

REPORT ON EXAMINATION

OF

RVC INSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2016

DATE OF REPORT

SEPTEMBER 28, 2018

EXAMINER

VERONICA DUNCAN BLACK

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

August 7, 2020

Honorable Linda A. Lacewell
Superintendent
New York 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 31789 dated August 9, 2018 attached hereto, I have made an examination into the condition and affairs of RVC Insurance Company 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 RVC Insurance Company. Wherever the designation “Parent” or “CHSLI” appears herein without qualification, it should be understood to indicate Catholic Health Systems of Long Island d/b/a Catholic Health Services of Long Island.

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

This examination covers the period from 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, verification or description, including invested assets, and losses and loss adjustment expense reserves. The examination included a review of income, disbursements and 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.

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 New York Insurance 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 pure captive insurance company on December 22, 2004 and commenced business on January 1, 2007. The Company is a wholly owned subsidiary of Catholic Health System of Long Island. It is a New York non-for-profit corporation and a healthcare ministry of the Diocese of Rockville Centre. CHSLI is an integrated health care delivery system servicing Nassau and Suffolk counties, consisting of six hospitals, three nursing homes, a regional home care and hospice group and a community-based agency for persons with special needs.

A. Articles of Incorporation

The Company is organized to transact the kinds of insurance specified in Section 1113(a) and Section 1114 of the New York Insurance Law, subject at all times to the limitations of pure captive insurance companies set forth in Article 70 of the New York Insurance Law.

B. By-Laws

The by-laws of the Company were reviewed, and it was noted that the Company was operating in full conformity with its by-laws in all material respects, except as noted in Section 2.G herein.

C. Capital Structure

Incorporated as a pure captive insurance company, the Company is required to maintain a surplus as regards policyholders of at least \$250,000, of which \$100,000 shall represent the paid-in capital pursuant to Section 7004(a)(1) of the New York Insurance Law.

As of December 31, 2016, the Company's paid-in capital was \$2,250,000 (100,000 shares of common stock, with a par value of \$1.00 per share and contributed surplus was \$2,150,000). In addition, the Company had accumulated earnings of \$31,019,620, for a total capital and surplus (surplus as regards policyholders) of \$33,269,620.

D. Corporate Records

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

E. Insurance Program

The Company is licensed to write the kinds of insurance authorized pursuant to Sections 1113(a) and 1114 of the New York Insurance Law. It provides the following coverages: general liability insurance coverage and employee benefits with specific aggregate limits; directors & officers and employment practice liability insurance coverage with a limit of \$750K each loss and a limit of \$1.5 million general aggregate excess specific underlying insurance policies with an added protection of terrorism insurance as defined by the Terrorism Risk Insurance Act of 2002 ("TRIA") and subsequently reauthorized as the Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA"); and health care umbrella liability insurance coverage with a specific loss limit and an aggregate limit of \$59 million excess specific underlying policies with terrorism insurance coverage as defined by the TRIA and subsequently TRIPRA.

TRIPRA is a federal terrorism insurance backstop program that was established as a temporary public/private risk-sharing plan to cover losses resulting from certified acts of terrorisms. It has been

reauthorized three times since its inception in 2002, with the latest iteration being signed into law on January 12, 2015. The new law became effective January 1, 2016, has been extended through December 31, 2020. Under the new law, the Federal government began the process of decreasing its participation 1% each year (85% in 2016 to 80% 2020). The new program contains a \$100,000 billion cap that limits the Federal government reimbursement and the insurers' liability for certified acts of terrorism in any one calendar year.

F. Reinsurance

As of December 31, 2016, the Company has structured its ceded reinsurance program as follows:

<u>Type of treaty</u>	<u>Cession</u>
Facultative Excess of Loss First Layer	\$10,000,000 excess \$4,000,000 each loss event, excess of underlying limits for the healthcare facility professional liability policies, subject to \$20,000,000 reinsurance certificate period aggregate.
Second Layer	\$25,000,000 excess \$14,000,000 each medical and each claim limit, subject to a \$25,000,000 annual aggregate limit.
Third Layer	\$20,000,000 excess \$39,000,000 specific loss limit, subject to a \$20,000,000 aggregate limit.

For the period under examination, the Company's business was ceded to three authorized reinsurers. All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to be missing the following clauses, which include an insolvency clause that does not meet the requirements of Section 1308 of the New York Insurance Law:

Insolvency Clause

Section 1308 (a)(2)(A)(i) of the New York Insurance Law states, in part:

“No credit shall be allowed, as an admitted asset or deduction from liability, to any ceding insurer for reinsurance ceded, renewed, or otherwise becoming effective after January first, nineteen hundred forty, unless: (i) the reinsurance shall be payable by the assuming insurer on the basis of the liability of the ceding insurer under the contracts reinsured without diminution.”

The Company has a facultative reinsurance agreement that does not comply with the insolvency clause provision pursuant to Section 1308(a)(2)(A)(i) of the New York Insurance Law. The agreement does not include certain language regarding the admitted asset or deduction from liability for reinsurance ceded. It is recommended that the Company amend its facultative agreement to include the required language pursuant to Section 1308 (a)(2)(A)(i) of the New York Insurance Law.

