licensed to write long-term care insurance in 49 states and the District of Columbia, and MedAmerica Insurance Company of Florida, which was incorporated subsequent to the examination date (March 3, 2007) and commenced business on October 1, 2007, is licensed to write long-term care insurance only in the state of Florida.

As a result of the formation of MedAmerica Insurance Company of Florida, MedAmerica Insurance Company, on December 15, 2007, surrendered its Florida license to the Florida Office of Insurance Regulation.

The Company's sustained premium growth and a series of net losses that negatively impacted its risk-based capital position led Excellus Health Plan, Inc. to provide numerous surplus infusions to the Company.

The following table shows the paid-in capital and surplus contributions from Excellus since the formation of MANY:

Date	Amount
10/1/1989	$ 3,100,000
9/1/1992	3,000,000
9/28/2001	1,000,000
6/25/2002	2,000,000
6/4/2004	5,000,000
12/10/2004	5,000,000
12/15/2005	12,500,000
12/19/2006	9,000,000
Total	$ 40,600,000

A breakdown of the surplus paid-in and changes in capital and surplus since the formation of the Company is as follows:

Date	Number of Common Shares Issued	Par Value	Common Capital Stock	Gross Paid-in and Contributed Surplus as of the Date Indicated in Column 1	Capital and Contributed Surplus as of the Date Indicated in Column 1	Capital and Surplus Contributions as of the Date Indicated in Column 1
11/02/87	1,000	$ 300	$ 300,000	$ 967,245	$ 1,267,245	
10/01/89	1,000	300	300,000	4,067,245	4,367,245	$ 3,100,000
01/17/90	6,000	300	1,800,000	2,567,245	4,367,245	---
09/01/92	6,000	300	1,800,000	5,567,245	7,367,245	3,000,000
09/28/01	6,000	300	1,800,000	6,567,245	8,367,245	1,000,000
06/25/02	6,000	300	1,800,000	8,567,245	10,367,245	2,000,000
06/04/04	6,000	300	1,800,000	13,567,245	15,367,245	5,000,000
12/10/04	6,000	300	1,800,000	18,567,245	20,367,245	5,000,000
12/15/05	6,000	300	1,800,000	31,067,245	32,867,245	12,500,000
12/19/06	6,000	300	1,800,000	40,067,245	41,867,245	9,000,000

A. Management and Controls

Pursuant to the Company's charter and by-laws, management of the Company is to be vested in a board of directors consisting of twenty-three members. The board is to meet four times during each calendar year, in accordance with its by-laws. As of December 31, 2006, the board of directors was comprised of nineteen members as follows:

Name and Residence	Principal Business Affiliation
Hermes L. Ames III Menands, NY	Retired
Natalie L. Brown Barneveld, NY	CEO, Girl Scouts Foothills Council, Inc.
Randall L. Clark East Amherst, NY	Vice Chairman, Dunn Tire
Thomas S. Coughlin Brackney, PA	President & CEO, McFarland-Johnson, Inc.
John G. Doyle Jr. Rochester, NY	Chairman, Doyle Security Systems, Inc.
Deborah A. Freund, PhD Jamesville, NY	Distinguished Professor, Syracuse University & Center for Policy Research, Maxwell School, SU
David T. Griffith New Hartford, NY	Vice Chairman, M. Griffith, Inc.
Thomas Y. Hobart Jr. E. Amherst, NY	President Emeritus, New York State United Teachers
David H. Klein Pittsford, NY	Chief Executive Officer, Excellus Health Plan, Inc. and MedAmerica Insurance Company of New York
Daniel R. Mackenzie, M.D. Trumansburg, NY	President & CEO, Cayuga Medical Center

