

REPORT ON EXAMINATION

OF

HHC INSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2014

DATE OF REPORT

May 4, 2016

EXAMINER

WEI CAO

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

Honorable Maria T. Vullo
Superintendent of Financial Services
Albany, New York 12257

May 4, 2016

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31411 dated January 14, 2016, attached hereto, I have made an examination into the condition and affairs of HHC Insurance Company, Inc. as of December 31, 2014, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to refer to HHC Insurance Company, Inc. Wherever the designation "The System" appears herein without qualification, it should be understood to indicate New York City Health & Hospitals Corporation, now formally known as NYC Health + Hospitals.

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

1. SCOPE OF EXAMINATION

The examination covers the period from January 1, 2010 through December 31, 2014, and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis or verification. Transactions occurring subsequent to this period were reviewed where deemed appropriate. The examination included a review of 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 (the 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 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 was incorporated under the laws of New York State as a captive insurance company on July 2, 2003 and commenced business on December 15, 2004. The Company is a not-for-profit pure captive insurance company incorporated as a mutual insurer. The Company is wholly-owned subsidiary of the New York City Health and Hospitals Corporation.

A. Articles of Incorporation

The Company is organized to transact the kinds of insurance specified in Section 1113(a) 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 Law.

B. By-Laws

The examination found that the Company was in compliance with its by-laws in all material respects.

C. Capital Structure

As a pure captive insurer incorporated as a mutual insurer, the Company is required to possess and thereafter maintain unimpaired not less than \$250,000 of total surplus as regards to policyholders, pursuant to Section 7004(a)(2) of the Law.

As of December 31, 2014, the Company's total surplus was \$61,466,595 including a \$2,000,000 letter of credit.

D. Corporate Records

The corporate records reviewed appeared to be substantially accurate and complete in all material respects.

E. Operations

During the period covered by this examination the Company underwrote medical malpractice insurance on behalf of The System's attending physicians practicing in the areas of neurosurgery, obstetrics, and gynecology. The Company provided The System and its insured attending physicians with indemnity insurance coverage on a claims-made basis with limits up to \$1.3 million per incident and \$3.9 million in the aggregate on each claim. In addition HHC participates in the New York State Hospital Excess Liability Pool ("Pool"). The Pool offers physicians affiliated with hospitals an additional layer of excess coverage up to \$1 million per occurrence and \$3 million in the aggregate. To the extent that The System's insured physicians have obtained such excess coverage from their affiliated hospitals, HHC provides the excess coverage and receives the premiums from the Pool. No additional cost for this excess coverage is incurred by either The Systems or its physicians. HHC provides the insured with indemnification for each claim greater than \$2.3 million per incident or \$6.9 million in the aggregate.

New York Medical Malpractice Insurance Plan (öMMIPö)

Established by Department Regulation 170 (öReg.170ö), MMIP operates as a medical malpractice insurance pool that was created after the dissolution of the Medical Malpractice Insurance Association. MMIP is a mechanism for providing medical malpractice insurance to all eligible health care practitioners and facilities that are otherwise unable to secure coverage in the voluntary market. It is administered by the Medical Liability Mutual Insurance Company and is funded by all licensed medical malpractice insurers in this state, on a pro rata basis, based on their share of the medical malpractice insurance market. All authorized insurers that write medical malpractice insurance in the state after June 30, 2000 shall be members of MMIP.

The Company, an authorized insurer that writes medical malpractice insurance in New York, would automatically be required to participate in MMIP, pursuant to Reg.170. However, Section 7011 of the Law, which supersedes Reg.170, prohibits captive insurers from joining compulsory associations such as MMIP. In 2003, as a condition of licensing the Company as a captive insurer and maintaining that license, The System agreed to waive any and all rights or protections afforded by Section 7011, which exempted the Company from participation in any plan, pool association, guaranty or insolvency fund in this state. Consequently, the Company joined and contributes to MMIP.

F. Management and Control

(i) Captive Manager

Section 7003(b) (4) of the New York Insurance Law provides that no captive insurer shall 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 Article 21 of the Law, or any other person approved by the Superintendent.

Since its inception the Company has been managed by Aon Insurance Managers (USA) Inc. (öAonö), an insurance consultant licensed by the Department. Aon is a sub-contractor on an agreement between The System and Sedgwick Claims Management Services, Inc. (öSedgwick CMSö), a third party administrator with expertise in claims and risk management services in connection with medical malpractice claims. Through this agreement Sedgwick CMS retained Aon as a sub-

contractor, to provide management services for the Company. As the captive manager, Aon provides financial and insurance services, which include the preparation of all interim and year-end financial statements. In addition, Aon maintains all required books and records and monitors investments and investment income. Further, Aon ensures compliance with New York's insurance laws and regulations and represents the Company during regulatory examinations.

