

REPORT ON EXAMINATION

OF

TERMINUS INSURANCE, INC.

AS OF

DECEMBER 31, 2018

DATE OF REPORT

OCTOBER 25, 2019

EXAMINER

ROBERT BAIRD

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

October 25, 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 32005 dated September 20, 2019, attached hereto, I have made an examination into the condition and affairs of Terminus Insurance, 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 Terminus Insurance, Inc. Wherever the designation “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 January 1, 2014 through December 31, 2018 and was limited in 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 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 ultimate parent of the Company is Credit Suisse Group AG, a corporation organized under the laws of Switzerland.

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 on the business of pure captive insurance companies set forth in Article 70 of the New York Insurance 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 New York Insurance Law.

As of December 31, 2018, the Company's paid-in capital was \$321,865, consisting of 100,000 shares of \$1.00 par value per share common stock and an additional paid-in capital of \$221,865. The Company had retained earnings of \$1,539,961 for a total capital and surplus (surplus as regards policyholders) of \$1,861,826. Paid-in and contributed surplus increased by \$71,865 during the period covered by this examination as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
12/31/18	Ending paid-in and contributed surplus	\$321,865
1/1/14	Beginning paid-in and contributed surplus	250,000
	Increase in contributed surplus	<u>\$71,865</u>

D. Corporate Records

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

E. Operations

As of December 31, 2018, the Company provided terrorism and/or sabotage insurance for property losses arising out of various perils, including nuclear, biological, chemical and radiological (NBCR) risks for limits of \$1.5 billion per occurrence and in the aggregate for its Parent and subsidiaries if such loss arises out of a certified act of terrorism as defined under the "Terrorism Risk Insurance Program Reauthorization Act of 2007" ("TRIPRA"), formerly the Terrorism Risk Insurance Act ("TRIA"). The policy provided a sublimit for non-United States terrorism losses of \$270 million.

On January 12, 2015, the President signed the Terrorism Risk Insurance Program Reauthorization Act of 2015 (“TRIPRA 2015”) into law extending TRIA through December 31, 2020. TRIPRA 2015 increases the trigger for the federal share of compensation of non-NBCR certified acts of terrorism. The trigger increases \$20 million annually beginning January 1, 2016 until it reaches \$200 million by 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.

The Company has obtained reinsurance from a panel of Lloyd’s syndicates and commercial carriers for its coinsurance share (18% in 2018) not covered by TRIPRA, with a 20% deductible of direct earned premium for the previous year, losses below the TRIPRA trigger and non-United States losses up to the \$270 million sublimit. The only retention the Company has is for NBCR risks.

During the period covered by the examination, the Company provided the Parent and its subsidiaries with global property and boiler and machinery insurance coverage, with a limit of \$1 billion in excess of retention, with the exception of Switzerland. In Switzerland, the coverage is \$800 million in excess of \$200 million in excess of retention. The retention was 50,000 Swiss Francs in Switzerland and \$250,000 in the United States and the rest of the world. The Company is fully reinsured by a panel of reinsurers.

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 Article 21 of the New York Insurance 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 assist 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 charter and by-laws, management of the Company is vested in a board of directors consisting of not less than three directors, of which at least two shall be residents of New York State. At December 31, 2018, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Robert C. Dahling Katonah, NY	Director, Credit Suisse, Inc.
Darren Malcolm Dix Hills, NY	Managing Director, Credit Suisse, Inc.
Timothy J. McAlindin Fanwood, NJ	Managing Director, Credit Suisse, Inc.

During the period covered by the examination, the board held one meeting each year. A review of the meeting minutes during the examination period indicated that all board meetings were well attended.

The Company was in compliance with its charter and by-laws and Sections 7003(b)(2) and 7005(g) of the New York Insurance Law.

(iii) Officers

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

<u>Name</u>	<u>Title</u>
Timothy J. McAlindin	President
Robert C. Dahling	Vice President
Richard C. Curran	Vice President
Nancy L. Gray	Secretary
Thomas J. Harrop	Treasurer

G. Certified Public Accountant (“CPA”)

During the period covered by this examination, annual audits of the Company were completed by its independent certified public accounting firm, KPMG LLP. The CPA stated that the Company’s audited financial statements presented fairly, in all material respects, its financial position at December 31, 2018.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America, as of December 31, 2018:

Assets

Cash	\$2,157,511	
Premiums receivable from Parent	2,326,365	
Prepaid reinsurance premiums	2,682,743	
Reinsurance recoverable	39,384	
Deferred policy acquisition costs	12,783	
Deferred federal income tax	107,798	
Other assets	<u>1,434</u>	
Total assets		<u>\$7,328,018</u>

Liabilities

Loss and loss adjustment expense reserves	\$ 39,384	
Unearned premium reserve	3,196,064	
Unearned ceding commission	40,708	
Reinsurance premium payable	1,979,297	
Accrued expenses	35,425	
Due to affiliate	45,032	
Federal income tax payable to Parent	<u>130,282</u>	
Total liabilities		\$5,466,192

Capital and Surplus

Common stock	\$ 100,000	
Additional paid-in capital	221,865	
Retained earnings	<u>1,539,961</u>	
Total capital and surplus		<u>\$1,861,826</u>
Total liabilities, capital and surplus		<u>\$7,328,018</u>

B. Statement of Income

The Company's net income for the period covered by the examination was \$749,573 as detailed below:

Revenue

Net premiums earned	\$1,598,430	
Ceding commission income earned	<u>264,793</u>	
Total revenue		\$1,863,223
<u>Losses and expenses</u>		
Policy acquisition costs	62,465	
General and administrative expenses	<u>586,139</u>	
Total expenses		<u>648,604</u>
Income before federal income tax expense		1,214,619
Federal income tax expense		<u>465,046</u>
Net income		\$ <u>749,573</u>

C. Capital and Surplus Account

The Company's capital and surplus increased by \$821,438 during the period covered by the examination, detailed as follows:

Capital and surplus as of December 31, 2013			\$1,040,388
	Increases in <u>Surplus</u>	Decreases in <u>Surplus</u>	
Net income	\$749,573	\$0	
Capital contribution from Parent	<u>71,865</u>	<u>0</u>	
Total increases in surplus	<u>\$821,438</u>	<u>0</u>	
Net increase in surplus			<u>821,438</u>
Capital and surplus as of December 31, 2018			<u>\$1,861,826</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2018, the Company reported total loss and loss adjustment expense reserves of \$39,384. The Company's opining actuary stated, in its Statement of Actuarial Opinion, that the reserves met the requirements of the captive insurance laws of New York and were consistent with accepted loss reserving standards and principles in accordance with Actuarial Standards of Practice. It was also noted that carried reserves made a reasonable provision for the net 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 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

This report contains no comments or recommendations.

Respectfully submitted,

_____/S/_____
Robert Baird
Senior Insurance Examiner

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

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

_____/S/_____
Robert Baird

Subscribed and sworn to before me

this _____ day of _____, 2020.

APPOINTMENT NO. 32005

NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES

I, Linda A. Lacewell, 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:

Robert Baird

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 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 20th day of September, 2019

LINDA A. LACEWELL
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief