

REPORT ON EXAMINATION

OF

MIDTOWN INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT

JANUARY 31, 2020

EXAMINER

WEI CAO

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	2
	A. Articles of incorporation	2
	B. By-laws	3
	C. Capital structure	3
	D. Corporate records	3
	E. Operations	3
	F. Management and control	5
	G. Certified public accountant	6
3.	Financial statements	7
	A. Balance sheet	8
	B. Statement of income	8
	C. Capital and surplus account	9
4.	Losses and loss adjustment expenses	9
5.	Article 70 compliance	9
6.	Summary of comments and recommendations	9



Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

January 31, 2020

Honorable Linda 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 32017 dated November 26, 2019, attached hereto, I have made an examination into the condition and affairs of Midtown 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 Midtown Insurance Company. Wherever the designation “the Parent” appears herein without qualification, it should be understood to indicate NYT Capital, 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, 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 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 May 15, 2003 and commenced business on July 10, 2003. The Company is a wholly-owned subsidiary of NYT Capital, Inc. NYT Capital, Inc. is a wholly owned subsidiary of The New York Times Company.

The New York Times Company is an American mass media company which publishes its namesake newspaper, The New York Times.

Midtown Insurance Company provides automobile liability, general & product liability, professional liability, umbrella & excess media liability, workers’ compensation and Terrorism coverage for its Parent and affiliated entities.

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 \$250,000, consisting of 100,000 shares of common stock with a par value of \$1.00 per share and an additional paid-in capital amount of \$150,000. The Company had retained earnings of \$730,719,465 for a total capital and surplus (surplus as regards policyholders) of \$730,969,465.

D. Corporate Records

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

E. Operations

As of December 31, 2017, the Company provide the following coverages for its parent, The New York Times Company and its affiliated subsidiaries. A detailed coverage is as follows:

Policy	Limits	Period	Premium
<u>Deductible Liability Reimbursement Policy</u>			
Fleet and Auto Liability	\$500,000 per occurrence and \$12,737,437 aggregate inclusive of allocated loss adjustment expenses and applicable loss assessments.	March 1, 2017- March 1, 2018	\$610,000
General Liability	\$250,000 per occurrence and \$12,737,437 aggregate inclusive of allocated loss adjustment expenses and applicable loss assessments.	March 1, 2017- March 1, 2018	\$63,200
Workers' Compensation Liability	\$500,000 per occurrence and \$12,737,437 aggregate inclusive of allocated loss adjustment expenses and applicable loss assessments.	March 1, 2017- March 1, 2018	\$3,051,400
Terrorism Risk including Nuclear, Biological, Chemical and Radiological	\$1,300,000 any one occurrence and in the aggregate for Certified Acts of Terrorism.	September 1, 2017-September 1, 2020	\$30,000,000
<u>Media Liability Policy</u>			
Multimedia Primary and Excess Co-insurance	\$6,000,000 per occurrence and aggregate in excess of \$1,500,000.	March 1, 2017- April 1, 2018	\$110,630
Media Excess Liability	\$25,000,000 excess of \$30,000,000 per occurrence.	March 1, 2017- April 1, 2018	\$128,632
Excess umbrella Liability Indemnity Policy	\$25,000,000 excess of \$125,000,000 per occurrence and in the aggregate.	March 1, 2017- March 1, 2018	\$37,500

During the examination period, the Company did not assume any business. Prior to September 1, 2017, the Company ceded the Terrorism Policy to the third party. The Company obtained commercial reinsurance from Lexington Insurance Company as follows:

- TRIPRA Co-insurance- A maximum of \$192,000,000 (being 16% part of \$1,200,000,000) any one occurrence and for events that are certified and exceed \$120,000,000 in respect of Property damage and Time Element combined. The limit increased to \$204,000,000 (being 17% part of \$1,200,000,000 any one occurrence and in the aggregate on January 1, 2017.

- TRIPRA Single Event Trigger-\$120,000,000 for a single event and the limit increased to \$140,000,000 on January 1, 2017.
- TRIPRA deductible-\$7,656,811.25 estimate per occurrence.
- International Terrorism-\$20,000,000 per occurrence and in the aggregate in France only. All other countries is \$5,000,000 per occurrence and in the annual aggregate.

Effective September 1, 2017, the Company did not renew the reinsurance agreement.

