REPORT ON EXAMINATION

OF

AETNA HEALTH INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2002

DATE OF REPORT:	**APRIL 23, 2004**
EXAMINER:	**KATHLEEN GROGAN**

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

April 23, 2004

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 the instructions contained in Appointment Number 21923 dated August 8, 2002, attached hereto and in accordance with the New York Insurance Law, I have made an examination into the condition and affairs of Aetna Health Insurance Company of New York, a health insurance corporation licensed pursuant to the provisions of Article 42 of the New York Insurance Law, as of December 31, 2002. The following report, as respectfully submitted, pertains mainly to matters concerning the financial condition of Aetna Health Insurance Company of New York, its corporate governance, internal controls and the conduct of the examination.

The examination was conducted at the Company's administrative office located at 980 Jolly Road, Blue Bell, Pennsylvania 19422.

Whenever the terms "the Company" or "AHIC" appear in this report without qualification, they should be understood to refer to Aetna Health Insurance Company of New York.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1996. This examination covers the six-year period January 1, 1997 through December 31, 2002. Transactions occurring subsequent to this period were reviewed where deemed appropriate.

The examination comprised a complete verification of assets and liabilities as of December 31, 2002, in accordance with Statutory Accounting Principles 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 Plan's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiner's Handbook of the National Association of Insurance Commissioners:

History of the Company
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Officers' and employees' welfare and pension plans
Growth of the Company
Loss experience
Accounts and records
Financial statements

A review was also made to ascertain what action was taken by the Plan 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, regulation or rules, or which are deemed to require explanation or description.

Concurrently examined with the Company was Aetna Health Inc. (a New York Corporation) an affiliated health maintenance organization licensed under Article 44 of the New

York State Public Health Law. A separate report on examination is issued for the HMO.

2. DESCRIPTION OF COMPANY

Aetna Health Insurance Company of New York is a subsidiary of Aetna Inc., a publicly traded company. AHIC's business is composed solely of out-of-network POS business generated on products issued by its HMO affiliate, Aetna Health Inc. (a New York Corporation) (Aetna Health Inc. (NY) or the HMO).

The Company was incorporated under the laws of the State of New York on April 19, 1985 as Adirondack Life Insurance Company (Adirondack) and was licensed to transact an insurance business in the State of New York on August 29, 1986.

On July 31, 1990, U.S. Healthcare Inc., a Pennsylvania corporation (U.S. Healthcare) which was then the Company’s parent, purchased 100% of the common stock of Adirondack from Pacific Western Holding Company. On October 26, 1990, the Company amended its charter changing its name to U.S. Health Insurance Company (a New York corporation) and removing its life and annuity powers. The Company was licensed effective October 26, 1990 and authorized to write accident and health insurance, as defined in Section 1113(a)(3) of the New York Insurance Law.

On July 19, 1996, U.S. Healthcare merged with Aetna Life and Casualty Company pursuant to an Agreement and Plan of Merger dated March 30, 1996. Aetna Inc., a Connecticut corporation, was incorporated on March 25, 1996 for the purpose of effectuating the merger and became the sole owner of the two companies effective July 19, 1996. After the merger, U.S. Healthcare, Inc. became a subsidiary of Aetna Inc. and its name was changed to Aetna U.S. Healthcare, Inc. (Aetna US Healthcare). Aetna US Healthcare, the parent company of numerous HMOs operating in many states, was one of Aetna Inc.'s core businesses; the others were insurance and financial services, both domestic and international. On December 13, 2000, Aetna Inc. sold its financial services and international businesses to ING Groep N.V. and at the same time spun off its health care business to shareholders. Concurrent with the spin-off, Aetna U.S. Healthcare, Inc. (a Pennsylvania corporation) became the ultimate parent company and was renamed Aetna Inc.

The Company's name was changed from U.S. Health Insurance Company to Aetna Health Insurance Company of New York effective May 8, 2002. The Company’s name change, as reflected in its charter, was approved by its Board of Directors and by the Department.

There are 200,000 shares of common stock, $10 par value, outstanding and issued to Aetna Inc.

A. Management

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of thirteen members.

The Company’s bylaws state, “Meetings of the Board of Directors shall take place on a quarterly basis and additional meetings may be established by a resolution adopted by the Board.” It was noted that the Board met less than four times during years 2000 through 2002. There were three meetings in both 2000 and 2001 and only two per year in 2002 and 2003.

It is recommended that the Board hold, at least, the minimum number of meetings required in its by-laws.

As of the examination date, the Board of Directors was comprised of thirteen members. The directors as of December 31, 2002 were as follows:

Name and Residence	Principal Business Affiliation
Mary Claire Bonner New York, New York	Head of Key Accounts, Aetna Inc.
David Jeffery Corkum Waterford, Connecticut	Head of National Accounts, Northeast Region, Aetna Inc.

Name and Residence	Principal Business Affiliation
Daniel Richard Fishbein Cape Elizabeth, Maine	General Manger, Select and Key Accounts, Northeast Region, Aetna Inc.
William Robert Jones Cromwell, Connecticut	Actuary, Northeast Region, Aetna Inc.
Steven George Logan Chappaqua, New York	Head of Sales, Select and Key Accounts, Northeast Region, Aetna Inc.
Molly Louise Knorr, Farmington, Connecticut	General Manger, Select and Key Accounts, Northeast Region, Aetna Inc.
Gregory Stephen Martino Hummelstown, Pennsylvania	Head of State Government Relations, Aetna Inc.
Wayne Sedrick Rawlins, MD Glastonbury, Connecticut	Medical Director, Northeast Region, Aetna Inc.
James Waltman Reid New York, New York	General Manger, Small Group, Northeast Region, Aetna Inc.
Russell Page Smith Cromwell, Connecticut	Head of Treasury Services and Pensions Director, Aetna Inc.
Jane Snyder-Demaio South Glastonbury, Connecticut	General Manger, Select and Key Accounts, Northeast Region, Aetna Inc.
Arnold Irwin Tannen Brooklyn New York	Head of Network, New York Metro Market, Aetna Inc.
Joseph Edward Turgeon III Manchester, Connecticut	Head of Network, Northeast Region, Aetna Inc.

A review of the minutes of the meetings of the board of directors indicated that five directors failed to attend more than 50% of the meetings which they were eligible to attend during the examination period.

Members of the Board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that Board members attend meetings consistently and set forth their views on relevant matters so that appropriate decisions may be reached by the Board. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

Additionally, in 2003, five members of the Board attended 50% or less of meetings held.

The following table shows: the Board members who attended less than 50% meetings during the examination period and through July 2003, the number of meetings each was eligible to attend, the time period that the individual served as director, the number and percentage of meetings attended.

Name of Director	Dates served as Director	Number of meetings eligible to attend	Number of meetings attended	Percent of meeting attended
Hersh Kozlov	Jan. 1997 – June 1999	10	2	20%
Jose Cabrera	Jan. 1997 – June 1999	10	4	40%
Joseph Wild	Sept. 1999 – Oct. 2001	8	1	13%
Frederick Jacobowitz	July 2000 – March 2001	3	0	0%
Russel P. Smith	July 2002 –July 2003	3	0	0%
David Corkum	Feb. 2003 –July 2003	2	0	0%
Gregory Martino	Feb. 2003 – July 2003	2	0	0%

It is recommended that those Board members who do not fulfill their fiduciary responsibility to the Company by attending the majority of board meetings, resign or be replaced by the Company.

The Company's by-laws states under Article III Board of Directors:

> "Section 1 Number and Qualifications. The affairs and business of the Corporation shall be conducted and managed by a Board of Directors consisting of not less than thirteen (13) or more than twenty-one (21) directors, who shall hold office for the term of one year and until their successors are elected and qualify."

The Company reported only twelve directors in its 2000 filed annual statement and only ten directors its 2001 filed annual statement. The review of the minutes of the meetings revealed that the Company had less than 13 directors, as required by its by-laws and as specified in Section 1202 of the New York Insurance Law, from December 2000 through November 2002.

It is recommended that the Company adhere to Article III, Section 1 of its by-laws by maintaining, at least, the minimum required number of Board members.

It is noted that the minutes of the meetings of the Board of Directors listed the directors who attended the meetings but did not list those directors who did not attend.

It is recommended that the Company's Board meeting minutes reflect those directors who are not in attendance.

It is noted that on December 13, 2002, by consent of the sole shareholder (Aetna Inc.) the composition of the Board was changed to include only "inside directors" – individuals who are employees of the Aetna Inc. holding company.

At December 31, 2002, the principal officers of the Company were as follows:

Name	Title
Mary Claire Bonner	President
Gregory Stephen Martino	Corporate Secretary
Russell Page Smith	Treasurer
Emanuel Francis Germano	Principal Financial Officer
Wayne Sedrick Rawlins	Senior Medical Director
James Armstrong Geyer	Vice President & Actuary
James Edward Brown	Assistant Secretary
Blake W. Martin	Vice President
Hazel M. Ashworth	Assistant Treasurer
Elaine R. Cofrancesco	Assistant Treasurer
Willaim C. Baskin III	Assistant Secretary
Jerry Bellizzi	Assistant Secretary
Paige L. Falasco	Assistant Secretary
Lawrence G. Orkins, Jr.	Assistant Secretary
Kevin J. Casey	Senior Investment Officer

B. Territory and plan of operation

As of December 31, 2002, the Company was licensed to write accident and health insurance as defined in Section 1113(a)(3) of the New York Insurance Law. All premiums represent the out-of-network portion of premium generated by point of service products issued by the Company's affiliate, Aetna Health Inc. (NY).

Total enrollment peaked in 1999 and declined significantly in 2001 and in 2002. The following schedule shows the number of members enrolled and corresponding premium earned at the end of each year, for the six-year examination period:

	1997	1998	1999	2000	2001	2002
Enrollment	208,258	306,831	446,040	378,328	290,161	129,674
Premium Earned	$93,662,522	$171,917,060	$254,211,481	$78,619,075	$61,991,646	$28,379,728

Total enrollment at December 31, 2003 was 102,024. The drop in enrollment resulted from Aetna Inc.'s corporate marketing policy. The drop in premium resulted from the corporate marketing policy and from the implementation of the "Intercompany Transfer Agreement" as discussed below.

In 2000, the Company entered into an Intercompany transfer agreement with its HMO affiliate, Aetna Health Inc., which provides for an equitable allocation of premiums between the Company and the HMO on point of service products. The allocation of premiums is determined by total claims paid by both entities so that each would have identical medical cost ratios on point of service products. This agreement is discussed in detail below, under C. Holding company system (ii) Service Agreements. The significant reduction in premium earned from 1999 to 2000 reflects, in part, the implementation of the Intercompany transfer agreement.

C. Holding company system

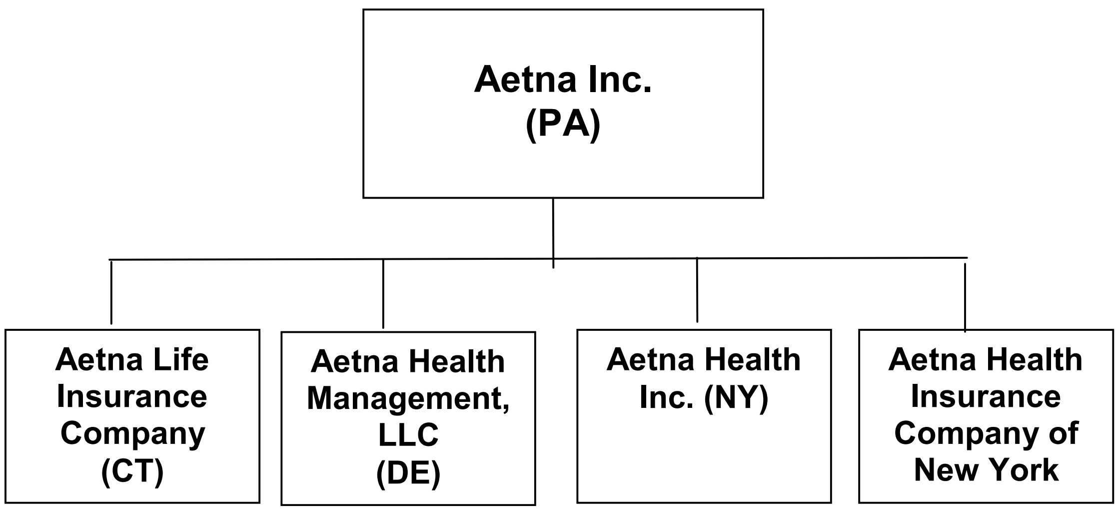
(i) Holding company structure

At December 31, 2002, AHIC was a subsidiary of Aetna Inc., a publicly traded

Pennsylvania corporation. AHIC's business is comprised solely of premiums generated from out-of-network business sold by its HMO affiliate, Aetna Health Inc. (NY)

The Aetna holding company system has many HMO and health insurer affiliates as well as non-insurance affiliates. Including Aetna Health Inc. (NY), there are 25 HMO affiliates which operate in thirty-four states.

The following condensed organization chart reflects the relationship between AHIC and significant entities in its holding company system, as of December 31, 2002:



(ii) Service agreements

At December 31, 2002, AHIC was a party to four service agreements; three with its parent, Aetna Inc. and one with its affiliate, the HMO. The following is a list of the agreements:

No.	Name of Agreement	Contracting party*	Effective date
1	Administrative services agreement	Aetna Inc.	2/1/1991
2	Cash management agreement	Aetna Inc.	3/1/1993
3	Tax sharing agreement	Aetna Inc.	12/14/2000
4	Intercompany transfer agreement	Aetna Health Inc. (NY)	1/1/2000

*reflects the current name

1. <u>Administrative Services Agreement</u>

AHIC entered into an administrative services agreement with its parent, Aetna Inc., in February of 1991. The agreement calls for the parent to provide a wide variety of administrative services including: accounting, data processing, legal advisory, investment advisory, underwriting and claims, personnel, and various other administrative services as requested. The agreement called for the services to be provided at cost to be apportioned on a fair and equitable basis of allocation in conformity with generally accepted accounting principles and within the requirements of Section 1505(a) of the New York Insurance Law and Department Regulation No. 30.

Item 4 of the service agreement states:

> "... services shall be provided at cost to the Service Recipient. Cost shall be apportioned on a fair and equitable basis utilizing estimates based on time, number of employees, company assets… in conformity with generally accepted accounting principles and within the requirements of Section 1505(a) of the New York Insurance Law and NYS Department Regulation No. 30."

The reimbursement paid by AHIC was calculated using a combination of an allocation methodology and a "management fee" which equaled 5% of premium. The management fee was not provided for in the services agreement, instead an allocation of expenses was called for. Administrative expenses amounted to 6% of premium in 1999, 7% in 2000, 12% in 2001 and 25% in 2002.

It is recommended that AHIC reimburse the provider of administrative services in accordance with a filed and approved agreement.

2. <u>Cash Management Agreement</u>

The Company and certain affiliates participate in a centralized cash processing and cash management system administered by Aetna Inc. Aetna Inc. performs cash management functions including cash collections, and cash disbursements and investment management services. Cash balances, for premiums collected, claims disbursed and other cash collections or disbursements, are netted and settled on a monthly basis.

These services have been performed by the Aetna Inc. since 1993. A Cash Management Agreement (CMA) was submitted to the Department in 1992 but was never approved. Subsequently, a new agreement was submitted to the Department which was approved on December 4, 2003.

It is recommended that the Company obtain approval for its cash management agreement prior to implementation.

The current cash management agreement is shared with the HMO. A detailed description and a similar recommendation can be found in the HMO report.

It is noted that the AHIC's collected premiums assets were not in the possession of AHIC until the date that the monthly intercompany settlement occurred. In the interim, the premiums were held by Aetna Inc. and reported as an intercompany receivable by AHIC, until settlement. AHIC does not maintain a cash operating account since all premiums are collected and claims are paid on its behalf by Aetna Inc.

Furthermore, AHIC's premiums are billed by the HMO jointly with those of the HMO. When the premiums are billed, the HMO records the entire amount billed as uncollected premiums and establishes an intercompany liability for the amount due to AHIC. AHIC establishes a corresponding intercompany receivable. This treatment is improper in that the billed premiums once segregated should be reported by AHIC as such on its balance sheet pursuant to Section 1301 of the Insurance Law and SSAP #6 (as adopted by Department Regulation 172).

It is recommended that AHIC record billed premiums that have not yet been collected by the HMO on it's behalf as uncollected premiums rather than as an intercompany receivable.

Section 1505(b) of the New York Insurance Law states:

> "The books, accounts and records of each party to all such transactions shall be so maintained as to clearly and accurately disclose the nature and details of the transactions including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties."

The examiner concluded that based on the frequency, regularity and nature of the above described transactions combined with the lack of adequate identification of cash collected by its parent, and accounting for uncollected premiums as intercompany receivables, that AHIC, the Company's parent ran the operations of AHIC as if it were a division of the parent corporation, and failed to adequately maintain the Company's distinct operating identity as required by Section 1505(b) of the Insurance Law.

It is recommended that the Company comply with Sections 1505(b) of the New York Insurance Law by clearly identifying cash collected for its account and by maintaining sufficient records to support its premium receivable asset.

It is noted that AHIC recently submitted a new administrative services agreement to the Department for review. This agreement includes cash management services and specifies that Aetna Health Management, LLC (AHM) will be the provider of those services. Aetna Inc. has begun to change the ownership of some of the shared accounts to AHM.

