

REPORT ON EXAMINATION

OF THE

INWOOD INSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2016

DATE OF REPORT

APRIL 26, 2018

EXAMINER

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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

April 26, 2018

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31708 dated January 31, 2018, attached hereto, I have made an examination into the condition and affairs of Inwood Insurance Company, Inc. as of December 31, 2016, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Inwood Insurance Company, Inc. Wherever the designation “the Parent” appears herein without qualification, it should be understood to indicate Tishman Speyer Properties, L.P.

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 incorporation on October 13, 2011 through December 31, 2016, and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis. Transactions occurring subsequent to this period were review 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 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 October 13, 2011 and commenced business on October 19, 2011. The Company is a wholly-owned subsidiary of Tishman Speyer Properties, L.P.

Tishman Speyer Properties, L.P. is one of the leading owners, developers, operators and fund managers of first class real estate worldwide. Inwood Insurance Company, Inc. provides Nuclear, Biological, Chemical and Radiological ("NBCR") terrorism coverage for certain buildings in its parent company's portfolio.

### 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 insurance company incorporated as a stock insurer, the Company is required to maintain a total 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, 2016, the Company's paid-in capital was \$900,000, consisting of 100,000 shares of common stock with a par value of \$1 per share and paid-in capital of \$800,000. The Company had retained earnings of \$8,720,729 for a total capital and surplus (surplus as regards policyholders) of \$9,620,729.

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 did not assume nor cede any business.

The Company provides the Parent with terrorism insurance coverage that insures against all risks of direct physical damage and time element, except as excluded, to tangible insured property on the insured locations.

The coverage limit is \$2,000,000,000 per occurrence for loss, damage or destruction to properties caused by a "certified act of terrorism," solely due to a NBCR event. A certified act of terrorism, is an event that meets criteria detailed in the Terrorism Risk Insurance Act of 2002 and its subsequent reauthorization as the Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA"). An act is certified as such by the U.S. Treasury Secretary, in consultation with Secretary of Homeland Security and the U.S. Attorney General.

TRIPRA is a federal terrorism insurance backstop program that was established as a temporary public/private risk-sharing plan to cover losses caused by a terrorist act. Under this program the federal government assists private insurers in compensating insureds for these losses. In order to qualify (1) the act must be certified as a terrorist act and cause insured losses in excess of a stipulated amount and (2) the insurer must pay a statutorily established deductible amount. The program, as originally organized, reimbursed insurers for 85% of insured losses incurred from a certified act of terrorism.

TRIPRA has been reauthorized three times since its inception, with the latest iteration being signed on January 12, 2015, which extends the program until December 31, 2020. On January 1, 2016, the federal government began the process of decreasing its participation in the plan from 85% down to 80%. This would be done by annual 1% reductions ending on January 1, 2020. As a result, on December 31, 2016, the federal government reimburses insurers for 84% of incurred losses while the Company retains 16%.

Although the Company was operating within its original business plan, the examination's review found that it was not adequately capitalized to cover the terrorism risk written for the Parent. At December 31, 2016, the Company's net terrorism exposure was \$320 million (16% of \$2 billion), while its total capital and surplus was only \$9.6 million. This creates a condition that is unacceptable to the Department.

**It is recommended that the Company maintain surplus to policyholders that is commensurate with a potential large loss event for the net terrorism exposure retained.**

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 this State that is licensed as an agent or broker under the provisions of the Article 21 of the Law, or any other person approved by the Superintendent.

During the period covered by this examination, the Company was managed by Willis of New York, Inc. ("Willis") which is authorized to act as a manager for captive insurance companies by the Department.

Pursuant to a management agreement, effective October 1, 2011, Willis has the responsibility for providing the Company with underwriting, policyholder, claims, and other general management and operational services for a fee. These responsibilities include assisting the Company in complying with the rules, regulations and requirements of the Law, maintaining true and complete books of account and records for all business conducted under this agreement.

(ii) Board of Directors

Pursuant to the Company's by-laws, the Company shall fix the number of Directors at no fewer than three nor more than ten members, at least two of whom shall be residents of New York State. At December 31, 2016, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Michael B. Benner Bronxville, NY	Secretary, Tishman Speyer Properties, L.P.
Joseph G. Doran New York, NY	Treasurer, Tishman Speyer Properties, L.P.
Jerry I. Speyer New York, NY	President, Tishman Speyer Properties, L.P.

In accordance with its by-laws and Section 7003(b)(2) of the Law, the board of directors met once annually. A review indicated that the meetings were well attended.

(iii) Officers

As of December 31, 2016, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Robert J. Speyer	President
Michael B. Benner	Vice President & Secretary
Joseph G. Doran	Vice President & Treasurer

G. Certified Public Accountant ("CPA")

During the period covered by this examination, annual audits of the Company were completed by its independent certified public accounting firm, Ernst & Young. The CPA stated that the Company's audited financial statement presented fairly, in all material respects, its financial position at December 31, 2016.

3. FINANCIAL STATEMENTSA. Balance Sheet

The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America, as of December 31, 2016:

Assets

Cash	\$10,749,785	
Deferred policy acquisition cost	17,288	
Deferred tax assets	600,863	
Prepaid expenses	37,500	
Federal income tax receivable	<u>36,785</u>	
Total assets		<u>\$11,442,221</u>

Liabilities

Unearned premiums	\$1,774,874	
Accrued expenses	39,950	
Tax payable	<u>6,668</u>	
Total liabilities		\$1,821,492

Capital and Surplus

Common stock	\$100,000	
Paid in capital	800,000	
Retained earnings	<u>8,720,729</u>	
Total capital and surplus		<u>\$9,620,729</u>
Total liabilities, capital and surplus		<u>\$11,442,221</u>

B. Statement of Income

The Company's net income for the period covered by this examination was \$8,720,729, as detailed below:

STATEMENT OF INCOME

Underwriting Income

Net premiums earned		\$14,018,629
Deductions:		
Policy acquisition costs incurred	\$147,197	
General and administrative expenses	599,460	
Interest and penalty expenses	16,070	
Other expense	<u>33,968</u>	
Total underwriting deductions		<u>796,695</u>
Net underwriting income		\$13,221,934
Income taxes		<u>(4,501,205)</u>
Net income		<u>\$8,720,729</u>

C. Capital and Surplus Account

The Company's capital and surplus increased by \$9,620,729, during the period covered by this examination, detailed as follows:

Capital and surplus as of October 13, 2011			\$0
	Increases in <u>surplus</u>	Decreases in <u>surplus</u>	
Net income	\$8,720,729	\$0	
Common stock	100,000		
Paid in capital	<u>800,000</u>	_____	
Total increases and decreases in surplus	<u>\$9,620,729</u>	<u>\$0</u>	
Net increase in surplus			<u>9,620,729</u>
Capital and surplus as of December 31, 2016			<u>\$9,620,729</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

During the period covered by this examination, the Company did not file an actuarial report with the Department because the Company stated that there was no known or reported loss during the period covered by this examination.

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. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Operations</u>	
	It is recommended that the Company maintain surplus to policyholders that is commensurate with the potential large loss event for the net terrorism exposure retained.	4

Respectfully submitted,

\_\_\_\_\_/S/  
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.

\_\_\_\_\_/S/  
Wei Cao

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2018.

*NEW YORK STATE*

*DEPARTMENT OF FINANCIAL SERVICES*

*I, Maria T. Vullo, 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*

***Inwood 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 31th day of January, 2018*

*MARIA T. VULLO  
Superintendent of Financial Services*

*By: Joan M. Riddell*  
*Joan Riddell  
Deputy Bureau Chief*

