

REPORT ON EXAMINATION

OF THE

TSI INSURANCE, INC.

AS OF

DECEMBER 31, 2016

DATE OF REPORT

JUNE 27, 2018

EXAMINER

WEI CAO

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## Department of Financial Services

ANDREW M. CUOMO  
Governor

LINDA A. LACEWELL  
Superintendent

July 17, 2019

Honorable Linda A. Lacewell  
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 Number 31718 dated April 3, 2018, attached hereto, I have made an examination into the condition and affairs of TSI Insurance, 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 TSI Insurance, Inc. Wherever the designation “the Parent” appears herein without qualification, it should be understood to indicate Town Sports International, LLC.

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 its January 1, 2012 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 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 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 December 17, 2002 and commenced business on December 31, 2002. The Company is a wholly-owned subsidiary of Town Sports International, LLC, which is in turn wholly-owned by Town Sports International Holdings, Inc.

The Company provides various insurance coverages to Town Sports International, LLC and all its subsidiaries.

### 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 \$313,099, consisting of 100,000 shares of common stock with a par value of \$1 per share and paid-in capital of \$213,099. The Company had retained earnings of \$33,735,635 for a total capital and surplus (surplus as regards policyholders) of \$34,048,734.

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.

As of December 31, 2016, the Company provided the following insurance coverage to its parent and all of its subsidiaries:

<u>Type of coverage</u>	<u>Policy period</u>	<u>Policy limit</u>	<u>Premium</u>
Integrated Risk Policy:			
Excess Property Coverage	January 1, 2016 to January 1, 2017	\$75,000,000 in excess of \$25,000,000 per occurrence	\$150,000
Excess Sabotage and Terrorism including War Risk Coverage	January 1, 2016 to January 1, 2017	\$200,000,000 per occurrence	\$5,750,000
Reputation Risk	January 1, 2016 to January 1, 2017	\$20,000,000 per occurrence with \$10,000,000 deductible and annual aggregate limit of \$20,000,000	\$1,500,000

<u>Type of coverage</u>	<u>Policy period</u>	<u>Policy limit</u>	<u>Premium</u>
<u>Contractual Indemnification Policy:</u>			
General Liability	January 1, 2016 to June 30, 2016	\$500,000 per occurrence with no annual aggregate	\$1,117,055
General Liability	July 1, 2016 to June 30, 2017	\$500,000 per occurrence with no annual aggregate	\$2,203,500

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.

The Company was managed by Aon Insurance Manager, Inc. for the year of 2011 to 2015. As of December 31, 2016, the Company was managed by Marsh Management Company, Inc. (“Marsh”) which is authorized to act as a manager for captive insurance companies by the Department.

Pursuant to a management agreement, effective May 5, 2016, Marsh has the responsibility for providing the Company with 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 and 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, management of the Company is vested in a board of directors consisting of not less than three members nor more than ten members, of which 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 four members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Nitin Ajmera Baldwin, NY	Senior Vice President, Town Sports International, LLC
Kieran Sikso New York, NY	Vice President of Finance, Town Sports International, LLC
Carolyn Spatafora Smithtown, NY	Chief Finance Officer, Town Sports International, LLC
Patrick Walsh Jupiter, FL	Chief Executive Officer, Town Sports International, LLC

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>
Patrick Walsh	President
Carolyn Spatafora	Vice President
Nitin Ajmera	Treasurer
Kieran Sikso	Secretary

G. Certified Public Accountant

Saslow Lufkin & Buggy, LLP was the Company's independent public accounting firm for the years 2012 to 2014. It was replaced by the independent accounting firm Crowe Horwath LLP ("Crowe") in 2015. Crowe completed the Company's audits for the years 2015 to 2016. At December 31, 2016, Crowe stated that in its opinion, the Company's financial statements presented fairly, in all material respects, the consolidated financial position of TSI Insurance, Inc. and its subsidiaries.

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.

Assets

Cash	\$ 275,868	
Accounts receivable	52,269	
Notes receivable from related party	<u>50,384,643</u>	
Total assets		<u>\$50,712,780</u>

Liabilities

Unearned premiums	\$ 1,101,750	
Unpaid losses and LAE	6,976,059	
Other payable	<u>8,586,237</u>	
Total liabilities		<u>\$16,664,046</u>

Capital and Surplus

Common stock	\$ 100,000	
Paid in capital	213,099	
Retained earnings	<u>33,735,635</u>	
Total capital and surplus		<u>\$34,048,734</u>
Total liabilities, capital and surplus		<u>\$50,712,780</u>

B. Statement of Income

The Company's net income for the examination period was \$102,206,359 as detailed below:

Underwriting Income

Net premiums earned		\$ 80,404,805
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Deductions:

Loss and LAE	\$10,187,359	
Maintenance fee	16,284,578	
Policy acquisition costs incurred	321,619	
General and administrative expenses	<u>892,803</u>	

Total underwriting deductions		<u>27,686,359</u>
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Net underwriting income		\$ 52,718,446
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Investment income

Total investment income		1,171,592
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Other income

Total other income		<u>65,541,120</u>
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Total net income before income taxes		\$119,431,158
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Income taxes		<u>17,224,799</u>
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Net income		<u>\$102,206,359</u>
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C. Capital and Surplus Account

The Company's capital and surplus decreased \$20,320,935 during the period covered by this examination, detailed as follows:

Capital and surplus as of January 1, 2012			\$54,369,669
	<u>Increases in</u> <u>Surplus</u>	<u>Decreases in</u> <u>Surplus</u>	
Net Income	\$102,206,359		
Dividends to Parent	_____	\$ <u>122,527,294</u>	
Total increases and decreases in surplus	<u>\$102,206,359</u>	<u>\$122,527,294</u>	
Net decrease in surplus			<u>20,320,935</u>
Capital and surplus per report on examination as of December 31, 2016			<u>\$34,048,734</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2016, the Company reported total unpaid loss and loss adjustment expense reserves of \$6,976,059. The Company's opining actuarial firm, Marsh Management Services Inc., stated in its Statement of Actuarial Opinion that the Company's statutory reserves met the requirements of the Law and were computed in accordance with accepted actuarial standards and principles. It also noted that carried reserves made reasonable provision in the aggregate for all unpaid loss and loss adjustment expense 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. No significant areas of non-compliance were found.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendation in this report.

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 \_\_\_\_\_, 2019.



APPOINTMENT NO. 31718

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

**TSI Insurance, 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.

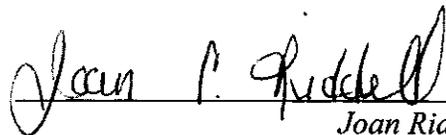
In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York

this 3rd day of April, 2018

MARIA T. VULLO  
Superintendent of Financial Services



By:



Joan Riddell  
Deputy Bureau Chief