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

During the period covered by this examination, the Company was managed by Marsh Management Services Inc. (“Marsh”), which is authorized to act as a manager for captive insurance companies by the Department.

Pursuant to a management agreement, effective July 1, 2011, 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 maintaining true and complete books of account and records of all business conducted under this agreement.

(ii) Board of Directors

Pursuant to the Company’s by-laws, the business and affairs of the Company shall be managed under the direction of the Board of Directors. The number of Directors shall not be fewer than three nor more than ten (two of whom shall be residents of New York State). At December 31, 2017, the board of directors was comprised of the following three members:

Name and Residence

R. Anthony Benten
New York, NY

Principal Business Affiliation

Senior Vice President & Controller,
The New York Times Company

Diane Brayton
New York, NY

Executive Vice President, General Counsel &
Secretary
The New York Times Company

Mehal Naik
Elizabeth NJ

Assistant Treasurer,
The New York Times Company

In accordance with its by-laws and Section 7003(b)(2) of the Law, the board of directors met once annually. A review indicated that the meetings were well attended.

(iii) Officers

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

<u>Name</u>	<u>Title</u>
R. Anthony Benten	President & Treasurer
Diane Brayton	Vice President & Secretary
Randall K. Short	Vice President & Assistant Treasurer
Mehal Naik	Vice President

G. Certified Public Accountant (“CPA”)

Crowe Horwath LLP was the Company’s independent certified public accounting firm for 2015 to 2017. Saslow Lufkin & Buggy, LLP was the Company’s independent certified public accounting firm for 2013 and 2014. Crowe Horwath LLP stated that the Company’s financial statements present fairly, in all material respects, the financial position of Midtown Insurance Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

3. FINANCIAL STATEMENTSA. Balance Sheet

The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America.

Assets

Cash	\$ 250,000	
Premium receivable	20,000,000	
Notes receivable	763,292,013	
Accrued royalty income	1,897,210	
Deferred tax asset	2,407,359	
Other assets	<u>63,264</u>	
Total assets		<u>\$787,909,846</u>

Liabilities

Unpaid losses and loss adjustment expenses	11,463,614	
Unearned premiums	27,335,278	
Taxes payable	18,015,796	
Accounts payable	<u>125,693</u>	
Total liabilities		<u>\$56,940,381</u>

Capital and Surplus

Common stock	\$ 100,000	
Paid-in capital	150,000	
Retained earnings	<u>730,719,465</u>	
Total capital and surplus		<u>\$730,969,465</u>
Total liabilities, capital and surplus		<u>\$787,909,846</u>

B. Statement of Income

The Company's net income for the period covered by the examination was \$210,316,502, as detailed below:

Underwriting Income

Premiums earned		\$193,661,422
Royalty Income		<u>38,584,120</u>
Total Underwriting Income		232,245,542
Deductions		
Loss and LAE expenses	\$17,261,713	
Underwriting expenses	1,726,805	
General and administrative expenses	<u>926,281</u>	
Total underwriting deductions		<u>19,914,799</u>
Net underwriting income		\$212,330,743
Investment income		<u>113,702,192</u>
Net income before tax		\$326,032,935
Income taxes		<u>115,716,433</u>
Net income		<u>\$210,316,502</u>

C. Capital and Surplus Account

The Company's capital and surplus increased \$210,316,502 during the period covered by this examination, detailed as follows:

Capital and surplus as of January 1, 2013			\$520,652,963
		Increase in <u>surplus</u>	Decrease in <u>surplus</u>
Net income	\$210,316,502		<u>0</u>
Net increase in surplus			<u>210,316,502</u>
Capital and surplus as of December 31, 2017			<u>\$730,969,465</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2017, the Company reported total unpaid loss and loss adjustment expense reserves of \$11,463,614. The Company's opining actuarial firm, Marsh Management Services Inc. noted in its Statement of Actuarial Opinion that, in its opinion, the reported unpaid losses and loss adjustment expenses liabilities were computed in accordance with accepted actuarial standards and principles and met the relevant requirement of the insurance laws of New York. It was also noted that reasonable provision in the aggregate had been made for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts 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.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations in this report.

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 _____, 2020.

APPOINTMENT NO. 32017

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:

Wei Cao

as a proper person to examine the affairs of the

Midtown 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 26th day of November, 2019

*LINDA A. LACEWELL
Superintendent of Financial Services*



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief