

REPORT ON EXAMINATION

OF THE

TERMINUS INSURANCE, INC.

AS OF

DECEMBER 31, 2013

DATE OF REPORT

September 9, 2015

EXAMINER

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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

September 9, 2015

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31241 dated October 24, 2014, attached hereto, I have made an examination into the condition and affairs of Terminus Insurance, Inc. 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 Terminus Insurance, Inc. Wherever the designation “the Parent” appears herein without qualification, it should be understood to indicate Credit Suisse (USA), 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 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 accountants 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 September 23, 2008, and commenced business on November 13, 2008. The Company is a wholly-owned subsidiary of Credit Suisse (USA), Inc. Prior to October 31, 2013, the Company was a wholly-owned subsidiary of Credit Suisse Holding (USA), Inc. The Company is ultimately owned by Credit Suisse Group AG, a corporation organized under the laws of Switzerland.

A. Articles of Incorporation

The Company was organized to transact the kinds of insurance specified in Section 1113(a) of the 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 revealed 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 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 New York Insurance Law.

As of December 31, 2013, the Company's paid-in capital was \$250,000, consisting of 100,000 shares of \$1 par value per share common stock and an additional paid-in-capital amount of \$150,000. The Company had accumulated earnings of \$790,388 for a total capital and surplus of \$1,040,388.

D. Corporate Records

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

E. Operations

As of December 31, 2013, the Company provided Terrorism and/or Sabotage Insurance for property losses arising out of various perils including nuclear, biological, chemical and radiological (NBCR) risks with limits of \$1.5 billion per occurrence and in the aggregate. The policy also provides a sublimit of \$225 million for non-United States terrorism losses.

The September 11, 2001, terrorist attacks created a severe market shortage for terrorism insurance. As a result, Congress passed the Terrorism Risk Insurance Act ("TRIA"), which provided a federal "backstop" for insurance claims related to terrorism events in the United States, as defined under TRIA. The Act became law on November 26, 2002, and has since been extended and modified on several occasions. In 2007 the Act was renamed the Terrorism Risk Insurance Program Reauthorization Act of 2007 ("TRIPRA 2007"). The Act was effective until December 31, 2014. Under TRIPRA 2007 the federal government would pay 85% of terrorism losses, after aggregate insured losses across all impacted insurers exceeded a threshold disclosed in the Act and after affected insurers would pay a statutorily established deductible. The deductible equaled 20% of the insurers' direct earned premium from the previous calendar year. Subsequent to the examination date, on January 12, 2015, the President signed into law the Terrorism Risk Insurance Program Reauthorization Act of 2015 ("TRIPRA 2015"). TRIPRA 2015 increases the trigger for the federal share of

compensation for non-NBCR acts of terrorism. The trigger increases \$20,000,000 annually beginning January 1, 2016, until it reaches \$200,000,000 by the year of 2020. Additionally, under TRIPRA 2015, the federal government's share of insured losses gradually decreases from 85% to 80%, dropping one percent annually beginning on January 1, 2016.

For non-NBCR risks, the Company was fully reinsured by Lloyd's of London Syndicates for the 15% of terrorism losses not covered under TRIPRA 2007, the 20% deductible, losses below the \$100 million TRIPRA threshold and non-United States losses for the full \$225 million sublimit. The only retention the Company has is for NBCR risks.

During the examination period, the Company provided the Parent and all of its subsidiaries with global property and boiler and machinery insurance coverage, with a limit of 10% quota share of \$1 billion, in excess of retention and a 4% quota share of \$800 million, in excess of \$200 million, excess of retention.

Effective March 1, 2012, the Company expanded its global property insurance to cover the entire \$1 billion in excess of retentions, in all territories except Switzerland. For Switzerland the Company's coverage was \$800 million per occurrence and in the aggregate, in excess of \$200 million per occurrence and in the aggregate, as illustrated below:

Risk	Policy limits	Ceded	Retention
All risk property Boiler & Machinery Policy (except Switzerland)	\$1 billion excess of deductible	100% ceded to a panel of reinsurers	\$250,000
All risk property Boiler & Machinery Policy (Switzerland)	\$800 million per occurrence and in the aggregate in excess of \$200 million per occurrence and in the aggregate	100% ceded to a panel of reinsurers	50,000 Swiss Francs

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 the Article 21 of the Law, or any other person approved by the Superintendent.

Since the Company's inception, it has been managed by Aon Insurance Managers (USA), Inc. ("Aon"), which is authorized to act as a manager for captive insurance companies by the Department.

