

REPORT ON EXAMINATION

OF THE

RF CASUALTY INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

DATE OF REPORT

FEBRUARY 13, 2015

EXAMINER

WEI CAO

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	2
	A. Articles of incorporation	2
	B. By-laws	3
	C. Capital structure	3
	D. Corporate records	3
	E. Operations	3
	F. Management and control	4
	G. Certified public accountant	5
3.	Financial statements	6
	A. Balance sheet	6
	B. Statement of income	7
	C. Capital and surplus account	8
4.	Losses and loss adjustment expenses	8
5.	Article 70 compliance	9
6.	Organizational structure	9
7.	Summary of comments and recommendations	10



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

February 13, 2015

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31237 dated October 24, 2014, attached hereto, I have made an examination into the condition and affairs of RF Casualty Insurance Company as of December 31, 2013, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate RF Casualty Insurance Company. Wherever the designation “the Parent Companies” appears herein without qualification, it should be understood to refer collectively to 345 Park Avenue L.P. and 415 Madison Inc.

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 the Company's inception through December 31, 2013, 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 Department, and was in compliance with Article 70 of the New York Insurance Law ("the Law").

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

The examination relied on the audit work performed by the Company's independent certified public accountant 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 March 18, 2008 and commenced business on May 1, 2008. The Company is a wholly-owned subsidiary of the Parent Companies (76% and 24% ownership for 345 Park Avenue L.P. and 415 Madison Inc., respectively). The Parent Companies are in turn owned and controlled by the Rudin family, which has significant real estate holdings in the City of New York.

A. Articles of Incorporation

The Company was 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 except as is stated in Item 2F(ii) of this report.

C. Capital Structure

As a pure captive insurance company incorporated as a stock insurer, the Company is required to maintain surplus as regards policyholders of not less than \$250,000, of which \$100,000 shall represent paid in capital pursuant to the provisions of Section 7004(a)(1) of the Law.

As of December 31, 2013, the Company's paid in capital was \$15,250,000 consisting of 100,000 shares of common stock with a par value of \$1 per share and an additional paid in capital amount of \$15,150,000. The Company also had accumulated earnings of \$2,789,808, for a total capital and surplus (surplus as regards policyholders) of \$18,039,808.

D. Corporate Records

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

E. Operations

Effective May 1, 2008, RF Casualty Insurance Company provided terrorism insurance coverage due to, caused by or solely involving "Nuclear, Biological, Chemical and Radiological" risks, for the Rudin Management Company, Inc. and the affiliated companies listed in the policy. The policy had a limit of \$100,000,000 for any one occurrence with no annual aggregate limit. Effective January 1, 2013, the limit per occurrence was increased to \$130,000,000. Effective January 1, 2014 the limit per occurrence was increased to \$260,000,000. The terrorism insurance policy covered properties damaged resulting from acts of terrorism, as defined under the Terrorism Risk Insurance Program Reauthorization Act of 2007("TRIPRA 2007"). Under TRIPRA 2007, the Company would be reimbursed for 85% of terrorism losses that exceeded a statutorily established deductible. The Company would retain both the statutorily established deductible and the remaining 15% of losses.

F. Management and Control

(i) Captive Manager

Section 7003(b)(4) of the 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 the Company's inception, it has been managed by Willis of New York, Inc. ("Willis"), which is licensed by the Department as a broker for captive insurance companies.

Pursuant to a management agreement, effective February 27, 2008, Willis has the responsibility for providing the Company with underwriting, administrative and other general management and operational services for a fee. The captive manager also assists the Company in complying with the rules, regulations and laws of the State of New York and with the preparation of the annual financial report required by the Department.

(ii) Board of Directors

Pursuant to the Company's by-laws, management of the Company is vested in a board of directors consisting of not less than three and not more than ten members, of which, at least two shall at all times be residents of New York State. At December 31, 2013, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
William Rudin New York , NY	Vice Chairman and Chief Executive Officer, Rudin Management Company, Inc.
Eric Rudin New York, NY	Vice Chairman and President, Rudin Management Company, Inc.
Jeffrey Steinman New York, NY	Senior Vice President, Rudin Management Company, Inc.

An examination review found that the Company held annual board of directors meetings in this state for the years 2012 and 2013, and that the meeting minutes indicated that they were well attended. For the years 2008 through 2011, however, the Company did not hold any board of director's meetings.

Section 7003(b)2 of the Law states that no captive insurer shall do any captive insurance business in this state unless its board of directors hold at least one meeting each year in this state.

Similarly, Article II Section 6 of the Company's by-laws states, that board of directors shall hold at least one meeting each year in the State of New York.

It is recommended that the Company comply with Section 7003(b)(2) of the New York Insurance Law and Article II, Section 6 of its own by-laws, and hold at least one meeting of its board of directors annually in New York State.

(iii) Officers

As of December 31, 2013, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Eric Rudin	President
William Rudin	Executive Vice President
Jeffrey Steinman	Executive Vice President
Sidney Migdon	Secretary
David Levy	Treasurer

G. Certified Public Accountant ("CPA")

The Company was audited by the independent CPA firm Johnson Lambert & Co. LLP. for the years 2008 through 2013. In the Company's audited financial statement at December 31, 2013, Johnson Lambert states the following:

"In our opinion, the financial statements... present fairly, in all material respects, the financial position of RF Casualty Insurance Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America."