Name and Residence	Principal Business Affiliation
Thomas L. Mahoney, MD Pittsford, NY	Private Practice & CEO, Rochester Individual Practice Association
Geraldine C. Ochocinska Amherst, NY	Retired
Edward J. Petinella Webster, NY	President & CEO, Home Properties, Inc.
Carol Raphael New York, NY	President & CEO, Visiting Nurse Service of New York
Leonard E. Redon Pittsford, NY	Vice President, Paychex, Inc.
David D. Reh Victor, NY	President, The Raytec Group
Casper F. Sedgwick Fayetteville, NY	Retired
Albert J. Simone, PhD Pittsford, NY	President, Rochester Institute of Technology
George F.T. Yancey Jr. Rochester, NY	Managing Director, Delta Point Capital Management

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

It is noted that Article III of the Company's by-laws requires that the board of directors consist of twenty-three members. As noted above, there were only nineteen members on the board at December 31, 2006.

It is recommended that the Company maintain the required number of members on its board of directors, in accordance with Article III of the Company's by-laws.

The officers of the Company as of December 31, 2006, were as follows:

Name	Title
Christopher Dean Perna	President and Chief Operating Officer
David H. Klein	Chief Executive Officer
William L. Naylon	Vice President
Cheryl L. Bush	Vice President
William Ellsworth Jones Jr.	Vice President of Sales
Emil Douglas Duda	Treasurer and Chief Financial Officer
Angela Lynn Hoteling	Assistant Secretary

B. Territory and Plan of Operation

At December 31, 2006, the Company was authorized to transact the kinds of business specified in Section 1113(a)(3) of the New York Insurance Law (accident and health). The Company is licensed to do business in the State of New York only. During the examination period the Company's sole line of business was long-term care insurance.

The Company solicited business as a direct writer for a majority of the business produced during the period under examination. The Company also entered into agreements with agents and brokers for the solicitation of business. The Company conducts all business from its home office in Rochester, New York.

Based upon the lines of business for which the Company is licensed, the Company's current capital structure, and pursuant to the requirements of Articles 13 and 42 of the New York Insurance Law, the Company is required to maintain a minimum surplus in the amount of $300,000.

As noted in pages 6 and 7 of this report on examination, several surplus infusions were made by Excellus Health Plan, Inc. during the examination period. Most of these infusions were for the purpose of maintaining MANY's surplus at a level in excess of its minimum risk-based capital amount (*Authorized Control Level RBC*), prescribed by Section 1322 of the New York Insurance Law.

The following schedule shows the Company's direct premiums written during the nine-year examination period:

Year	Direct Premiums Written ($)
1998	14,673,516
1999	16,441,401
2000	17,506,709
2001	18,859,079
2002	23,118,094
2003	28,462,878
2004	31,841,917
2005	35,098,456
2006	37,470,725

As of December 31, 2006, long-term care coverage was provided to 21,103 members. The following chart shows the annual increase by number of members and percentage for the examination period:

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Members	9,859	10,451	11,332	11,658	15,779	17,021	18,741	20,001	21,103
Growth	---	+6.0%	+8.4%	+2.9%	+35.3%	+7.9%	+10.1%	+6.7%	+5.5%

It was noted that the growth experienced during calendar year 2002 was primarily a result of the Company's partnership with New York State (the NYS Partnership), relative to New York State making long-term care coverage an available benefit to New York State employees. The growth subsequent to 2002, was attributable to growth in the NYS Partnership business sold through brokers.

C. Reinsurance

The Company's reinsurance program was established for individual policies issued on or after July 1, 2005. The reinsurance contracts, all with authorized reinsurers, were as follows as of December 31, 2006:

Quota Share Reinsurance - New Business:

- Munich American Reinsurance Company reinsurance agreement - effective October 1, 2005. This agreement reinsured, on a first dollar quota share basis, 50% of the monthly benefits on all Simplicity contracts for individual long-term care policies newly issued to those who are fifty (50) years old or older.

- First Central National Life Insurance reinsurance agreement - effective July 1, 2005. This agreement reinsured, on a first dollar quota share basis, 25% of the monthly benefits on all Simplicity individual long-term care policies with no age restriction in place. This agreement was terminated with regard to new business on December 31, 2006. Such business is maintained on a run-off basis.

Quota Share Reinsurance - Assumed Business:

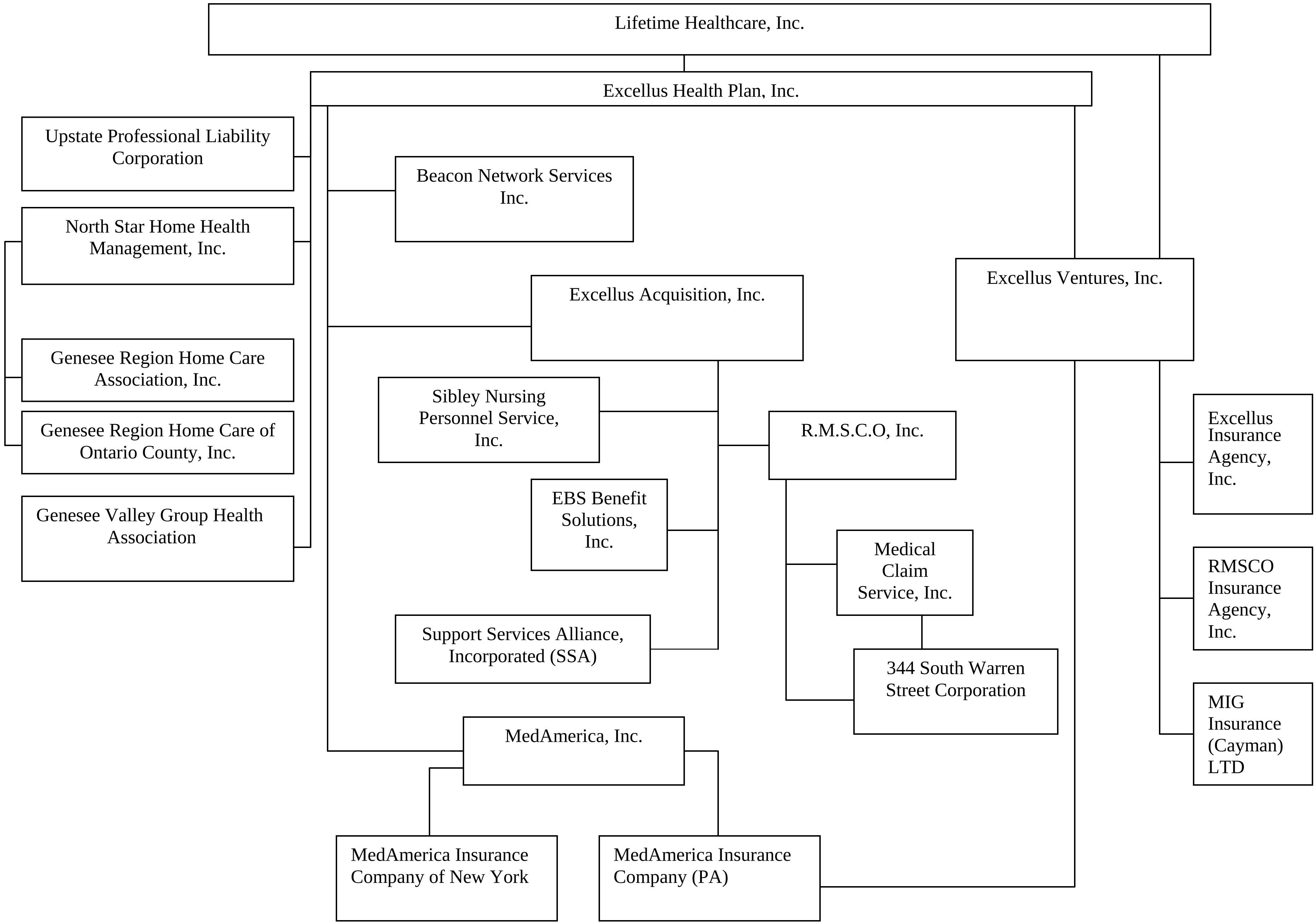
- Hartford Life Insurance Company (Hartford) reinsurance agreement - effective October 1, 2001. This agreement provided for reinsuring 100% of the assumed business.