Offset Clause

The Company has two facultative reinsurance agreements that does not comply with the offset clause provision pursuant to Section 7427 of the New York Insurance Law. This section of the law requires that in the event of the insolvency of either party to the agreement then the offset shall be allowed to the extent permitted. It is recommended that the Company amend its facultative reinsurance agreements to include language which states, “that in the event of the solvency of either party to the agreement then offset shall be allowed to the extent permitted by the provisions of Section 74727 of the New York Insurance Law.”

Reinsurance Intermediary Clause

Part 32.1 (a)(1) of Department Regulation 98 states, in part:

“Where the reinsurance intermediary acts in procuring reinsurance for a licensed ceding insurer or accepting reinsurance for a licensed assuming insurer, such intermediary shall have written evidence from such insurer of authority to procure or accept specified types of reinsurance, and the scope of such authority.”

The Company utilized the services of a reinsurance intermediary without the benefit of a written agreement pursuant to Part 32.1(a)(1) of Department Regulation 98. It is recommended that the Company execute an agreement with its reinsurance intermediary pursuant to Department Regulation 98. It is further recommended that the Company ensures compliance with Part 32.3 of Department Regulation 98, as to the reinsurance intermediary’s fiduciary responsibilities.

G. Management and Control

Captive Manager

Section 7003(b)(4) of the New York Insurance Law provides that a captive insurance company shall not engage in the business as a captive insurer unless it utilizes a captive manager resident in the

State of New York who is licensed as an agent or broker under the provisions of Article 21 of the New York Insurance Law; or any other person approved by the superintendent.

Effective May 1, 2011, the Company entered into a Management Service Agreement with Willis of New York, Inc. (“Willis”), which expired after a three-year period. On May 1, 2014, the Company entered into a new Management Service Agreement with Willis. Pursuant to the agreement, Willis agrees to perform specific services in relation to the following responsibilities: insurance program design, underwriting, insurance administration, reinsurance, claims management, accounting, banking and cash management, company secretarial and regulatory compliance.

Board of Directors

Pursuant to the Company’s by-laws, the management of the Company is vested in a board of directors consisting of not less than three directors, of which, at least two shall always be residents of the State of New York. The board is required to hold at least one meeting per annum in the State of New York. For the period under examination, the board met twice in 2012, three times in 2013 and four times each in calendar years 2014 through 2016. At December 31, 2016, the board was comprised of the following five members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Brian McGuire Babylon, NY	President, Catholic Health Systems of Long Island
Lynn Taylor Calverton, NY	Corporate Vice President of Risk Management, Catholic Health Systems of Long Island
Daniel DeBarba Orange, CT	Treasurer & Director, Catholic Health Systems of Long Island
Alan D Guerci, M.D. Sea Cliff, NY	Vice President, Catholic Health Systems of Long Island
Alexander Hazelton Bayshore, NY	Vice President, Catholic Health Systems of Long Island

A review of the minutes of the board of directors’ meetings show that the Company has complied with Sections 7003(b)(2) of the New York Insurance Law, as the board held at least one meeting in each calendar. The review also shows that all the board meetings were generally well attend.

The Amended and Restated Declaration and Charter and the By-Laws show that the Company's principle office shall be in the County of Suffolk, New York.

Article III of the Amended and Restated Declaration and Charter states, in part:

The principal office of the Corporation is located in Suffolk County, New York.

Article I of the By-Laws states, in part:

"The principal office of the corporation shall be located in Melville, in the County of Suffolk, state of New York. The corporation may also have office at such other places within or without the State as the board may from time to time determine or the business of the corporation may require."

The Company's 2016 annual statement shows that its principle New York office is located at 992 North Village Avenue, Rockville Centre, the County of Nassau, New York. It is recommended that the Company amend Article III of its Amended and Restated Declaration and Charter and Article I of its By-Laws to reflect the correct County for its principle office location.

Holding Company

Section 1505(d)(3) of the New York Insurance Law states, in part:

"The following transactions between a domestic controlled insure and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto..., and the superintendent has not disapproved it within such period: (3) rendering of services on a regular or systematic basis."

A review of the Company's holding company transactions shows that the Company's parent company, CHSLI, performs the day-to-day operations on its behalf. CHSLI is responsible for providing the accounting and administrative services to the Company under the direction of the Company's board of directors/officers. These services are rendered on a regular or systematic basis without the benefit of a written agreement. It is recommended that the Company execute an agreement for the services rendered by CHSLI and provide the agreement to the Department pursuant to 1505(d) of the New York Insurance Law.

Officers

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

<u>Name</u>	<u>Title</u>
Brian McGuire	President
Lynn Taylor	Secretary
Daniel DeBarba	Treasurer
Alexander Hazelton	Vice President

H. Certified Public Accountant (“CPA”) and Actuarial Services

The Company was audited by an independent CPA firm KPMG LLP, New York, NY for the years covered by this examination. In addition, Oliver Wyman Actuarial Consulting, Inc., New York, NY, provided actuarial services for the Company.

3. FINANCIAL STATEMENTSA. Balance Sheet

The financial statements of the Company are presented in conformity with generally accepted accounting principles. The Company's independent accounting firm concluded that the following financial statements presents fairly, in all material respects, the Company's financial position as of December 31, 2016:

<u>Assets</u>	
Bonds	\$56,653,148
Stocks	14,793,114
Cash	14,318,523
Money market funds	450,383
Investment income due and accrued	233,055
Accounts and premiums receivable	22,945,589
Investments in and advances to affiliates	31,937,345
Reinsurance recoverable on unpaid losses & LAE	7,605,844
Prepaid reinsurance premiums	2,992,500
Deferred policy acquisition costs	184,808
Prepaid expenses	46,549
Accounts receivable – other	<u>110,287</u>
Total assets	<u>\$52,271,145</u>
<u>Liabilities</u>	
Losses and loss adjustment expenses	\$95,019,576
Commissions, expenses and fees	871,021
Unearned premium	22,945,589
Amounts due to affiliates	<u>165,339</u>
Total liabilities	\$119,001,525
<u>Capital and Surplus</u>	
Paid-in capital	\$100,000
Contributes surplus	2,150,000
Surplus (accumulated earnings)	<u>31,019,620</u>
Total capital and surplus	<u>33,269,620</u>
Total liabilities, capital and surplus	<u>\$152,271,145</u>

B. Statement of Income

The Company's net income for the period covered by this examination was \$20,488,852, as detailed below:

<u>Underwriting Income</u>		
Net premium earned		\$91,971,467
<u>Underwriting expenses:</u>		
Net losses incurred and loss adjustment expenses incurred	\$70,004,313	
General and administrative	1,756,313	
Other underwriting expenses	<u>3,770,904</u>	
Total underwriting expenses		<u>\$75,531,530</u>
Net underwriting gain (loss)		\$16,439,937
Net Investment income		<u>4,048,915</u>
Income before dividends and taxes		\$20,488,852
Taxes		<u>0</u>
Net income		<u>\$20,488,852</u>

C. Capital and Surplus Account

The Company's capital and surplus increased \$17,838,852 during the five-year period detailed as follows:

Capital and surplus as of December 31, 2011			\$15,430,768
	Increase in <u>Surplus</u>	Decrease in <u>Surplus</u>	
Net Income	\$20,488,852		
Transfer to surplus	<u>0</u>	<u>\$2,650,000</u>	
Total increases and decreases	\$20,488,852	\$2,650,000	
Net increase in surplus			<u>17,838,852</u>
Capital and surplus as of December 31, 2016			<u>\$33,269,620</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The Company reported losses and loss adjustment expenses of \$95,019,576 as of December 31, 2016. The Company's opining actuary stated in its Statement of Actuarial Opinion that the reserves met the requirements of the insurance laws of New York and are computed in accordance with accepted actuarial standards and principles. It also stated that the reserves made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

5. ARTICLE 70

Article 70 of the New York State Insurance Law is the governing law for the formation and continued operation of Captive Insurance Companies in state of New York. A review was performed to ascertain the Company's compliance with Article 70. No significant areas of non-compliance were found.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>		<u>PAGE NO.</u>
A.	It was recommended that the Company the Company submit any proposed changes to its plan of operation to the Department at least 30 days prior to implementation pursuant to the instructions contained on the Department's website.	4

The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Reinsurance</u>	
i.	It is recommended that the Company amend its facultative agreement to include the required language pursuant to Section 1308(a)(2)(A)(i) of the New York Insurance Law.	5
ii.	It is recommended that the Company amend its facultative reinsurance agreements to include wording which states, "that in the event of the solvency of either party to the agreement then offset shall be allowed to the extent permitted by the provisions of Section 7427 of the New York Insurance Law."	5
iii.	It is recommended that the Company execute an agreement with its reinsurance intermediary pursuant to Department Regulation 98. It is further recommended that the Company ensures compliance with Part 32.3 of Department Regulation 98, as to the reinsurance intermediary's fiduciary responsibilities.	5
B.	<u>Management and Control</u>	
i.	It is recommended that the Company amend Article III of its Amended and Restated Declaration and Charter and Article I of its By-Laws to reflect the correct County for its principle office location.	7
ii.	It is recommended that the Company execute an agreement for the services rendered by CHSLI and provide the agreement to the Department pursuant to 1505(d) of the New York Insurance Law.	7

Respectfully submitted,

_____/S/
Veronica Duncan Black
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

Veronica Duncan Black, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

_____/S/
Veronica Duncan Black

Subscribed and sworn to before me

this _____ day of _____, 2020.

APPOINTMENT NO. 31789

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:

Veronica DuncanBlack

as a proper person to examine the affairs of the

RVC 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 9th day of August, 2018

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief