

REPORT ON EXAMINATION

OF

HOSPITALS INSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2018

DATE OF REPORT

MARCH 3, 2020

EXAMINER

JOSEPH REVERS, CFE

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

March 3, 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 31851 dated December 20, 2018, attached hereto, I have made an examination into the condition and affairs of Hospitals Insurance Company, Inc. as of December 31, 2018, and submit the following report thereon.

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

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 administrative office located at 111 West 33rd Street, New York, NY 10120.

1. SCOPE OF EXAMINATION

The Department has performed an examination of Hospitals Insurance Company, Inc., a single-state insurer. The previous examination was conducted as of December 31, 2014. This examination covered the four-year period from January 1, 2015 through December 31, 2018. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook, which requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Reinsurance
- Holding company description
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to the recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Hospitals Insurance Company, Inc. was incorporated under the laws of the State of New York on January 14, 1987, under the name of HANYS Insurance Company, Inc. The Company became licensed on July 31, 1987 and commenced business on August 1, 1987. At that time, the Company was jointly owned by two trusts formed solely for the purpose of holding the Company's shares, as follows:

1. The FFH Hospitals Trust (1987) ("FFH Trust"), which was formed by its owners, the major hospital affiliates ("FFH Hospitals") of United Jewish Appeal-Federation of Jewish Philanthropies of New York, Inc. ("UJA/Federation") (a non-profit fund raising organization) and Federation of Jewish Philanthropies ("FOJP") Service Corporation (a non-profit organization having one member: UJA/Federation), holds 80% of the voting shares of the Company.
2. The HANYS Hospitals Trust (1987) ("HANYS Trust"), which was formed by its owners, eighty-seven members of the Hospital Association of New York State ("HANYS"), holds 20% of the voting shares of the Company.

On September 15, 2005, FFH Trust became the sole owner of the Company by purchasing the minority interest from HANYS Trust. Due to this restructuring, the Company brought management of its affairs in-house and continued to utilize the services of FOJP Service Corporation ("FOJP") pursuant to a service agreement. The name of Hospitals Insurance Company, Inc. was adopted on January 18, 2006.

During the examination period, the FFH Hospitals were:

- a) Mount Sinai Health System,
- b) Beth Israel Medical Center,
- c) Maimonides Medical Center, and
- d) Montefiore Medical Center.

On October 9, 2018, 100% of the stock of the Company was distributed to the FFH Hospitals in accordance with their respective interests. Concurrently, the FFH Hospitals contributed all of their respective interests to a newly formed entity, Hospitals Insurance Holding Company, LLC ("Holdco"). The FFH Hospitals comprise the members of Holdco, and thus, indirectly own the Company. On November 27, 2018, the FFH Hospitals and Holdco entered into a stock purchase agreement to sell 100% of its interests in the Company to The Doctors Company, a California-domiciled interinsurance exchange.

A. Corporate Governance

Pursuant to the Company's by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than fifteen members. The board met at least three times during each calendar year. At December 31, 2018, the board of directors was comprised of the following ten members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Paul Addison Brooklyn, NY	Trustee, Maimonides Medical Center
Coleen Blye Westbury, NY	Executive Vice President and Chief Financial Officer, Montefiore Medical Center
Beth Essig Irvington, NY	Executive Vice President and General Counsel, Mount Sinai Health System
Walter L. Harris New York, NY	President and Chief Executive Officer, Hospitals Insurance Company, Inc. President and Chief Executive Officer, FOJP Service Corporation
Joyce Leahy New York, NY	Executive Vice President, Legal Affairs and General Counsel, Maimonides Medical Center
Robert L. Naldi Centerport, NY	Executive Vice President and Chief Financial Officer, Maimonides Medical Center
Christopher Panczner New York, NY	Senior Vice President, Chief Legal Officer, Montefiore Medical Center
Donald T. Scanlon Commack, NY	Executive Vice President and Chief Financial Officer, Mount Sinai Health System
Michael Stocker, M.D. New York, NY	Trustee, Montefiore Medical Center
Michael Zimmerman Brooklyn, NY	Trustee, Mount Sinai Health System

A review of the minutes of the board of directors' meetings held during the examination period indicated that board member Coleen Blye attended less than 50% of the meetings for which she was eligible

to attend. Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. It is recommended that board members who are unable or unwilling to consistently attend meetings resign or be replaced.