Pursuant to a management agreement, Aon shall provide administrative and general management services. These services include assisting the Company in complying with the rules, regulations and requirements of the Captive Act. Aon will maintain the Company's books and records in accordance with established accounting principles applicable to the business of insurance. The captive manager will also prepare statistical and other reports, including all financial statements, the annual financial report required by the Department, and the underwriting results of any insurance or reinsurance assumed or ceded.

(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 directors, of which two shall 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>
Timothy McAlindin Fanwood, NJ	Managing Director, Credit Suisse, Inc.
Robert Dahling Katonah, NY	Director, Credit Suisse, Inc.
Christopher Joneleit Williston Park, NY	Director, Credit Suisse, Inc.

Two of the board members are residents of New York as required by Section 7005(g) of the New York Insurance Law.

During the examination period the board of directors met annually in New York. A review of the minutes of these meetings determined that all board meetings were well attended.

(iii) Officers

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

<u>Name</u>	<u>Title</u>
Timothy McAlindin	President
Robert Dahling	Vice President
Peter J. Feeney	Treasurer
Nancy Gray	Secretary
Richard Curran	Bank Account Officer

G. Certified Public Accountant (“CPA”)

During the examination period, the Company was audited by the independent CPA firm KPMG, LLP., 99 High Street, Boston, MA 02110. In the Company’s audited financial statement at December 31, 2013, the CPA states the following:

“In our opinion, the financial statements... present fairly, in all material respects, the financial position of Terminus Insurance, Inc. 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 U.S. generally accepted accounting principles.”

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	\$1,183,946
Premiums receivable from Parent	3,862,255
Prepaid reinsurance premium	4,464,326
Deferred policy acquisition cost	20,118
Deferred income taxes	197,740
Reinsurance receivable	45,204
Other assets	<u>96</u>

Total Assets	<u>\$9,773,685</u>
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Liabilities

Unearned ceding commission	\$79,394
Unearned premium	5,029,296
Reinsurance Premium payable	3,449,967
Accrued expenses	35,425
Due to affiliate	319
Losses payable	45,204
Federal income tax payable to Parent	<u>93,692</u>

Total liabilities	\$8,733,297
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Capital and Surplus

Common stock	\$100,000
Additional paid-in capital	150,000
Surplus (accumulated earnings)	<u>790,388</u>

Total capital and surplus	<u>1,040,388</u>
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Total liabilities and capital surplus	<u>\$9,773,685</u>
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B. Statement of Income

The Company's net income for the examination period \$790,388 as detailed below:

STATEMENT OF INCOMEUnderwriting Income

Net premiums earned		\$1,775,324
Deductions:		
Policy acquisition expenses	\$56,605	
General and administrative expenses	623,577	
Total underwriting deductions		<u>680,182</u>
Net underwriting gain or (loss)		\$1,095,142
Ceding commission income earned	<u>120,839</u>	
Net income before tax		\$1,215,981
Federal income tax expenses		<u>425,593</u>
Net income		<u>\$790,388</u>

C. Capital and Surplus Account

The Company's capital and surplus increased \$1,040,388 during the examination period as detailed below:

Capital and surplus as of September 23, 2008			\$0
	<u>Gains in surplus</u>	<u>Losses in surplus</u>	
Net income	\$790,388		
Issuance of common stock	100,000		
Additional paid in capital	<u>\$150,000</u>		
Net increase in surplus			<u>1,040,388</u>
Capital and surplus as of December 31, 2013			<u>\$1,040,388</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 actuary, Aon Global Risk Consulting, 2711 North Haskell Ave., Dallas, TX 75204, stated the following in its Statement of Actuarial Opinion:

"The Company has stated loss and loss expense reserves of \$0 on a net of reinsurance basis and \$0 on gross basis, as of December 31, 2013. There was one loss reported during year 2012 and was paid and closed as of year-end 2013. The loss was 100% reinsured by a panel of reinsurers. My opinion consists of four conclusions about the reserve amounts listed:

- They meet the requirements of the captive insurance laws of New York.
- They were consistent with accepted loss reserving standards and principles in accordance with Actuarial Standards of Practice.
- The stated amount makes a reasonable provision for the net unpaid loss and loss adjustment expenses of the company under the terms of its policies and agreements.
- The stated amount makes a reasonable provision for the gross unpaid loss and loss adjustment expenses of the company under the terms of its policies 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. ORGANIZATIONAL STRUCTURE

The organizational chart of Terminus Insurance, Inc., as of December 31, 2013, is as follows:



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 _____, 2016

APPOINTMENT NO. 31241

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

Terminus Insurance, 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 24th day of October, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By:

Rolf Kaumann
Deputy Chief Examiner