- General & Cologne Life Insurance Reinsurance of America reinsurance agreement - provided for the cession of the above Hartford block of business at a 50% risk share. This agreement was terminated in 2006.

D. Holding Company System

As a member of a holding company system, the Company is required to file registration statements pursuant to the requirements of Article 15 of the New York Insurance Law and Department Regulation No. 52 (11 NYCRR 80). All pertinent filings made during the examination period regarding the aforementioned statute and regulation were reviewed. No problem areas were encountered.

The following is the organizational chart of the Company's holding company system as of December 31, 2006:


Lifetime Healthcare, Inc.
Excellus Health Plan, Inc.
Upstate Professional Liability Corporation
North Star Home Health Management, Inc.
Genesee Region Home Care Association, Inc.
Genesee Region Home Care of Ontario County, Inc.
Genesee Valley Group Health Association
Beacon Network Services Inc.
Excellus Acquisition, Inc.
Excellus Ventures, Inc.
Sibley Nursing Personnel Service, Inc.
R.M.S.C.O, Inc.
EBS Benefit Solutions, Inc.
Medical Claim Service, Inc.
Support Services Alliance, Incorporated (SSA)
344 South Warren Street Corporation
Excellus Insurance Agency, Inc.
RMSCO Insurance Agency, Inc.
MIG Insurance (Cayman) LTD
MedAmerica, Inc.
MedAmerica Insurance Company of New York
MedAmerica Insurance Company (PA)

MedAmerica Insurance Company of New York is a wholly-owned subsidiary of MedAmerica, Inc., which in turn, is a wholly-owned subsidiary of Excellus Health Plan, Inc., a New York domiciled, not-for profit health insurer, licensed pursuant to Article 43 of the New York Insurance Law. Lifetime Healthcare, Inc., the Company's ultimate parent, is incorporated in New York State for the purpose of acting as a holding company; acts to promote and improve the efficiency and quality of health services in the community through the control of various subsidiaries related to the delivery of health services. It also serves as the holding company for the entire organization and is the sole corporate member of Excellus Health Plan, Inc.

MedAmerica Insurance Company of Florida was incorporated on March 29, 2007, and was licensed by the Florida Office of Insurance Regulation on June 14, 2007. MedAmerica Insurance Company of Florida is a wholly-owned subsidiary of MedAmerica Insurance Company (MedAmerica PA).

Effective January 1, 2002, the Company entered into an administrative services agreement (ASA) with MedAmerica PA, under which actual costs relative to all administrative, sales, general and financial advisory services performed on behalf of the Company, by Excellus, are allocated to MANY. Services provided to MedAmerica PA included: claims processing, executive management, financial and actuarial services, premium billing and collection services.

Effective July 1, 2002, the Company entered into an administrative services agreement with MedAmerica Insurance Company (MedAmerica PA) under which the Company provides administrative services to MedAmerica PA. The Company recovers its expenses paid on an actual cost basis. Services provided to MedAmerica PA included: underwriting, policy issuance and administration, claims adjudication and regulatory report preparation.

In addition, effective January, 2004, the Company had an administrative services agreement with Excellus Insurance Agency, Inc. (EIA), whereby the Company provides administrative services to EIA. Under this agreement, the Company recovers the direct and indirect costs from EIA that are incurred in conjunction with providing the administrative services. Services provided by the Company to EIA included: human resources, payroll, legal, office space, equipment, supplies and document services.

Effective January 1, 2007, the Company entered into a consolidated federal tax agreement with Lifetime Healthcare, Inc., Excellus Health Plan, Inc. and other members of the Lifetime Healthcare, Inc. holding company system.

All of the above agreements have been approved by the Department.

E. Investment Activities

As of December 31, 2003, the Company contracted with two investment managers, Income Research and Management and Lord, Abbott & Company. As of December 31, 2006, Lord, Abbott & Company was replaced by Blackrock Financial Management, Inc. The activities of the investment managers were overseen by a consultant, Prime, Buchholz & Associates, until October 1, 2004. Effective at that date, Cardinal Investment Advisors became the new investment overseer. Through February

2004, the custodian for the Company's investments was M&T Bank, at which time, HSBC Bank became the custodian. Pursuant to Section 1411(a) of the New York Insurance Law, the Company's board of directors approved the Company's investment strategy annually, as well as any interim changes that were made.

Investment managers for the Company are provided with a set amount of funds and are free to select brokers/dealers who execute trades in order to achieve the specific goals set for the managers. The brokers/dealers select the securities to be traded and determine the frequency of such trades.

During the examination period, the custodian sent its monthly statements to the investment managers, however, the Company did not perform a reconciliation of its investments. Instead, the Company relied on reconciled statements provided by its investment managers. The investment managers reconciled these monthly statements with their respective records and issued a reconciled statement to the Company. There was no other reconciliation performed by the Company to compare or verify the information contained in the custodian statements. An independent reconciliation by the Company is considered a best practice by the Department.

It is recommended that the Company obtain monthly statements directly from its custodian, as well as listings of all holdings and investment transactions initiated during the preceding month by the investment managers, identify any discrepancies with the custodian bank statement, and take any required appropriate action immediately. It is also recommended that the Company reconcile such statements to its investment records on a monthly basis.

During the course of the examination, the Company's investment policies and procedures were reviewed by the Department's Capital Markets Bureau. Conclusions from that review include the following:

- It was noted that the Company's investment strategy is presented to the Audit and Finance Committee of the board of directors annually. The Audit and Finance Committee is charged with monitoring the finances of the Company. When there are recommended changes to the strategy on an interim basis, only the recommended changes are presented to the committee.

  During the time that the examination was being conducted, the Company changed its procedures so that it presents the entire investment strategy to the Audit and Finance Committee whenever a change in strategy is proposed or advised.

- The Company increased the fee it paid to its investment consultant without formalizing such change in an addendum to its written investment agreement.

It is recommended that the Company formalize all changes, including modifications to its investment compensation arrangements, and to existing and future investment management agreements, by means of a signed and authorized addendum or amendment.

F. <u>Accounts and Records</u>

During the course of the examination, it was noted that the Company's treatment of certain items was not in accordance with statutory accounting principles or annual statement instructions. A description of such items is as follows:

1. A review of the Company's check issuance procedures indicated a control weakness. The Company maintains a check control policy, which includes a listing of board approved signatories; all the checks reviewed carried electronic signatures. Before a check is issued, an authorized Company employee making such check request must

sign a check request form. It was noted that the Company's internal control policy requires that a request for a check in the amount of $10,000 or higher must be approved by an officer at the Vice President level or higher.

However, the examiner's review of checks paid indicated that the Company's check control policy was not being complied with. It was noted that requests for some checks in the amount of $10,000 or higher were signed by a signatory in a subordinate position to that of Vice President.

It is recommended that the Company comply with its established check signing policy by having an officer at the Vice President level or higher approve all requests for a check in the amount of $10,000 or higher.

2. Part 52.44(a)(1) of Department Regulation No. 62 (11 NYCRR 62) states the following:

> "The experience data shall be submitted to the superintendent by
> May first of each year."

With the exception of its 2006 report, the Company did not file its Annual Experience Data report with the Department during the examination period. Further, with regard to its 2006 Annual Experience Report, such report was not filed by the May 1st deadline.

It is recommended that the Company comply with the requirements of Part 52.44(a)(1) of Department Regulation No. 62 and file its Annual Experience Data report with the Department on an annual basis. It is further recommended that the Company file such Annual Experience Data report in a timely manner.

3. During the examination period, the Company failed to file its required Rescissions, Denials, and Lapse & Replacements reports as required by Section 326 of the Health Insurance Portability and Accountability Act (amending certain sections of the Federal Internal Revenue Code) with the Department for calendar years 2004, 2005 and 2006, when due. The Rescissions report is to be filed with the superintendent each year by March 1st. The Denials and Lapse & Replacements reports are to be filed with the superintendent each year by June 30th.

It is recommended that the Company file its Rescissions, Denials, and Lapse & Replacements reports with the Department in a timely manner (by their due dates).

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities, and capital and surplus as determined by this examination as of December 31, 2006. This statement is the same as the balance sheet filed by the Company in its December 31, 2006 annual statement.

Assets	Examination	Company
Bonds	$188,852,649	$188,852,649
Cash and short-term investments	16,344,344	16,344,344
Investment income due and accrued	1,655,131	1,655,131
Uncollected premiums	639,948	639,948
Net deferred tax assets	1,457,474	1,457,474
Receivables from parent, subsidiaries and affiliates	2,714,563	2,714,563
Aggregate write-ins for other than invested assets	73,943	73,943
Total assets	$211,738,052	$211,738,052

Liabilities	Examination	Company
Aggregate reserve for accident and health contracts	$178,133,033	$178,133,033
Contract claims - accident and health	1,956,187	1,956,187
Premiums received in advance	689,431	689,431
Other amounts payable on reinsurance	209,279	209,279
Interest maintenance reserve	5,037,149	5,037,149
Commissions to agents due or accrued	535	535
General expenses due and accrued	4,565,138	4,565,138
Payable to parent, subsidiaries and affiliates	90,861	90,861
Payable for securities	3,114,942	3,114,942
Liability for amounts held under uninsured accident and health plans	2,214,255	2,214,255
Conditional receipts	558,254	558,254
Total liabilities	$196,569,064	$196,569,064

	Examination	Company
Capital and surplus		
Common stock	$ 1,800,000	$ 1,800,000
Gross paid-in and contributed surplus	40,067,245	40,067,245
Unassigned funds	(26,698,257)	(26,698,257)
Total capital and surplus	$ 15,168,988	$ 15,168,988
Total liabilities, capital and surplus	$211,738,052	$211,738,052

Note 1: The Internal Revenue Service has not conducted any audits of the income taxes filed on behalf of the Company through tax year 2006. 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 increased $9,982,734 during the nine-year examination period, January 1, 1998 through December 31, 2006, detailed as follows:

Income		
Net premium income	$ 224,024,396	
Net investment income	30,644,501	
Amortization of the interest maintenance reserve	6,157,425	
Total revenues		$ 260,826,322
Expenses		
Disability benefits and benefits paid under accident and health contracts	$ 60,077,786	
Increase in aggregate reserves of accident and health contracts	136,033,959	
Commissions on premiums	45,631,752	
Commissions on reinsurance assumed	563,151	
General insurance expenses	40,621,599	
Insurance taxes, licenses and fees, excluding federal income taxes	4,710,206	
Total expenses		287,638,453
Net underwriting loss		$ (26,812,131)
Net realized capital gains		7,570,620
Net loss before federal income taxes		(19,241,511)
Federal income taxes incurred		(4,788,655)
Net loss		$ (14,452,856)

	Gains in Surplus	Losses in Surplus	
Capital and surplus, per report on examination as of December 31, 1997			$ 5,186,254
Net loss		$14,452,856	
Change in net unrealized capital losses		411,214	
Change in deferred income tax	$1,457,474		
Change in non-admitted assets	627,778		
Change in reserves		13,985,647	
Paid in capital	34,500,000		
Aggregate write-ins for gains in surplus	2,247,198		
Rounding	1		
Net increase in capital and surplus			9,982,734
Capital and surplus, per report on examination as of December 31, 2006			$15,168,988

4. AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS

The Department conducted a review of the captioned account as of December 31, 2006. During this review, the Department determined that the Company's reserve as of the examination date needed to be increased. To address the Department's finding, subsequent to the examination date, the Company received surplus contributions from Excellus Health Plan, Inc. and initiated a rate action that impacted most of its policies.