The Company's charter states that there will be fifteen directors on the board. However, the by-laws indicate that the board of directors shall consist of not less than seven nor more than fifteen directors. Subsequent to this examination, on October 30, 2019, the Company amended its charter to agree with its by-laws concerning the number of directors.

As of December 31, 2018, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Walter L. Harris	President and Chief Executive Officer
Noeleen Doelger	Senior Vice President, Chief Financial Officer and Treasurer
Robert A. Kauffman	Senior Vice President, Secretary and General Counsel
Melissa L. Johnson	Vice President, Finance and Controller

B. Territory and Plan of Operation

As of December 31, 2018, the Company was licensed to write business in New York State only.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability

<u>Paragraph</u>	<u>Line of Business</u>
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
29	Legal services

In addition, the Company is licensed to do within this State the business of special risk insurance pursuant to Article 63 of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$4,400,000. However, pursuant to Section 6302(c)(1) of the New York Insurance Law, to be licensed to write special risks, the Company is required to maintain surplus as regards policyholders of at least 200% of its authorized control level risk-based capital; therefore, the Company was required to maintain a minimum surplus to policyholders in the amount of \$8,800,000 as of December 31, 2018.

The following schedule shows the direct premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Total Written Premiums</u>
2015	\$219,687,145
2016	\$195,731,464
2017	\$182,694,590
2018	\$234,417,673

During the examination period, the Company did not assume business. The Company provides primary and excess medical malpractice, general liability, employee benefits liability, and sexual or physical abuse or molestation vicarious liability insurance to the following medical centers and to both their employed or affiliated physicians: Mount Sinai Health System, Beth Israel Medical Center, Maimonides Medical Center, and Montefiore Medical Center. The Company also writes the same lines of insurance for the Bronx Lebanon Hospital and its employed physicians. Additionally, the Company provides primary professional liability insurance to two hospitals affiliated with the Combined Coordinating Council, Inc. ("CCC") program, namely: NYU Langone Hospitals and New York Presbyterian Brooklyn Methodist Hospital. CCC is a not-for-profit corporation that provides risk management advisory services for New

York City hospitals participating in the CCC program. The Company also provides primary and excess medical malpractice, general liability, employee benefits liability, and sexual or physical abuse or molestation vicarious liability insurance to a few select long-term care facilities.

The Company participates in the Medical Malpractice Insurance Pool of New York State (“MMIP”). The MMIP is an involuntary pool that was created by all authorized insurers writing medical malpractice insurance in New York State as an alternative to receiving direct assignments of eligible health care providers through the MMIP. In the MMIP, each participant insurer is liable for each risk in an amount equal to the premiums it writes in the medical malpractice insurance market. As of December 31, 2018, the Company is responsible for approximately \$14,000,000, or 11% of MMIP’s net current surplus.

As of December 31, 2018, most (93.4%) of the Company’s business is attributable to the medical professional liability product line. The majority of the Company’s business is written on an occurrence basis.

The Company has an assumed reinsurance agreement in place for a block of business that was written in 1998 by National Union Fire Insurance Company of Pittsburgh, PA. As security for the obligations assumed, the Company is required to establish and maintain a letter of credit for the benefit of the reinsured in a form, substance, and amount acceptable to the reinsured in its sole discretion. As of the examination date, the Company maintained letter of credit collateral in the amount of \$30,000,000 for known case losses and LAE reserves of \$21,000.

C. Reinsurance Ceded

Effective July 1, 2009, the Company entered into a fronting arrangement with Oasis Reciprocal Risk Retention Group (“OASIS”), a Vermont risk retention group and affiliate of ENT and Allergy, LLP, (“ENTA”). The Company provided primary professional liability insurance on a claims-made basis and excess professional liability insurance to ENTA and to its affiliated New York State licensed physicians. The Company ceded 100% of this primary professional liability insurance risk to OASIS. Effective July 1, 2017, ENTA revised its reinsurance structure under this arrangement to allow the Company to transfer the liabilities previously ceded to OASIS to MDSafety Reciprocal Insurance Company, a newly created Vermont captive established by, and affiliated with, ENTA. The Company cedes the first \$250K of loss per claim to MDSafety Reciprocal Insurance Company. Loss amounts above \$250K per claim are ceded to Medical Professional Mutual Insurance Company, an authorized insurer. As of December 31, 2018, the

Company reported reinsurance recoverables of \$4,730,000 from MDSafety Reciprocal Insurance Company and reinsurance recoverables of \$5,762,000 from Medical Professional Mutual Insurance Company.

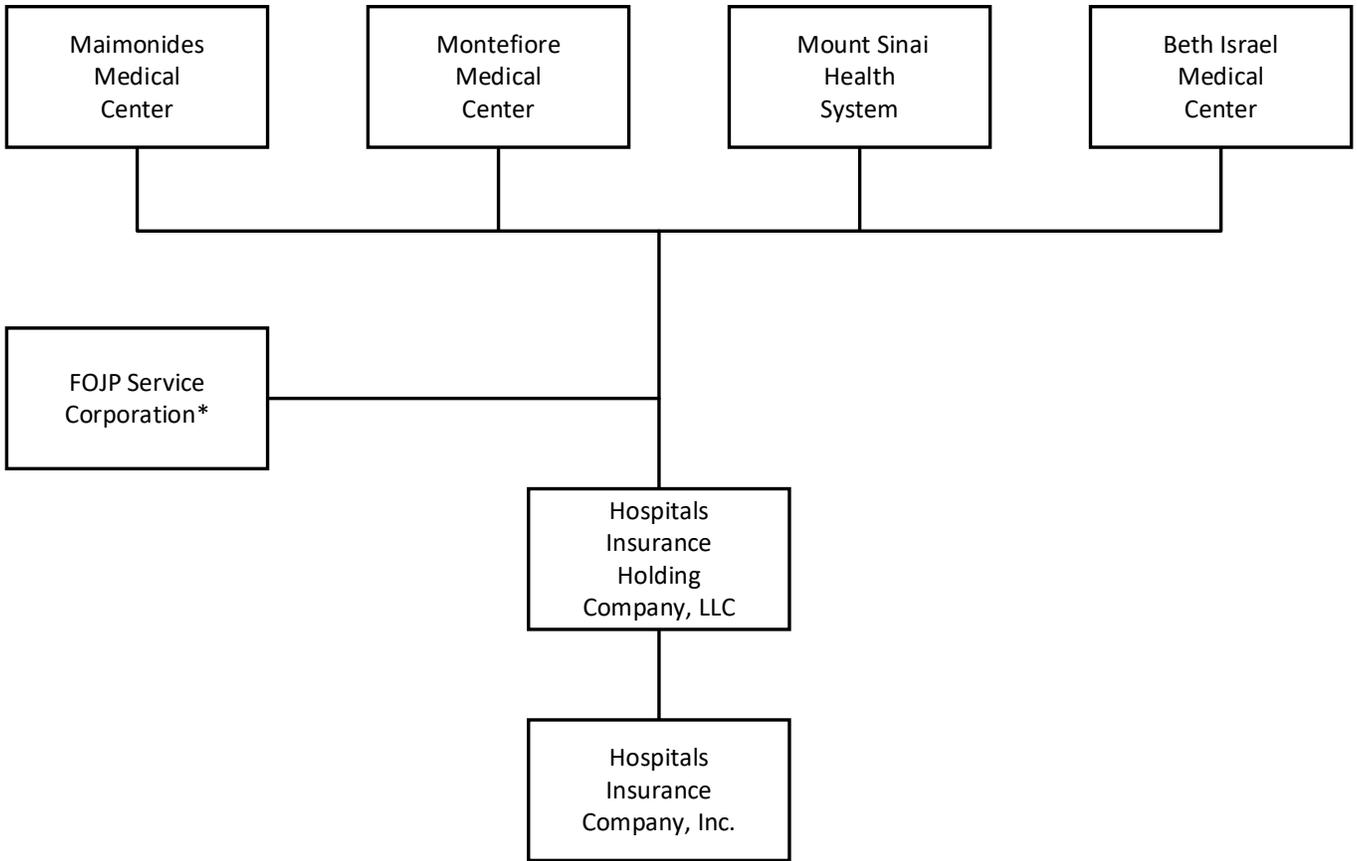
The Company does not cede any of its core business. The above fronting arrangement represents a small and immaterial amount.

