

REPORT ON EXAMINATION

OF THE

LCT INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT

JUNE 17, 2016

EXAMINER

WEI CAO

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

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

June 17, 2016

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31440 dated March 10, 2016, attached hereto, I have made an examination into the condition and affairs of LCT Insurance Company 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 LCT Insurance Company. Wherever the designation "Tiffany" or "the Parent" appears herein without qualification, it should be understood to indicate Tiffany & Co.

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 Department and 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 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 January 30, 2004 and commenced business on January 31, 2004. The Company is a wholly-owned subsidiary of Tiffany & Co., a premier jeweler and house of design since 1837, incorporated in Delaware.

### 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 as set-forth in Article 70 of the Law.

### B. By-Laws

A review determined that the Company was, in all material respects, in compliance with its by-laws.

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, 2014, the Company's paid-in capital was \$250,000,000 consisting of 100,000 shares of \$1 par value per share common stock and an additional paid-in capital amount of \$249,900,000. The Company had accumulated retained earnings of \$145,115,061 and \$5,940,653 in other surplus related items for a total capital and surplus of \$401,055,714.

D. Corporate Records

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

E. Operations

During the period covered by this examination, the Company provided an integrated risks policy which is claims-made coverage for Acts of Terrorism and Nuclear, Biological, Chemical and Radiological exposures for Tiffany. Additionally, the integrated risks policy includes deductible reimbursement associated with coverage provided by third party policies. These policies include coverages for inventory, real and personal property, income loss & extra expense as well as the Tiffany Diamond. The details are as follows:

<u>Lines of business</u>	<u>Coverage</u>	<u>Policy Limits</u>	<u>Deductible</u>
Deductible BuyDown ó Jewelers Block	Inventory	\$1,250,000	-
Deductible BuyDown ó Property	Property	\$5,000,000	-
Deductible BuyDown ó Jewelers Block (TRIPRA)	Inventory	\$1,000,000	-
TRIPRA - jewelers block (US location)	Inventory	\$250,000,000	\$25,000,000
Non-TRIPRA - jewelers block (US locations)	Inventory	\$275,000,000	-
Non-TRIPRA-jewelers block (International locations)	Inventory	\$175,000,000	-

<u>Lines of business</u>	<u>Coverage</u>	<u>Policy Limits</u>	<u>Deductible</u>
Non-TRIPRA Property/business interruption (Worldwide)	Real & Personal Property, Income loss & Extra Expense	\$400,000,000	\$100,000,000
Nuclear, Biological Chemical & Radiological - Property (Worldwide locations)	Real & Personal Property, Income loss & Extra Expense	\$500,000,000	-
Nuclear, Biological Chemical & Radiological - jewelers block (Worldwide locations)	Real & Personal Property, Income loss & Extra Expense	\$275,000,000	-
TRIPRA	Tiffany Diamond	\$28,000,000	-
Non-TRIPRA	Tiffany Diamond	\$28,000,000	-

### TRIPRA

The Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA), signed into law on December 26, 2007, extends the federal terrorism insurance backstop created by the Terrorism Risk Insurance Act (TRIA) through December 31, 2014. TRIA was enacted in 2002 to provide a backstop by having the federal government reimburse insurers for 85% of claims caused by a Certified Act of Terrorism (when an act of terrorism reaches certain thresholds and criteria and is certified by the Treasury Secretary, in concurrence with the Secretary of State and the Attorney General). TRIA was extended in 2005 as the Terrorism Risk Insurance Extension Act before being reauthorized as TRIPRA.

Subsequent to the examination date on January 12, 2015, the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA 2015) was enacted. This extended the federal backdrop program for an additional six years through December 31, 2020. Beginning in 2016, TRIPRA 2015 decreases the federal government's participation from 85% to 80% by 1% increments per year.

#### 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.

The Company has been managed by Marsh Management Services Inc. (öMarshö) since October 1, 2011. Marsh is authorized to act as a manager for captive insurance companies by the Department. Prior to October 1, 2011, the Company was managed by Willis Management, Ltd.

Pursuant to a management agreement, effective October 1, 2011, Marsh has the responsibility for providing the Company with recordkeeping, underwriting and other general management and operational services for a fee. These responsibilities also include assisting the Company in complying with the rules, regulations and requirements of the Law and advising it on Insurance programs.

(ii) Board of Directors

Pursuant to its by-laws, management of the Company is vested in a board of directors consisting of not less than three members, two of whom shall be residents of New York State. At December 31, 2014, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Leigh Marie Harlan New York, NY	Associate General Counsel, Tiffany & Co.
Mark L. Aaron New York, NY	Vice President, Tiffany & Co
Michael W. Connolly Glen Gardner, NJ	Vice President & Treasurer, Tiffany & Co

In accordance with its by-laws and Section 7003(b)(2) of the Law, the board of directors met once every year during the period covered by this examination. A review of the meetings minutes indicated that all board meetings were well attended.

(iii) Officers

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

<u>Name</u>	<u>Title</u>
Leigh M. Harlan	President
Michael W. Connolly	Treasurer
Mark L. Aaron	Secretary

G. Certified Public Accountant (CPA)

Saslow Lufkin & Buggy, LLP was the Company's independent certified public accounting firm for the period covered by this examination. The CPA stated that the Company's consolidated statutory basis financial statements presented fairly, in all material respects, the financial position of the Company at December 31, 2014.

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

Cash	\$4,847,873	
Stock	50,873,462	
Investments in and advances to affiliates	352,129,751	
Prepaid expenses	324	
Deferred policy acquisition costs	<u>2,309</u>	
Total assets		<u>\$407,853,719</u>

Liabilities

Unearned premiums	\$577,349	
Taxes payable	4,704,703	
Commissions, expenses and fees	73,111	
Deferred tax liability	<u>1,442,842</u>	
Total liabilities		<u>\$6,798,005</u>

Capital and Surplus

Common stock	\$100,000	
Contribute surplus	249,900,000	
Unrealized gain on investment	2,679,563	
Minority interest	3,261,090	
Retained earning	<u>145,115,061</u>	
Total capital and surplus		<u>\$401,055,714</u>
Total liabilities, capital and surplus		<u>\$407,853,719</u>

B. Statement of Income

The Company's net income for the examination period was \$47,940,247 as detailed below:

STATEMENT OF INCOMEUnderwriting Income

Net premiums earned		\$36,940,858
Deductions:		
Losses and loss adjustment expenses	3,902,789	
General and administrative expenses	714,393	
Other underwriting expenses	<u>214,522</u>	
Total underwriting deductions		<u>4,831,704</u>
Net underwriting gain		\$32,109,154
Investment income	<u>41,248,079</u>	
Net investment gain		<u>41,248,079</u>
Net Income before tax		73,357,233
Federal income taxes		<u>25,416,986</u>
Net income		<u>\$47,940,247</u>

C. Capital and Surplus Account

The Company's capital and surplus increased \$53,591,201 during the five-year period covered by this examination, detailed as follows:

Capital and surplus as of January 1, 2010			\$347,464,513
	Increase in <u>Surplus</u>	Decrease in <u>Surplus</u>	
Net income	\$47,940,247	\$0	
Unrealized gain on investment	4,378,430		
Minority interest	321,848		
Prior examination adjustment	952,989		
Transfer to surplus	_____	<u>2,313</u>	
Total increases and decreases	<u>\$53,593,514</u>	<u>\$2,313</u>	
Net increase in surplus			<u>53,591,201</u>
Capital and surplus as of December 31, 2014			<u>\$401,055,714</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2014, the Company reported total loss and loss adjustment expense reserves of \$0. The Company's opinioning actuarial firm, Marsh Management Services Inc., noted in its Statement of Actuarial Opinion that the reserves met the relevant requirements of the insurance laws of New York and were computed in accordance with commonly accepted actuarial methods. It also noted that a reasonable provision was made for all unpaid losses and loss adjustment expenses under the term of the Company's policies.

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 compliance review was and no significant areas of non-compliance were found.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations in this report.

Respectfully submitted,

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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.

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Wei Cao

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2016.

*APPOINTMENT NO. 31440*

*NEW YORK STATE*

***DEPARTMENT OF FINANCIAL SERVICES***

*I, Maria T. Vullo, 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*

***LCT Insurance Company***

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

***COMPANY***

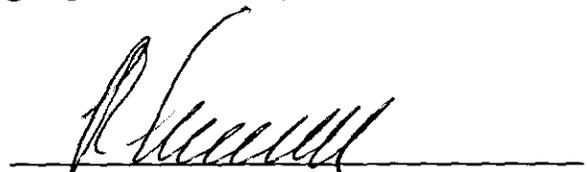
*with such other information as she shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York*

*this 10th day of March, 2016*

*Maria T. Vullo  
Acting Superintendent of Financial Services*

By:



*Rolf Kaumann  
Deputy Chief Examiner*