The Department recognized the abovementioned actions by the Company, which addressed the shortfall in the reserve. Further, the Department will follow up with the Company to determine that the performance of gross premium valuation testing in conjunction with MANY's reserving methodology has been implemented, using assumptions consistent with the emerging financial experience.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders 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 Company relative to claims handling and consumer complaints.

No unfair claims practices or areas of non-compliance were noted.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

There was one (1) recommendation from the prior report on examination as of December 31, 1997. It was as follows (page number refers to the prior report on examination):

ITEM NO.		PAGE NO.
	Management and Controls	7
1.	It is recommended that the Company amend its by-laws to provide for a minimum number of times that the board will meet each year. *The Company has complied with this recommendation.*	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM			PAGE NO.
A.		Management and Controls	
		It is recommended that the Company maintain the required number of members on its board of directors, in accordance with Article III of the Company's by-laws.	10
B.		Investment Activities	
	i.	It is recommended that the Company obtain monthly statements directly from its custodian, as well as listings of all holdings and investment transactions initiated during the preceding month by the investment managers, identify any discrepancies with the custodian bank statement, and take any required appropriate action immediately. It is also recommended that the Company reconcile such statements to its investment records on a monthly basis.	18
	ii.	It is recommended that the Company formalize all changes, including modifications to its investment compensation arrangements, and to existing and future investment management agreements, by means of a signed and authorized addendum or amendment.	19
C.		Accounts and Records	
	i.	It is recommended that the Company comply with its established check signing policy by having an officer at the Vice President level or higher approve all requests for a check in the amount of $10,000 or higher.	20
	ii.	It is recommended that the Company comply with the requirements of Part 52.44(a)(1) of Department Regulation No. 62 and file its Annual Experience Data report with the Department on an annual basis. It is further recommended that the Company file such Annual Experience Data report in a timely manner.	20
	iii.	It is recommended that the Company file its Rescissions, Denials, and Lapse & Replacements reports with the Department in a timely manner (by their due dates).	21

APPENDIX A

INFORMATION SYSTEMS REVIEW

Conducted by: Ernst & Young, LLP

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1. SCOPE AND OBJECTIVES OF THE EXAMINATION

Information Technology (IT) at Excellus Health Plan, Inc. (Excellus), which is also used by MANY, supports the delivery of services and products and provides support for all management processes. The objective of the IT control evaluation is to assist the New York State Insurance Department (the "Department") in developing a risk-based strategy for setting the examination scope and objectives, and in identifying the appropriate procedures necessary to support the overall examination strategy. In order to accomplish this objective, Ernst & Young, LLP ("E&Y") reviewed the general controls regarding Excellus' processing environment and reviewed certain controls of the applications that were determined to be financially significant by the Department.

Examination Limitations

The general controls as examined were identified through discussions with Excellus' IT management and a review of control documentation. This is not an attest report in conjunction with the American Institute of Certified Public Accountants (AICPA) standards. This report provides information about the condition of risks and internal controls as of December 31, 2006. Future changes in environmental factors and actions by personnel may significantly and adversely impact these risks and controls in ways that this report did not and cannot anticipate.

2. AREAS EXAMINED

The general controls reviewed during this examination consisted of 14 categories. Those 14 categories can be further grouped into the following risk areas: management risks (associated with supporting IT management processes), transaction risks (associated with service or product delivery), and infrastructure risks (associated with the IT hardware and software supporting business processes). The general control categories are described as follows:

Management Risks:

- **Management controls over the IT Department –** Delivery of services and products and support for IT management processes.
- **Organizational controls over the IT Department –** Adequacy of resources and separation of duties between application development and maintenance, computer operations and data entry.
- **Documentation controls over applications –** Appropriate documentation exists for new applications and changes.
- **Contingency planning controls –** The data center has a valid disaster recovery plan and the plan covers the applications identified by the Department as critical. The disaster recovery plan is tested and integrated with an overall business resumption plan. Also, critical data is “backed-up” and that these back-up files are stored in a secure manner.
- **Personal computers –** Personal computers are utilized in an appropriate manner without exposing the Company to unnecessary financial risk.
- **Service agreements –** Service agreements with outside vendors cover provisions for loss of data and processing ability that could affect the output of financial data.

<u>Transaction Risks</u>:

- **Processing controls over critical applications –** Data is transmitted completely and accurately, input edits are working as intended and detected errors are corrected timely.
- **Converted systems –** Transactions processed on newly developed or converted systems do not work as intended and errors can occur.

<u>Infrastructure Risks</u>:

- **Controls over changes to applications –** Users and IT department personnel approve modifications before they are implemented into the production environment.
- **Controls over system and application programming and development –** Application programming and development modifications are performed in a controlled manner and are adequately tested before they are moved into production.
- **Operations controls –** Performance and problem resolution are monitored and the data center processes company information in a controlled manner. Also, the procedures for handling critical data and scheduling critical computer programs are monitored and controls are in place to maintain an environmentally secured data center.
- **Logical and physical security –** Employees are granted access to *only* the information they need to perform their assigned job duties and computing resources are adequately protected so that access is restricted to appropriate personnel.
- **Local Area Networks (LAN) –** Changes to the LAN are documented and implemented in a controlled manner and LAN access is granted for business purposes only.
- **Wide Area Networks (WAN) –** Changes to the WAN are documented and sensitive financial data transmitted on the WAN is adequately protected.

3. SUMMARY OF SIGNIFICANT FINDINGS

A. MedAmerica Insurance Company of New York - Claims System Logical Security

Description and Risk

Management is currently using a Microsoft Access database to process claims for the MANY business. Through discussions with management, E&Y determined that this system does not enforce effective logical security and segregation of duty controls. As a result, an individual could both initiate and approve claims.

It is recommended that Company management ensure that critical transactions are segregated, logged and reviewed.

The Company has reported to the Department that its operating systems have now been updated to implement these controls.

B. MedAmerica Insurance Company of New York - Eclipse Application Change Control

Description and Risk

The process for managing changes on the "Eclipse" system, the application used by MANY to help manage its billing and enrollment process, is not adequately controlled. During their review, E&Y noted that developers were responsible for migrating all changes for the "Eclipse" applications, as well as all databases related to this application, into production. E&Y also noted that a log of changes is maintained, but that this log is manually updated by developers. As a result, programmers could circumvent Excellus' formal change management process by either inadvertently or maliciously altering data and/or programs.

Currently, MANY is using VSS Business Solutions (VSS) for version and source control over their web services, but they do not use it for changes made to the Eclipse application. As of the date of this report, the Company has reported that it completely migrated from VSS to Concurrent Versions System (CVS) for version and source control, and is using CVS for the Eclipse application. A lack of version control increases the risk that code being worked on by multiple developers could be overwritten in the development environment. Ultimately, this change could be implemented into the production environment, which could introduce program problems.

It is recommended that Company management remove developer access to production, or systematically log and review all changes that are being made by developers. It is further recommended that Company management implement a version control package to help manage concurrent development.

4. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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	It is recommended that Company management ensure that critical transactions are segregated, logged and reviewed.	5
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Appointment No. *22095*

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:

Edouard Medina

as a proper person to examine into the affairs of the

Medamerica Insurance Company

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 *2nd* day of *October 2003*

Gregory V. Serio
Superintendent of Insurance