(ii) Board of Directors

Pursuant to the Company's by-laws, management of the Company is vested in a board of directors consisting of at least five but no more than seven members. At December 31, 2014, the board of directors was comprised of the following five members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Ramanathan Raju State Island, NY	President and Chief Executive Officer, NYC Health and Hospitals Corporation
Salvatore Russo Brooklyn, NY	General Counsel, NYC Health and Hospitals Corporation
Marlene Zurack Brooklyn, NY	Acting Senior Vice President, NYC Health and Hospitals Corporation
Ross Wilson New York, NY	Senior Vice President, NYC Health and Hospitals Corporation
Bernard Rosen Rego Park, NY	Financial Consultant, Metropolitan Transportation Authority

During the examination period, the board of directors met once every year. A review of the meeting minutes indicated that all board members had acceptable records of attendance with the exception of Marlene Zurack, who only attended two out of five meetings for which she was 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 recommended that board members who are unable to or unwilling to

attend board meetings should resign or be replaced. The same recommendation was made in the prior report on examination.

(iii) Officers

As of December 31, 2014, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Ramanathan Raju	President
Marlene Zurack	Treasurer
Salvatore Russo	Secretary

G. Certified Public Accountant (CPA)

KPMG, LLP was the Company's independent certified public accounting firm for the entire period covered by this examination. The CPA stated that the Company's audited financial statements presented fairly, in all material respects, the admitted assets, liabilities and surplus of HHC Insurance Company, Inc. at December 31, 2014 in accordance with statutory accounting practices prescribed or permitted by the Department.

3. FINANCIAL STATEMENTS

The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America.

A. Balance SheetAssets

Intercompany loan	\$93,700,000
Due from Medical Malpractice Insurance Pool of New York	<u>3,019,366</u>
Total assets	<u>\$96,719,366</u>

Liabilities

Loss and loss adjustment expenses	22,151,415
Premium deficiency reserve	46,551
Claims payable	260,000
Unearned premium	122,355
Due to parent	12,605,496
Accounts payable	<u>66,954</u>
Total liabilities	\$35,252,771

Surplus

Unassigned funds (surplus)	<u>61,466,595</u>
Total surplus	<u>\$61,466,595</u>
Total liabilities and surplus	<u>\$96,719,366</u>

B. Statement of Income

The net income for the period covered by this examination was \$31,896,918, as detailed below:

STATEMENT OF INCOMEUnderwriting Income

Net premiums earned		\$34,306,342
Deductions:		
Loss and Loss adjustment expenses	1,228,517	
Change in premium deficiency reserve	(49,168)	
Administrative expenses	<u>1,709,859</u>	
Total underwriting deductions		<u>2,889,208</u>
Net underwriting gain		31,417,134
Investment Income		
Net investment income earned	<u>479,784</u>	
Net investment gain		<u>479,784</u>
Net income		<u>\$31,896,918</u>

Surplus Account

The Company's surplus increased \$31,896,918 during the five-year period covered by this examination, detailed as follows:

Surplus as of January 1, 2010		\$29,569,677
	Increase in <u>surplus</u>	Decrease in <u>surplus</u>
Net income	<u>\$31,896,918</u>	<u>\$0</u>
Net increase in surplus		<u>31,896,918</u>
Surplus as of December 31, 2014		<u>\$61,466,595</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2014, the Company reported total unpaid losses and loss adjustment expense reserves of \$22,151,415, which was composed of \$18,465,027 in reserves established by the Company and \$3,686,388 related to MMIP. The Company's opinioning actuarial firm, Aon Global Risk Consultants ("Aon Global"), noted in its Statement of Actuarial Opinion that its conclusions were based solely on the Company established reserves or 83% of the total amount reported. Aon Global also concluded that the reserves met the requirements of the Law, were computed in accordance with accepted actuarial standards and principles and made a reasonable provision for unpaid losses and loss adjustment expense obligations of the Company under the terms of its policies.

5. ARTICLE 70 COMPLIANCE

Article 70 of the New York 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 of the New York Insurance Law. No significant areas of non-compliance were found.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONSITEMPAGE NO.

It is recommended that board members who are unable to or unwilling to attend board meetings should resign or be replaced. The same recommendation was made in the prior report on examination.

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Respectfully submitted,

Wei Cao
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

WEI CAO, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

Wei Cao

Subscribed and sworn to before me

this _____ day of _____, 2016.

APPOINTMENT NO. 31411

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **SHIRIN EMAMI**, Acting 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:*

Wei Cao

as a proper person to examine the affairs of the

HHC Insurance Company, Inc.

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 by name
and affixed the official Seal of the Department
at the City of New York*

this 14th day of January, 2016

*Shirin Emami
Acting Superintendent of Financial Services*



By:

Rolf Kaumann
Deputy Chief Examiner