D. Holding Company System

At December 31, 2018, Hospitals Insurance Company, Inc. was wholly owned by Hospitals Insurance Holding Company, LLC (“Holdco”). The FFH Hospitals (Beth Israel Medical Center, Maimonides Medical Center, Montefiore Medical Center, and Mount Sinai Health System) comprise the members of Holdco, and thus, indirectly own the Company.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2018:



*Each hospital system has equal director representation on FOJP Service Corporation’s board of directors.

Holding Company Agreements

At December 31, 2018, the Company was party to the following agreements with other members of its holding company system:

Claims and Administrative Services Agreement

Effective January 1, 2010, the Company entered into a claims and administrative services agreement with FOJP. Pursuant to the terms of the agreement, FOJP agrees to provide the Company with administrative, claims review, finance, human resources, legal, risk management, and information technology services as reasonably requested to supplement the staff of the Company in connection with its operations.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2018, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders' surplus	37%
Adjusted liabilities to liquid assets	93%
Two-year overall operating	45%

Underwriting Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the four-year period covered by this examination:

	<u>Amount</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$496,045,485	60.47%
Other underwriting expenses incurred	90,322,428	11.01
Net underwriting gain (loss)	<u>233,987,243</u>	<u>28.52</u>
Premiums earned	<u>\$820,355,156</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 385.4% at December 31, 2018. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC score of 200% or below can result in regulatory action.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2018, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 793,268,107	\$ 0	\$ 793,268,107
Common stocks	139,779,982	0	139,779,982
Cash, cash equivalents and short-term investments	64,705,343	0	64,705,343
Other invested assets	446,901,343	0	446,901,343
Receivables for securities	181,563	0	181,563
MMIP asset	69,681,267	0	69,681,267
Investment income due and accrued	5,438,720	0	5,438,720
Uncollected premiums and agents' balances in the course of collection	33,425,803	0	33,425,803
Deferred premiums, agents' balances and installments booked but deferred and not yet due	38,583,183	0	38,583,183
Amounts recoverable from reinsurers	199,342	99,840	99,502
Net deferred tax asset	11,485,290	9,177,181	2,308,109
Prepaid expenses	575,128	575,128	0
MMIP accrued income	456,697	0	456,697
Miscellaneous accounts receivable	<u>75,000</u>	<u>0</u>	<u>75,000</u>
Total assets	<u>\$1,604,756,768</u>	<u>\$9,852,149</u>	<u>\$1,594,904,619</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 910,699,740
Other expenses (excluding taxes, licenses and fees)	3,184,631
Current federal and foreign income taxes	22,786,835
Unearned premiums	19,824,482
Advance premiums	9,071,302
Payable for securities	2,730,506
Death, disability and retirement reserve	1,028,032
ALAE funds on deposit	909,782
Premium deficiency reserve	332,763
Deferred risk management course revenue	112,500
Deferred rent	54,762
MMIP expenses payable	<u>3,940</u>
Total liabilities	\$ 970,739,275

Surplus and Other Funds

Common capital stock	\$ 1,050,000
Surplus notes	17,000,000
Gross paid in and contributed surplus	19,950,000
Unassigned funds (surplus)	<u>586,165,344</u>
Surplus as regards policyholders	<u>624,165,344</u>
Total liabilities, surplus and other funds	<u>\$1,594,904,619</u>

Note: The Internal Revenue Service has not audited the Company's tax returns during the examination period. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period as reported by the Company was \$254,653,175 as detailed below:

Underwriting Income

Premiums earned		\$820,355,156
Deductions:		
Losses and loss adjustment expenses incurred	\$496,045,485	
Other underwriting expenses incurred	91,867,000	
Change in MMIP Premium Deficiency Reserve	(1,344,472)	
Change in Premium Deficiency Reserve	(325,621)	
Change in Death, Disability & Retirement Reserve	<u>125,521</u>	
Total underwriting deductions		<u>586,367,913</u>
Net underwriting gain or (loss)		\$233,987,243

Investment Income

Net investment income earned	\$ 76,156,261	
Net realized capital gains or (losses)	<u>24,565,247</u>	
Net investment gain or (loss)		100,721,508

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (36,916)	
Finance and service charges not included in premiums	(1,645)	
MMIP investment income	5,109,701	
Interest income – premiums	2,824,727	
Interest income – reinsurance	336,394	
Provision for contingencies	(3,000,000)	
Annual conference revenue	49,000	
Risk management course revenue	284,388	
ENTA claims handling fee	162,500	
MMIP gain or (loss)	(8,487)	
Miscellaneous income	<u>16,182</u>	
Total other income		<u>5,735,844</u>
Net income before federal income taxes		\$340,444,595
Federal and foreign income taxes incurred		<u>85,791,420</u>
Net income		<u>\$254,653,175</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$163,917,559 during the four-year examination period January 1, 2015 through December 31, 2018, as reported by the Company, detailed as follows:

Surplus as regards policyholders, as reported by the Company as of December 31, 2014			\$460,247,785
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$254,653,175		
Net unrealized capital gains or losses		\$ 3,170,043	
Change in net deferred income tax	8,692,758		
Change in nonadmitted assets		7,118,955	
Change in provision for reinsurance	3,086,234		
Dividends to stockholders		75,100,000	
Cumulative effect of change in tax law	<u>0</u>	<u>17,125,610</u>	
Total gains and losses	\$266,432,167	\$102,514,608	
Net increase (decrease) in surplus			<u>163,917,559</u>
Surplus as regards policyholders, as reported by the Company as of December 31, 2018			<u>\$624,165,344</u>

Capital paid in is \$1,050,000 consisting of 375,000 shares of \$1 par value per share Class A common stock, 375,000 shares of \$1 par value per share Class B common stock, and 100,000 shares of \$3 par value Class C non-voting common stock. Gross paid in and contributed surplus is \$19,950,000. These amounts were unchanged during the examination period.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$910,699,740 is the same as reported by the Company as of December 31, 2018. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including SSAP No. 55. The reported reserves are concentrated in the medical professional liability (occurrence) line of business.

5. SUBSEQUENT EVENTS

As previously mentioned, at December 31, 2018, the Company was wholly owned by Holdco. On July 31, 2019, The Doctors Company (“TDC”) purchased all shares of the Company. This transaction was approved by the Department on June 20, 2019. Effective August 1, 2019, TDC took over management of the Company. As a result, the directors, officers and holding company chart have changed. Additionally, the Company has entered into a claims and administrative services agreement with an affiliate of TDC.

