REPORT ON EXAMINATION

OF

HOSPITALS INSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2014

DATE OF REPORT	JULY 1, 2017
EXAMINER	JOSEPH REVERS, CFE

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July 1, 2017

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

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Letter No. 31214 dated September 23, 2014, attached hereto, I have made an examination into the condition and affairs of Hospitals 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 indicate Hospitals Insurance Company, Inc.

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

The examination was conducted at the Company's home office located at 50 Main Street, White Plains, New York 10606.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2009. This examination covered the five-year period from January 1, 2010 through December 31, 2014. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook") which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company's independent public accountants where deemed appropriate by the examiner.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
Summary of recommendations

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

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

2. DESCRIPTION OF COMPANY

Hospitals Insurance Company, Inc. was incorporated under the laws of the State of New York on January 14, 1987 under the name of HANYS Insurance Company, Inc. The Company became licensed on July 31, 1987 and commenced business on August 1, 1987. At this time, the Company was jointly owned by two trusts formed solely for the purpose of holding the Company's shares, as follows:

1. The FFH Hospitals Trust (1987) ("FFH Trust"), which was formed by its owners, the five major hospital affiliates of United Jewish Appeal-Federation of Jewish Philanthropies of New York Inc. ("UJA/Federation") (a non-profit fund raising organization) and Federation of Jewish Philanthropies ("FOJP") Service Corporation (a non-profit organization having one member: UJA/Federation), holding 80% of the voting shares of the Company.

2. The HANYS Hospitals Trust (1987) ("HANYS Trust"), which was formed by its owners, eighty-seven members of the Hospital Association of New York State ("HANYS"), holding 20% of the voting shares of the Company.

On September 15, 2005, FFH-Trust became the sole owner of the Company by purchasing the minority interest from HANYS Trust. Due to this restructuring, the Company brought management of its affairs in-house and continued to utilize the services of FOJP Service Corporation ("FOJP") pursuant to a service agreement. The Department did not object to the acquisition of control of the Company by FFH Trust. The name of Hospitals Insurance Company, Inc. was adopted on January 18, 2006.

Capital paid in is $1,050,000 consisting of 375,000 shares of $1 par value per share Class A common stock, 375,000 shares of $1 par value per share Class B common stock, and 100,000 shares of $3 par value Class C non-voting common stock. Gross paid in and contributed surplus is $19,950,000. These amounts were unchanged during the examination period.

A. Management

Pursuant to the Company's by-laws, management of the Company is vested in a board of directors consisting of not less than twelve nor more than twenty-one members. The board meets at least three times during each calendar year. At December 31, 2014, the board of directors was comprised of the following twelve members:

Name and Residence	Principal Business Affiliation
Donald T Scanlon Commack, NY	Executive Vice President and Chief Financial Officer, Mount Sinai Health System
Michael Bruno Katonah, NY	Senior Vice President, Finance, Mount Sinai Health System
David I Cohen, MD New York, NY	Executive Vice President, Clinical Affairs & Affiliations Chair, Maimonides Medical Center
Burton P Drayer, MD New York, NY	Executive Vice President, Department Radiology Chair, Mount Sinai Medical Center
Walter L Harris New York, NY	President & Chief Executive Officer, Hospitals Insurance Company, Inc. President & Chief Executive Officer, FOJP Service Corporation
David G Ingber Armonk, NY	Vice President, Finance, Accounting & Financial Reporting, Montefiore Medical Center
Brendan C Loughlin Ridgefield, CT	Senior Vice President, Financial & Strategic Planning, Mount Sinai Health System
Robert L Naldi Centerport, NY	Executive Vice President, Chief Financial Officer, Maimonides Medical Center
Michael Pastier Dix Hills, NY	Senior Vice President, Chief Financial Officer, Mount Sinai Health System
Joel A Perlman New City, NY	Executive Vice President, Finance & Chief Financial Officer, Montefiore Medical Center

Name and Residence	Principal Business Affiliation
Dominik Stanzione Holmdel, NJ	Executive Vice President, Chief Operating Officer, Maimonides Medical Center
Jeffrey Weiss, MD New York, NY	Vice President, Montefiore Medical Center

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

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

Name	Title
Walter L Harris	Chief Executive Officer and President
Noeleen T Doelger	Chief Financial Officer
Melissa L Johnson	Vice President & Controller

B. Territory and Plan of Operation

As of December 31, 2014, the Company was licensed to write business only in New York State.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
3	Accident & health
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Worker's compensation and employer's liability

16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
29	Legal services

Based on 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 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $4,400,000.

In addition, the Company is licensed to do within this State the business of special risk insurance pursuant to Article 63 of the New York Insurance Law.

The following schedule shows the direct premiums written by the Company for the period under examination:

DIRECT PREMIUMS WRITTEN

Calendar Year	New York State Written Premiums
2010	174,889,406
2011	221,745,761
2012	224,078,117
2013	237,090,905
2014	230,733,224

The Company provides primary and excess medical malpractice, general liability, employee benefits liability, and sexual or physical abuse or molestation vicarious liability insurance to the following medical centers and to both their employed and affiliated physicians: Mount Sinai Medical Center Group, Beth Israel Medical Center Group, Maimonides Medical Center Group, and Montefiore Medical Center Group. The Company also writes the same lines of insurance for the Bronx Lebanon Hospital Group and its employed physicians. Additionally, the Company provides primary professional liability insurance to three hospitals affiliated with the Combined Coordinating Council, Inc. ("CCC") Program, namely: NYU Hospitals Center, NYU Lutheran, and New York Methodist

Hospital. CCC is a not-for-profit corporation that provides risk management advisory services for New York City hospitals participating in the CCC program. The Company also provides primary and excess medical malpractice, general liability, employee benefits liability, and sexual or physical abuse or molestation vicarious liability insurance to a few select long-term care facilities ("LTCF"). The Company writes directors' and officers' liability insurance on a limited basis.

The Company participates in the Medical Malpractice Insurance Pool of New York State ("MMIP"). The MMIP is an involuntary pool that was created by all authorized insurers writing medical malpractice insurance in New York as an alternative to receiving direct assignments of eligible health care providers through the MMIP. In the MMIP, each participant insurer is liable for each risk in an amount equal to the premiums it writes in the medical malpractice insurance market. As of December 31, 2014, the Company is responsible for approximately $35 million, or 13%, of MMIP's net current deficit.

As of December 31, 2014, the product lines written were in Medical Professional Liability (97.5%), Other Liability - occurrence (2.1%), and Other Liability – claims-made (0.4%). The majority of the Company's business is written on an occurrence basis.

C. Reinsurance

The Company did not report significant amounts of reinsurance assumed and reinsurance ceded for the examination period.

1. Assumed Reinsurance:

The Company has an assumed reinsurance agreement in place for a block of business that was written in 1998 by National Union Fire Insurance Company of Pittsburgh, PA. As security for the obligations assumed, the Company is required to establish and maintain a letter of credit for the benefit of the reinsured in a form, substance, and amount acceptable to the reinsured in its sole discretion. As of the examination date, the Company maintained letter of credit collateral in the amount of $30,000,000 for known case losses and LAE reserves of $1,087,000.

2. Reinsurance Ceded:

Finial Reinsurance Company: The Company reported $1.3 million of reinsurance recoverables on paid losses from Finial Reinsurance Company ("Finial Re") as of December 31, 2014, of which the vast majority had been non-admitted as a result of being overdue and in dispute. Finial Re, formerly known as Converium Reinsurance Inc., entered into a reinsurance arrangement with the Company effective July 1, 2001 through August 31, 2004 reinsuring certain hospital excess programs in run-off. Finial also reinsured the FOJP Hospital Excess program under which 75% of losses and allocated loss adjustment expenses were ceded under the arrangement. The full amount of the reinsurance recoverables in dispute was collected in 2016, and subsequently, the interest was also collected.

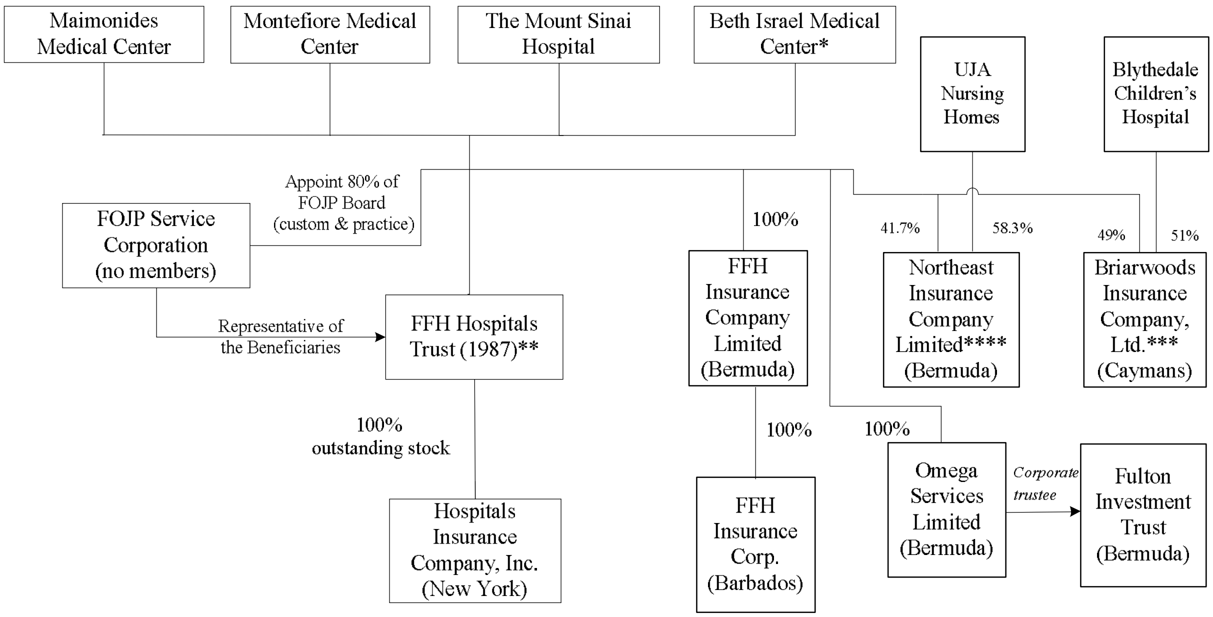
ENTA Cessions: Effective 2009, the Company entered into a fronting arrangement with Oasis Reciprocal Risk Retention Group ("OASIS"), a Vermont risk retention group and affiliate of ENT and Allergy, LLP, ("ENTA"). The Company provides primary professional liability insurance on a claims-made basis to ENTA and to its affiliated New York State-licensed physicians; and excess professional liability insurance to these physicians. The Company cedes 100% of this primary professional liability insurance risk to OASIS. As of December 31, 2014, the Company reported reinsurance recoverables on paid losses and loss adjustment expenses of $73 thousand from OASIS. Effective July 1, 2017, ENTA revised its reinsurance structure under this arrangement to allow the Company to transfer the liabilities previously ceded to OASIS to MDSafety Reciprocal Insurance Company, a newly created Vermont captive established by and affiliated with ENTA.

D. Holding Company System

The Company is a wholly-owned subsidiary of FFH Hospitals Trust, a trust domiciled in New York that has four grantors as the beneficiaries of the trust. The grantors and beneficiaries of the FFH Trust are: Beth Israel Medical Center, Maimonides Medical Center, Montefiore Medical Center and the Mount Sinai Hospital.

The Company filed with the Department the required Holding Company Registration Statements for each year under examination.

The following is a chart of the holding company system at December 31, 2014:


Maimonides Medical Center
Montefiore Medical Center
The Mount Sinai Hospital
Beth Israel Medical Center*
UJA Nursing Homes
Blythedale Children's Hospital
Appoint 80% of FOJP Board (custom & practice)
FOJP Service Corporation (no members)
Representative of the Beneficiaries
FFH Hospitals Trust (1987)**
100% outstanding stock
Hospitals Insurance Company, Inc. (New York)
100%
FFH Insurance Company Limited (Bermuda)
100%
FFH Insurance Corp. (Barbados)
41.7%
58.3%
Northeast Insurance Company Limited**** (Bermuda)
49%
51%
Briarwoods Insurance Company, Ltd.*** (Caymans)
100%
Omega Services Limited (Bermuda)
Corporate trustee
Fulton Investment Trust (Bermuda)

At December 31, 2014, the Company was party to the following agreements with other members of its holding company system:

Claims and Administrative Services Agreement

Effective January 1, 2010, the Company entered into a claims and administrative services agreement with FOJP Service Corporation ("FOJP"). Pursuant to the terms of the agreement, FOJP agrees to provide HIC with administrative, claims review, finance, human resources, legal risk management and information technology services as reasonably requested to supplement the staff of HIC in connection with its operations. This agreement expired on December 31, 2010 and was not renewed. Therefore, since then the Company has been operating under an expired service agreement

It is recommended that the Company renew its claims and administrative services agreement with FOJP and submit it to the Department pursuant to Section 1505 (c) 3 of the New York Insurance Law.

The Company submitted the service agreement on May 31, 2017 pursuant to the aforementioned section of the law.

E. Significant Operating Ratios

The following NAIC IRIS ratios were computed as of December 31, 2014:

Net premiums written to surplus as regards policyholders	50%
Liabilities to liquid assets	101% *
Premiums in the course of collection to surplus as regards policyholders	7%

The premiums related IRIS ratios are within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

* The liabilities to liquid assets ratio is outside the benchmark range. It is noted that for calendar year 2015, the ratio is within the recommended range at 97%. This is due to the shifting of the Company's invested assets that occurred during 2015 which caused increases in cash and common stock and a decrease in its alternative investments.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$758,941,308	70.67%
Other underwriting expenses incurred	98,633,497	9.18
Net underwriting gain	216,353,188	20.15
Premiums earned	$1,073,927,993	100.00%

F. Accounts and Records

i. Charter and By-laws

The Charter states that the Company shall have 15 directors. The By-laws indicate that the board of directors shall consist of not less than twelve nor more than twenty-one directors.

It is recommended that the Company revise its Charter and/or By-laws so they are consistent.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$634,718,392	$0	$634,718,392
Common stocks (stocks)	221,098,232	0	221,098,232
Cash, cash equivalents and short-term investments	61,271,827	0	61,271,827
Other invested assets	399,318,126	0	399,318,126
Receivables for securities	3,727,622	0	3,727,622
MMIP assets	32,668,166	281	32,667,885
Investment income due and accrued	4,116,644	0	4,116,644
Uncollected premiums and agents' balances in the course of collection	31,568,877	735,493	30,833,384
Deferred premiums, agents' balances and installments booked but deferred and not yet due	24,575,604	0	24,575,604
Amounts recoverable from reinsurers	1,404,504	1,331,045	73,459
Current federal and foreign income tax recoverable and interest thereon	1,800,437	0	1,800,437
Prepaid expenses	636,375	636,375	0
MMIP accrued income	187,548		187,548
Risk Mgmt course receivable	30,000	30,000	0
Totals	$1,417,122,354	$2,733,194	$1,414,389,160

Liabilities, Surplus and Other Funds

Liabilities		
Losses and Loss Adjustment Expenses		$896,570,280
Other expenses (excluding taxes, licenses and fees)		4,841,746
Net deferred tax liability		886,878
Unearned premiums		22,784,646
Advance premium		14,340,111
Provision for reinsurance		3,086,234
Payable for securities		8,269,310
MMIP premium deficiency reserve		1,677,235
Death, disability & retirement reserve		902,511
MMIP investment payable		341,995
Premium deficiency reserve		325,621
Deferred rent		78,536
Deferred risk management course revenue		29,688
MMIP accrued expenses		6,584
Total liabilities		$954,141,375
Surplus and Other Funds		
Common capital stock	$1,050,000	
Surplus notes	17,000,000	
Gross paid in and contributed surplus	19,950,000	
Unassigned funds (surplus)	422,247,785	
Surplus as regards policyholders		$460,247,785
Total liabilities, surplus and other funds		$1,414,389,160

Note: In 2015, the Internal Revenue Service completed its audit of the Company's Federal Income Tax returns for tax years up to and including 2010. The tax adjustment was immaterial. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Net income for the five-year examination period, as reported by the Company, was $253,946,374 detailed as follows:

Underwriting Income		
Premiums earned		$1,073,927,993
Deductions:		
Losses and loss adjustment expenses incurred	$801,941,308	
Other underwriting expenses incurred	94,938,865	
Change in MMIP Premium Deficiency Reserve	815,659	
Change in Premium Deficiency Reserve	1,976,462	
Change in Death, Disability & Retirement Reserve	902,511	
Total underwriting deductions		900,574,805
Net underwriting gain or (loss)		$173,353,188
Investment Income		
Net investment income earned	$74,210,499	
Net realized capital gain	108,086,653	
Net investment gain or (loss)		$182,297,152
Other Income		
Net gain or (loss) from agents' or premium balances charged off	-$110,662	
Finance and service charges not included in premiums	11,533	
MMIP Investment Income	3,392,285	
Interest Income - Premiums	2,256,248	
Risk Mgmnt course revenue	77,633	
ENTA claims handling fee	140,000	
MMIP loss	-8,871	
CCC online course revenue	68,238	
Total other income		$5,826,404
Net income before federal income taxes		$361,476,744
Federal and foreign income taxes incurred		107,530,370
Net Income		$253,946,374

C. Capital and Surplus

Surplus as regards policyholders, as reported by the Company, increased $293,343,677 during the five-year examination period January 1, 2010 through December 31, 2014, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2009			$123,904,108
Net income as reported by the Company	$253,946,374		
Net unrealized capital gains or (losses)	31,570,631		
Change in net deferred income tax		5,274,739	
Change in non-admitted assets	16,369,149		
Change in provision for reinsurance		3,086,234	
Cumulative effect of changes in accounting principles		181,504	
Net increase (decrease) in surplus	$301,886,154	$8,542,477	$293,343,677
Reversal of loss adjustment in prior examination report			43,000,000
Surplus as regards policyholders per report on examination as of December 31, 2014			$460,247,785

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $896,570,280 is the same as reported by the Company as of December 31, 2014. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained four recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A	Accounts and Records	
i.	It was recommended that the Company properly report its premium by line of business. The Company has complied with this recommendation.	10
ii.	It was recommended that the Company submit to the Department for approval the new service agreement upon its completion, or amend the existing agreement to extend the termination date. Any amendments to the agreement should be submitted to the Department as well. The Company has not complied with this recommendation. A similar comment is made in this report.	11
iii.	It was recommended that the Company amend its custodial agreements with Bank of America and Comerica to include the requisite protective provisions. The Company has complied with this recommendation.	11
iv.	It is recommended that the Company report its investments in Schedules BA and D in accordance with the NAIC Annual Statement Instructions. The Company has complied with this recommendation.	12

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM			PAGE NO.
A		Holding company system	
	i	It is recommended that the Company maintain a valid administrative services agreement with FOJP. Any amendments to the agreement should be submitted to the Department for approval. The Company has complied with this recommendation.	10
B		Accounts and records	
	i	It is recommended that the Company revise its Charter and/or By-laws so they are consistent.	11

Respectfully submitted,

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Joseph Revers, CFE
Senior Insurance Examiner

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

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

____
Joseph Revers

Subscribed and sworn to before me

this__________ day of ___________________, 2018.

APPOINTMENT NO. *31214*

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Joseph Revers

as a proper person to examine the affairs of the

Hospitals Insurance Company, Inc.

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

COMPANY

with such other information as he 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 23rd day of September, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Rolf Kaumann
Deputy Chief Examiner

NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES
EXCELSIOR