It is recommended that AHIC refrain from changing the provider of cash management services until after formal notification to and approval from the Department.

3. Tax sharing agreement

AHIC's tax sharing agreement with Aetna Inc. was approved by the Department effective January 1, 2000. A new tax sharing agreement was submitted to the Department and this agreement was approved June 12, 2003.

Aetna Inc. files a consolidated Federal Income Tax return including AHIC and certain other subsidiaries as called for in the tax sharing agreement. AHIC filed a consolidated

New York State tax return with an affiliate, Aetna Life Insurance Company (ALIC), an affiliate of the Company.

4. Intercompany transfer agreement

The Company entered into an Intercompany Transfer Agreement, effective, January 1, 2000 with its affiliate, the HMO. The agreement provides for POS premiums to be allocated equitably between the Company and the HMO, based on the combined medical cost ratio for in-network and out-of-network POS products, in order to achieve identical cost ratios. Funds representing premiums are transferred to or from the Company on a quarterly basis to effectuate the agreement.

(iii) Dividends

The Company paid $250,000,000 in dividends to Aetna Inc. during the examination period. An additional $17,000,000 was paid to its parent in 2003. All dividend payments were authorized by the Company's Board of Directors and approved by the Department. The following chart itemizes the dividends paid in each year.

Year	Dividend payment amount
1997	$ 0
1998	60,000,000
1999	75,000,000
2000	85,000,000
2001	0
2002	30,000,000
2003	17,000,000

It is noted that the $85,000,000 dividend payment in 2000 was comprised of cash in the amount of $34,167,700 and securities in the amount of $50,832,300. The Department was not notified that the transfer would be partially composed of securities.

It is recommended that AHIC notify the Department in advance of non-cash dividend transfers.

D. Reinsurance

AHIC was not a party to any reinsurance agreements during the examination period.

E. Accounts and records

(i) Custodian agreement

The Company is a party to a custodian agreement between Aetna Life Insurance Company and its bank. The agreement contains a listing of all participating affiliated entities. It was noted that the Company's name on the custodian agreement was shown as U.S. Health Insurance Company.

It is recommended that the custodian agreement be revised to reflect the Company's current legal name.

A review of the custodian agreement revealed that certain protective covenants and provisions were not included as part of the agreement. It is noted that the Company amended its custodian agreement and currently the agreement meets the Department's guidelines with the exception of one provision which is omitted. The omitted provision pertains to 60 day notice, to change or cancellation of Banker's Bond insurance, to the HMO. Similar findings and recommendations and the amendment are explained in detail in the Aetna Health Inc. (NY) Report on Examination dated April 23, 2004.

It is recommended that AHIC assure that the custodian agreement comply with the Department's suggested protective covenants and provisions.

(ii) Schedule Y

The Company reported $1,524,937 as payments to affiliates in Schedule Y of its 2002 filed annual statement. This amount was comprised of $1,418,986 paid to the parent as a management fee, in accordance with its Administrative Services Agreement. The remaining $105,951 was composed $105,506 paid to Aetna Inc. and $445 paid to ALIC which represented AHIC's portion of total corporate tax payments.

It is noted that the Company did not include $6,299,649 paid to Aetna Inc. for allocated expenses.

It is recommended that the Company report all transactions with affiliates in Schedule Y including the allocation of expenses from Aetna Inc.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and reserves and unassigned funds as determined by this examination as of December 31, 2002, and as reported by the Company. This statement is the same as the balance sheet filed by the Plan.

Net Admitted Assets	
Bonds	$25,013,276
Cash	31,447,022
Investment Income Due and Accrued	346,079
Federal & Foreign Income tax recoverable	1,145,126
Total assets	$57,951,503

Liabilities, capital and surplus	
Claims unpaid	$10,958,184
Unpaid claims adjustment expenses	274,668
Aggregate policy reserves	269,211
Aggregate claims reserves	416,795
General expenses due or accrued	739,083
Amount due to parents, subsidiaries and affiliates	14,474,320
Aggregate write-ins	2,873,652
Total Liabilities	30,005,913
Common Stock	2,000,000
Gross paid in & contributed surplus	4,459,702
Unassigned funds (surplus)	21,485,888
Total capital and surplus	27,945,590
Total liabilities, capital and surplus	$57,951,503

B. Statement of Revenue and Expenses and Capital and surplus

Capital and surplus decreased by $14,176,220 during the six-year examination period, January 1, 1997 through December 31, 2002 detailed as follows:

