

REPORT ON EXAMINATION

OF

BOLTON INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT

MAY 24, 2019

EXAMINER

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## Department of Financial Services

**ANDREW M. CUOMO**  
Governor

**LINDA A. LACEWELL**  
Superintendent

April 1, 2020

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 31871 dated March 6, 2019, attached hereto, I have made an examination into the condition and affairs of Bolton Insurance Company as of December 31, 2017 and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Bolton Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s captive manager’s office located at 48 South Service Road Melville, NY 11747.

## 1. SCOPE OF EXAMINATION

The examination covers the period from January 1, 2013 through December 31, 2017 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

Bolton Insurance Company was incorporated under the laws of New York State as a captive insurance company on December 31, 2003 and commenced business on January 1, 2004. The Company is a wholly owned subsidiary of ITT Inc. (“ITT”). ITT is a global engineering and manufacturing company specializing as a supplier of pumps, systems and services to move, control and treat water and other fluids.

### A. Article 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, 2017, the Company's paid-in capital was \$7,471,000, consisting of 100,000 shares of common stock with a par value of \$1 per share and paid-in capital of \$7,371,000. The Company's retained earnings was \$11,055,507 for a total capital and surplus (surplus as regards policyholders) of \$18,526,507.

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 assumed the first \$500,000 of losses on certain ITT property business from an unrelated insurer, Factory Mutual Insurance Company. The assumed premium was \$770,000 for the year ended December 31, 2017, with a 6% ceding commission or \$46,200. According to the terms of the reinsurance agreement, the Company agreed to accept 100% of the amount in excess of the policy deductible, not exceeding \$500,000 of any loss per occurrence, excluding earth movement in high hazard zones for each movement. The agreement contained the required standard clauses including an insolvency clause which met the requirements of Section 1308 of the Law.

As of December 31, 2017, the Company provided Contractual Indemnification Liability Policies to ITT and its subsidiary companies. A detailed insurance program is as follows:

Policy Coverage	Limits	Policy Period	Premium
Automobile Liability	\$250,000 each accident for liability \$250,000 each accident for no-fault \$250,000 each accident for uninsured motorist	10/31/17 – 10/31/18	\$27,160
General Liability	\$1,000,000 each occurrence, bodily injury and property damage \$1,000,000 each person or organization, personal injury and advertising injury \$1,000,000 each claim, employee benefits	10/31/17 – 10/31/18	\$642,700 (Including \$12,854 applicable to TRIA coverage)
Workers' Compensation	\$1,000,000 each accident for bodily injury by accident \$1,000,000 each employee for bodily injury by disease No policy aggregate for all covered bodily injury	10/31/17 – 10/31/18	\$5,166,582 (Including \$69,748 applicable to TRIA coverage)

The Company did not cede any business during the period covered by this examination.

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.

As of December 31, 2017, 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, dated March 9, 2015, Marsh 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 while maintaining true and complete books of account and records of all business conducted under this agreement.

Prior to March 9, 2015, the Company was managed by Aon Insurance Managers (USA), Inc.

(ii) Board of Directors

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than three nor more than ten members. The board meets one time during each calendar year. At December 31, 2017, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Steven Giuliano Valhalla, NY	Chief Accounting Officer, ITT Inc.
Derek McKinney Bayside, NY	Senior Counsel, ITT Inc.
Michael Savinelli Newtown, CT	Vice President, Finance & Chief Tax Officer, ITT Inc.

(iii) Officers

As of December 31, 2017, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Steven Giuliano	President
Derek McKinney	Secretary
Michael Savinelli	Vice President & Treasurer

G. Certified Public Accountant (“CPA”)

Deloitte & Touche LLP was the Company’s the independent certified accounting firm for the period covered by this examination. The CPA stated that in its opinion, the Company’s statutory-basis financial statements present fairly, in all material respects, the financial position of Bolton Insurance Company as of December 31, 2017.



### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2017 as reported by the Company:

##### Assets

Cash	\$15,222,810	
Investment income due and accrued	707,744	
Premiums receivable	6,606,342	
Demand promissory note	17,649,667	
Deferred acquisition costs	742,133	
Deferred tax asset	358,354	
Prepaid expenses	<u>197</u>	
Total assets		<u>\$41,287,247</u>

##### Liabilities

Unpaid losses and loss adjustment expenses	\$15,157,718	
Unearned premium	5,484,169	
Taxes payable	1,331,526	
Commission and fees	575,217	
Other liabilities	<u>212,110</u>	
Total liabilities		<u>\$22,760,740</u>

##### Capital and Surplus

Common stock	\$ 100,000	
Additional paid-in capital	7,371,000	
Retained earnings	<u>11,055,507</u>	
Total capital and surplus		<u>\$18,526,507</u>
Total liabilities, capital and surplus		<u>\$41,287,247</u>

A. Statement of Income

The Company's net income for the period covered by this examination was \$13,245,233 as detailed below:

Underwriting Income

Net premiums earned		\$40,039,195
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Deductions:

Net losses incurred	\$12,171,041	
Claims handling fees	5,627,632	
Underwriting expenses	1,929,654	
General and administrative expenses	<u>730,103</u>	

Total underwriting deductions		<u>20,458,430</u>
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Net underwriting income		\$19,580,765
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Investment Income

Total investment income		1,164,057
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Income taxes		<u>7,499,589</u>
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Net income		<u>\$13,245,233</u>
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C. Capital and Surplus Account

The Company's capital and surplus increased \$9,745,233 during the five-year period covered by this examination period, detailed as follows:

Capital and surplus as of January 1, 2013			\$8,781,274
	Increases in <u>surplus</u>	Decreases in <u>surplus</u>	
Net income	\$13,245,233		
Dividends to Parent	_____	\$3,500,000	
Total increases and decreases in surplus	\$13,245,233	\$3,500,000	
Net increase in surplus			<u>9,745,233</u>
Capital and surplus as of December 31, 2017			<u>\$18,526,507</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2017, the Company reported total unpaid loss and loss adjustment expenses of \$15,157,718. The Company's opining actuarial firm, Oliver Wyman, 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 loss reserving standards and principles. It also noted that the carried reserves made reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its policies and agreements.

5. COMPLIANCE WITH ARTICLE 70

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 recommendations in this report.

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Wei Cao (DFS)

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 \_\_\_\_\_, 2020

***APPOINTMENT NO. 31871***

***NEW YORK STATE***

***DEPARTMENT OF FINANCIAL SERVICES***

*I, **Linda A. Lacewell**, 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*

***Bolton 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 6th day of March, 2019*

***LINDA A. LACEWELL***  
*Acting Superintendent of Financial Services*

By:

*Joan P. Riddell*

*Joan Riddell  
Deputy Bureau Chief*