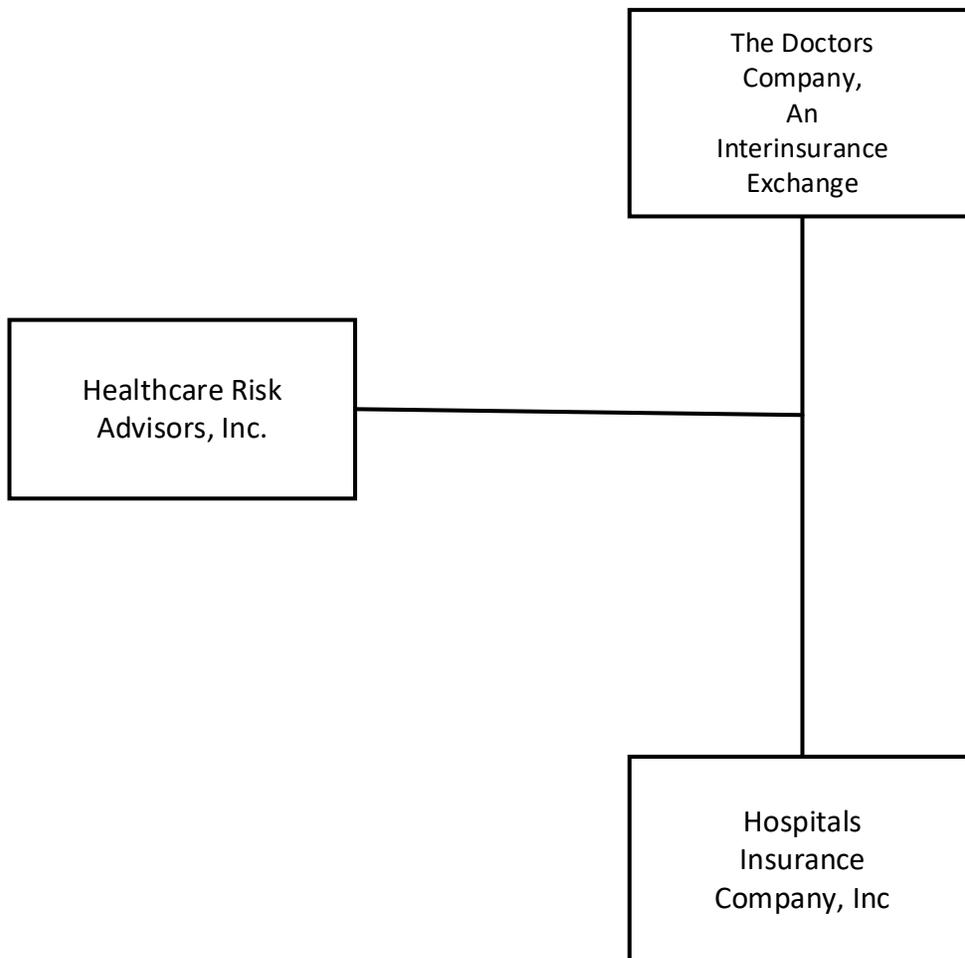
At September 30, 2019, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Richard E. Anderson, M.D. Napa, CA	Chairman and Chief Executive Officer, The Doctors Company
Noeleen Doelger New York, NY	Chief Financial Officer, Treasurer and Chief Operating Officer, Healthcare Risk Advisors, Inc.
William A. Fleming Napa, CA	Chief Executive Officer, Healthcare Risk Advisors, Inc.
Robert Kauffman New York, NY	President, Healthcare Risk Advisors, Inc.
Bryan Lawton, Ph.D. Napa, CA	Secretary, The Doctors Company
David A. McHale Napa, CA	Assistant Secretary, The Doctors Company
David G. Preimesberger Napa, CA	Treasurer, The Doctors Company

At September 30, 2019, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Richard E. Anderson, M.D.	President and Chief Executive Officer
David G. Preimesberger	Chief Financial Officer and Treasurer
Thomas C. Wilson	Chief Investment Officer
David A. McHale	Secretary
Laura Kline	Senior Vice President
Douglas Boltz	Vice President
Melissa L. Johnson	Vice President, Finance and Controller
Douglas Will	Vice President

The following is an abridged chart of the holding company system at September 30, 2019:



At September 30, 2019, the Company was party to the following agreement with another member of its holding company system:

Claims and Administrative Services Agreement

Effective July 31, 2019, the Company entered into a claims and administrative services agreement with Healthcare Risk Advisors, Inc. (“HRA”). Pursuant to the terms of the agreement, HRA agrees to provide the Company with administrative, claims review, finance, human resources, legal, risk management and information technology services as reasonably requested by the Company from time to time in connection with its operations.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained two recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>		<u>PAGE NO.</u>
A.	It was recommended that the Company maintain a valid administrative services agreement with FOJP. Any amendments to the agreement should be submitted to the Department for approval. The Company has complied with this recommendation.	10
B.	It was recommended that the Company revise its charter and/or by-laws, so that they are consistent. The Company has complied with this recommendation.	11

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**ITEMPAGE NO.

- A. Corporate Governance
It is recommended that board members who are unable or unwilling to consistently attend meetings resign or be replaced. 5

Respectfully submitted,

_____/S/_____
Joseph Revers, CFE
Associate Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

JOSEPH REVERS, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/S/_____
Joseph Revers

Subscribed and sworn to before me

this _____ day of _____, 2020.

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:

Joseph Revers

as a proper person to examine the affairs of the

Hospitals Insurance Company, 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 20th day of December 2018

*MARIA T. VULLO
Superintendent of Financial Services*



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