Statement of Revenue and Expenses

Premium earned		$688,781,512
Deductions:		
Claims incurred	$282,002,205	
Claim adjustment expenses	22,103,425	
Administrative expenses	50,266,960	
Soliciting	13,174,903	
Total underwriting deductions		367,547,493
Net underwriting gain		321,234,019
Net investment income earned		41,196,477
Other gain or (loss)		345,892
Provisions for federal income taxes		(127,063,111)
Net Income		$235,713,277

Capital and surplus account

Capital and surplus per report on examination December 31, 1996		$42,121,810
Net income	$235,713,277	
Change in non- admitted assets	66,597	
Change in valuation reserve	(666,666)	
Dividends	(250,000,000)	
Net unrealized capital gain and loss	1,253,476	
Cumulative effect of change in accounting principles	(316,393)	
Change in deferred income tax	(226,511)	
Net change in capital and surplus		(14,176,220)
Capital and surplus as of December 31, 2002		$27,945,590

4. CLAIMS PAYABLE

The examination liability of $10,958,184 is same as the amount 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 its filed annual statement

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination, as of December 31, 1996 contained eleven comments and recommendations. The current status of these matters is as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Management	
	Two directors, Hersch Kozlov, Esq. And Michael Cardillo failed to attend at least one-half of the meetings, which they were eligible to attend. Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that appropriate decisions may be reached by the board. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	4
	During the six year examination period there were six directors who failed to attend at least 50% of the Board meetings.	
B.	Intercompany Agreements	
1.	Cash Management Agreement	
a.	It is recommended that the Company obtain from the Parent a deposit equal to 1/12 of the gross premium revenue.	13
	The Company is operating under a revised Cash Management Agreement which does not require a deposit from the Parent.	

ITEM		PAGE NO.
b.	It is recommended that inter organization balances be settled on a monthly basis no more than 30 days after the end of each month.	13
	The Company has complied with this recommendation.	
c.	It is recommended that the Company obtain the approval for the cash management agreement.	13
	A revised Cash Management Agreement was approved by this Department on December 4, 2003.	
2.	Consolidated Federal Income Tax Agreement	
	It is recommended that the Company prepare a written Consolidated Federal Income Tax agreement, conforming to the provisions of Department Circular Letter No. 33 (1979), and submit it to this Department for approval.	14
	The Company complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
	MANAGEMENT	
A	It is recommended that the Board hold, at least, the minimum number of meetings required in its by-laws.	4
B	It is recommended that those Board members, who do no fulfill their fiduciary responsibility to the Company by attending the majority of board meetings, resign or be replaced by the Company.	6
C	It is recommended that the Company adhere to Article III, Section 1 of its by-laws by maintaining, at least, the minimum required number of Board members.	6
D	It is recommended that the Company's board meeting minutes reflect those directors who are not in attendance.	7
	HOLDING COMPANY SYSTEM	
E	It is recommended that AHIC reimburse the provider of administrative services in accordance with a filed and approved agreement.	10
F	It is recommended that the Company obtain approval for its cash management agreement prior to implementation.	11
G	It is recommended that AHIC record billed premiums that have not yet been collected by the HMO on it’s behalf as uncollected premiums rather than as an intercompany receivable.	11
H	It is recommended that the Company comply with Sections 1505(b) of the New York Insurance Law by clearly identifying cash collected for its account and by maintaining sufficient records to support its premium receivable asset.	12
I	It is recommended that AHIC refrain from changing the provider of cash management services until after formal notification to and approval from the Department.	12
J	It is recommended that AHIC notify the Department in advance of the non-cash dividends transfers.	13

ITEM		PAGE NO.
	ACCOUNTS AND RECORDS	
K	It is recommended that the custodian agreement be revised to reflect the Company's current legal name.	14
L	It is recommended that AHIC assure that the custodian agreement comply with the Department’s suggested protective covenants and provisions.	14
M	It is recommended that the Company report all transactions with affiliates in the Schedule Y including the allocation of expenses from Aetna Inc.	15

Appoinbnent No.

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO , Sr+perintendent *of Insurance* of *the State of New York pursuant to the provisions of the Insurance Law, do hereby appoint*_

Kathleen Grogan

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

Aetna Health Insurance Company of New York

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

Company

with sra;h brforrnatian as she shall deem *requisite.*

In Witness *Whereof,* Ihave *hereunto subscribed by* the name *and afixed the official Seal of this Department, at the City of New York*

this *day* of *uM2002*

Gregory V. Serio
Superintendent of Insurance