

REPORT ON EXAMINATION  
OF  
ECCLESIA ASSURANCE COMPANY  
AS OF  
DECEMBER 31, 2009

DATE OF REPORT

NOVEMBER 18, 2011

EXAMINER

BERNARD LOTT

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

November 18, 2011

Honorable Benjamin M. Lawsky  
Superintendent of Financial Services  
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 30605 dated October 6, 2010, attached hereto, I have made an examination into the condition and affairs of Ecclesia Assurance Company as of December 31, 2009, and respectfully submit the following report thereon.

Wherever the designation “Company” or “Ecclesia” appear herein without qualifications, they should be understood to refer to Ecclesia Assurance Company.

Wherever the designation “Department” appears herein without qualification, it should be understood to mean New York State Department of Financial Services.

The examination was conducted at the offices of Marsh Management Services Inc., the captive manager for Ecclesia Assurance Company, located at 48 South Service Road, Melville, NY 11747.

## **1. SCOPE OF EXAMINATION**

The examination covered the period from the Company's licensing and commencement of business on March 8, 2004, through December 31, 2009 and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including invested assets, and losses and loss adjustment expense reserves. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification. Additionally, a review was performed to determine whether the captive insurer was operating within its by-laws, conforming with its plan of operation, as submitted to the New York State Department of Financial Services, and was in compliance with Article 70 of the New York Insurance Law.

Comments and recommendations are limited to those items requiring financial adjustment, procedural recommendations, or instances where the Company was not conforming to the application submitted to the Department or Article 70 of the New York Insurance Law.

The report utilized work performed by the Company's independent certified public accountants and its opining actuary to the extent considered appropriate.

## **2. DESCRIPTION OF COMPANY**

The Company, incorporated on December 10, 2003, is wholly-owned by the Roman Catholic Diocese of Rockville Center, New York ("Diocese"). Ecclesia provides insurance on a direct basis for ecclesiastical entities including parishes, hospitals and high schools. The Company commenced doing business as a pure captive insurance company under the laws of New York State on March 8, 2004.

### **A. Articles of Incorporation**

The Company was organized to transact the kinds of property and casualty insurance business specified in paragraphs 4, 5, 6, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17, 19, 20, 21, 22, 24, 27, 28, and 30 of Subsection (a) of Section 1113 of the New York Insurance Law, subject at all times to the limitations on the business of pure captive insurance companies set forth in Article 70 of the New York Insurance Law.

B. By-Laws

It appears that the Company, in all material respects, is in compliance with its by-laws.

C. Capital Structure

Pursuant to Section 7004(a)(1) of the New York Insurance Law, a pure captive insurance company incorporated as a stock insurer is required to possess, and thereafter maintain, unimpaired paid-in-capital and surplus of not less than \$250,000, in order to be issued a license to do captive insurance business in New York State. Ecclesia, a pure captive, was incorporated as a stock insurer and capitalized with initial contributed cash of \$400,000 from the Diocese. The initial contribution purchased all 100,000 shares of the Company's common stock which had a par value of \$1 per share. The remaining \$300,000 was allocated as additional paid-in capital. Ecclesia was further capitalized with additional contributions from the Diocese of \$1,600,000 and \$1,000,000 in the years 2005 and 2008, respectively.

D. Corporate Records

Corporate records reviewed that are not specifically addressed elsewhere in this report appeared to be substantially accurate and complete in all material respects.

E. Reinsurance

The Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring its risks with various reinsurers. Reinsurance premiums are deferred and subsequently expensed on a pro-rata basis in accordance with the terms of the underlying reinsurance contracts. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsurance policy.

F. Management and Control

(i) Captive Manager

Section 7003(b)(4) of the New York Insurance Law provides that no captive insurer can do any captive insurance business in this state unless it utilizes a captive manager resident in the State of New York that is licensed as an agent or broker under the provisions of the Article 21 of the New York Insurance Law or any other person approved by the Superintendent.

Ecclesia is managed by Marsh Management Services Inc., the captive management arm of Marsh, Inc., an insurance broker licensed by the Department. The manager's duties, pursuant to a "management agreement", include monitoring Company compliance with New York Insurance Laws and filing requirements, acting as the Company's principal representative in communications with regulatory authorities, and maintaining the true and complete books of account and records of all business conducted under the agreement.

(ii) Board of Directors

The mode and manner in which the corporate powers of the Company shall be exercised are through a board of directors and through such officers, employee and agents as such board shall employ. At December 31, 2009, the board of directors was comprised of the following members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Robert John Brennan Rockville Centre, NY	Vicar General Roman Catholic Priest, Roman Catholic Diocese of Rockville Centre
Richard Edward Meyer Bayshore, NY	Chairman, Global Excess Partners
Kevin Thomas Murphy Massapequa, NY	Chief Fiscal Officer, Diocese of Rockville Centre
Richard John Joseph Sullivan Jr. Babylon, NY	President & Chief Executive Officer, CMF Group Inc. d/b/a Cotterell, Mitchell & Fifer

The Company's by-laws state that the board of directors shall hold at least one meeting in the State of New York every calendar year. During the period covered by this examination, the board meetings were in compliance with this provision of its by-laws. A review of the meeting minutes indicated that they were generally well attended and that each member had an acceptable record of attendance for all board meetings for which they were eligible to attend.

(iii) Officers

The board of directors shall elect or appoint such officers as it decides are necessary for the conduct of business. Ecclesia's by-laws state that the officers of the Company's shall be a President, one or more Vice-Presidents, a Secretary, a Treasurer, and one or more Assistant Treasurers and one or more Assistant Secretaries.

The following were officers of the Company as of December 31, 2009:

<u>Name</u>	<u>Title</u>
Robert J. Brennan	President
Kevin T. Murphy	Secretary and Treasurer
William G. Chapin	Vice President
Joseph Young	Vice President
Maureen Scaduto	Vice President

G. Certified Public Accountant (“CPA”) and Actuarial Services

The Company was audited by the independent CPA firm Grant Thornton LLP, for the years ending December 31, 2004 and 2005. KPMG LLP, 345 Park Avenue, New York, NY 10154 performed the year-end audit for the years 2006 through December 31, 2009. Ecclesia’s opining actuary for all the years covered by this examination was Steven P. Lattanzio from the firm Actuarial & Technical Solutions, Inc., 3555 Veterans Highway, Ronkonkoma, NY 11779.

H. Growth of Company

The following schedule sets forth a summary of the Company’s significant financial information for the period covered by this examination:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholders’ Equity</u>
2004	\$ 219	\$ (149,694)	\$ 401,194	\$ 250,306
2005	\$ 610,393	\$ 520,892	\$ 2,830,963	\$ 2,371,198
2006	\$ 414,272	\$ 449,975	\$ 4,445,325	\$ 2,821,173
2007	\$ 195,262	\$ (225,161)	\$ 4,743,187	\$ 2,596,012
2008	\$ 1,287,846	\$ 265,097	\$ 12,666,408	\$ 3,861,109
2009	\$ 8,023,011	\$ 4,583,650	\$ 22,381,452	\$ 8,444,759

The Company’s shareholders’ equity as of the examination date includes “accumulated earnings” of \$5,444,759.

### 3. FINANCIAL STATEMENTS

The financial statements of the Company have been prepared in conformity with accounting principles prescribed and permitted by the New York State Department of Financial Services. The financial position of the Company, as presented below, was accepted by the Department. Ecclesia's independent accounting firm, KPMG LLP, concluded that the following statutory financial statements presented fairly, in all material respects, the Company's assets, liabilities and surplus as of December 31, 2009, and the results of its operations for the year then ended:

#### A. Balance Sheet

##### BALANCE SHEET AS OF DECEMBER 31, 2009

<u>Assets</u>	
Cash	\$14,927,463
Accounts and premiums receivable	5,640,523
Reinsurance recoverable on unpaid losses and LAE	915,598
Prepaid reinsurance premium	850,932
Other assets	<u>46,936</u>
Total assets	<u>\$22,381,452</u>

Liabilities, Capital and SurplusLiabilities

Losses and loss adjustment expenses		\$6,653,580
Commissions, expense and fees		133,577
Taxes payable		252
Unearned premium		6,525,486
Reinsurance balance payable		359,291
Amounts due to affiliates		7,193
Other liabilities		<u>257,314</u>
Total liabilities		\$13,936,693

Capital and Surplus

Paid in capital (par value)	\$ 100,000	
Contributed surplus	2,900,000	
Surplus (accumulated earnings)	<u>5,444,759</u>	
Total capital and surplus		<u>8,444,759</u>
Total liabilities and capital and surplus		<u>\$22,381,452</u>

B. Statement of Income

Capital and Surplus increased \$8,044,759 during the period subsequent to the Company's commencement of business on March 8, 2004 through December 31, 2009, detailed as follows:

STATEMENT OF INCOMEUnderwriting income

Net premiums earned		\$10,650,901
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## Deductions:

Net losses and loss adjustment expenses incurred	\$4,500,500	
General and administrative expenses	946,746	
Other underwriting expenses	<u>264,680</u>	

Total underwriting deductions		<u>5,711,926</u>
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Net underwriting gain (loss)		\$4,938,975
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Investment Income

Net investment income earned	\$ <u>505,784</u>	
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Net investment gain or (loss)		<u>505,784</u>
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Net income before taxes		\$5,444,759
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Taxes		<u>0</u>
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Net income		<u>\$5,444,759</u>
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C. Capital and Surplus Account

Capital and surplus as of March 8, 2004			\$400,000
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$5,444,759	\$ 0	
Paid in capital	<u>2,600,000</u>	<u>0</u>	
Total gains and losses	<u>\$8,044,759</u>	<u>\$ 0</u>	
Net increase in surplus			<u>8,044,759</u>
Capital and surplus per report on examination as of December 31, 2009			<u>\$8,444,759</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

As of December 31, 2009, Ecclesia reported \$5,722,724 and \$930,856 for unpaid losses and loss adjustment expenses, respectively. The Company provides workers' compensation coverage and various other coverages to the Roman Catholic Diocese of Rockville Centre. Reserves for workers' compensation are not discounted.

The opining actuary stated that the carried reserves meet the requirements of the New York Insurance Law, had been evaluated in accordance with accepted loss reserving standards and principles and made reasonable provisions for all unpaid losses and loss adjustment expense obligations. Based on the opining actuary's opinion and the audit performed by the independent CPA firm, no examination change will be made to the Company's reported reserve for losses and loss adjustment expenses.

**5. ARTICLE 70 COMPLIANCE**

Article 70 of the New York State Insurance Law is the governing section of the law for the formation and continued operation of captive insurers in New York State. A review was performed to test the Company's compliance with all applicable parts of Article 70. No significant areas of non-compliance were found.

## **6. INSURANCE PROGRAM**

The Company provides the Diocese with workers' compensation coverage (on an indemnity and deductible reimbursement basis), various primary and excess liability coverages including automobile liability, auto physical damage, and errors and omissions. It also provides property and boiler coverage on a deductible reimbursement, primary and excess basis. The above property and liability policies included terrorism coverage as per the Terrorism Risk Insurance Act of 2002, as amended. Many of the above policies have reinsurance protection from unaffiliated reinsurers.

Respectfully submitted,

\_\_\_\_\_/s/\_\_\_\_\_  
Bernard Lott  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/\_\_\_\_\_  
Bernard Lott

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2012.

*Appointment No. 30605*

**STATE OF NEW YORK  
INSURANCE DEPARTMENT**

*I, James J. Wrynn Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:*

**Bernard Lott**

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

**ECCLESIA ASSURANCE COMPANY**

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

**Company**

*with such other 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 6th day of October, 2010*



*James J. Wrynn*  
\_\_\_\_\_  
**JAMES J. WRYNN**  
*Superintendent of Insurance*