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 Sheet

Assets

Cash	\$18,028,449
Federal income tax receivable	<u>34,000</u>

Total assets	<u>18,062,449</u>
--------------	-------------------

Liabilities

Accounts payable and accrued expenses	<u>22,641</u>
---------------------------------------	---------------

Total liabilities	\$22,641
-------------------	----------

Capital and Surplus

Common stock	100,000
Additional paid-in capital	15,150,000
Surplus (accumulated earnings)	<u>2,789,808</u>

Total capital and surplus	<u>\$18,039,808</u>
---------------------------	---------------------

Total liabilities and capital surplus	<u>\$18,062,449</u>
---------------------------------------	---------------------

B. Statement of Income

The Company's net income for the examination period was \$2,789,808, detailed as follows:

Underwriting Income

Net premiums earned		\$3,043,250
---------------------	--	-------------

Deductions:

General and administrative expenses	321,412	
Policy acquisition expenses	<u>55,654</u>	

Total underwriting deductions		<u>377,066</u>
-------------------------------	--	----------------

Net underwriting gain or (loss)		\$2,666,184
---------------------------------	--	-------------

Investment Income

Investment income		<u>141,312</u>
-------------------	--	----------------

Net income before tax		\$2,807,496
-----------------------	--	-------------

Federal income tax expenses		<u>17,688</u>
-----------------------------	--	---------------

Net income		<u>\$2,789,808</u>
------------	--	--------------------

C. Capital and Surplus Account

The Company's capital and surplus increased \$18,039,808 during the period covered by this examination, detailed as follows:

Capital and surplus as of May 1, 2008			\$0
	Increase in <u>surplus</u>	Decrease in <u>surplus</u>	
Net income	\$2,789,808	\$0	
Issuance of common stock	100,000	0	
Capital contribution	<u>15,150,000</u>	<u>0</u>	
Total increases and decreases in surplus	\$18,039,808	\$0	
Net increase in surplus			<u>18,039,808</u>
Capital and surplus as of December 31, 2013			<u>\$18,039,808</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2013, the Company reported total loss and loss adjustment expense reserves of \$0. The Company's opining actuarial firm, Willis Casualty Actuary Practices, stated the following in its Statement of Actuarial Opinion:

"In my opinion, based on the information provided by Willis Captive Management and RF Casualty Insurance Company, the \$0 loss and loss expense reserve amount carried on the balance sheet as of 12/31/13 make reasonable provision for all unpaid loss and loss expense obligations for RF Casualty Insurance Company. Totally, in my opinion, the amount on account of the item identified:

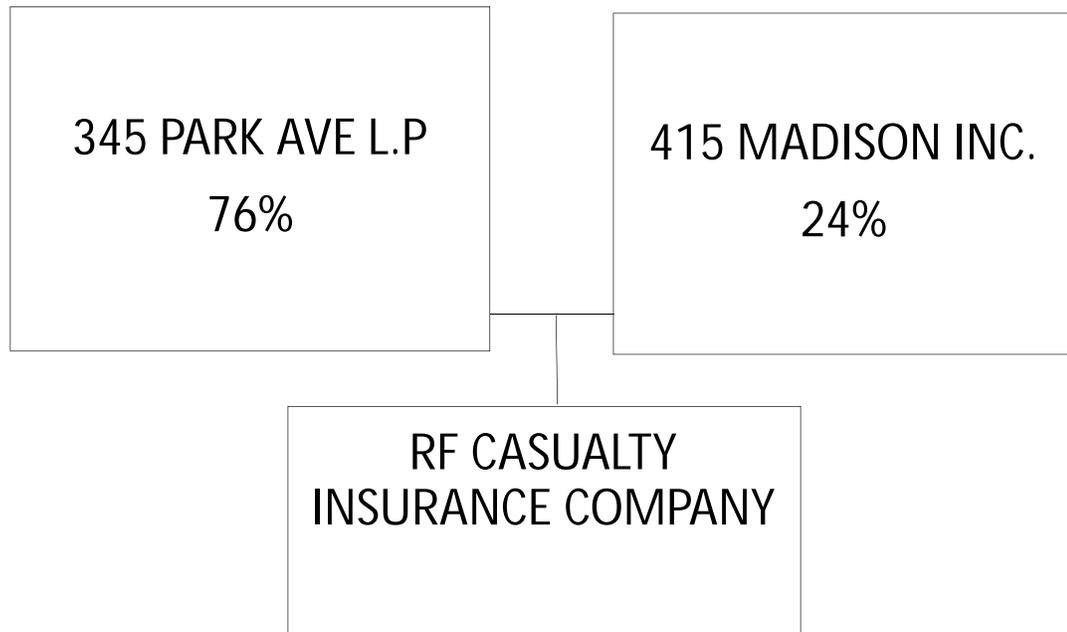
- Meet the relevant requirements of the insurance laws of New York.
- Are computed in accordance with accepted actuarial standards and principles.
- Make a reasonable provision in the aggregate for all unpaid losses and loss adjustment expenses obligations of the Company under the terms of its contracts and agreements."

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. Other than a reference to this Article that has been noted in this report, no significant areas of non-compliance were found.

6. ORGANIZATIONAL STRUCTURE

The organizational chart for RF Casualty Insurance Company, as of December 31, 2013 is as follows:



7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS****ITEM****PAGE NO.****Management and Control**

It is recommended that the Company comply with Section 7003(b)(2) of the New York Insurance Law and Article II, Section 6 of its own by-laws, and hold at least one meeting of its board of directors annually in New York State.

5

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 _____, 2015.

APPOINTMENT NO. 31237

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:

Wei Cao

as a proper person to examine the affairs of the

RF Casualty Insurance Company

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 24th day of October, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By:



Rolf Kaumann
Deputy Chief Examiner