

REPORT ON EXAMINATION

OF

EXCHANGE INDEMNITY COMPANY NEW YORK

AS OF

DECEMBER 31, 2017

DATE OF REPORT

MARCH 25, 2019

EXAMINER

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## 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	7
	B. Statement of income	8
	C. Capital and surplus account	9
4.	Losses and loss adjustment expenses	9
5.	Compliance with Article 70	9
6.	Summary of comments and recommendations	10



## Department of Financial Services

**ANDREW M. CUOMO**  
Governor

**LINDA A. LACEWELL**  
Superintendent

December 30, 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 31859 dated January 22, 2019, attached hereto, I have made an examination into the condition and affairs of Exchange Indemnity Company New York 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 Exchange Indemnity Company New York.

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 management office located at 48 South Service Road Melville, NY 11747.

## 1. SCOPE OF EXAMINATION

The examination covers the period from the Company's inception 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 State Insurance Law ("the Law").

Comments and recommendations were 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 examination utilized work performed by the Company's independent certified public accountant and its opining actuary to the extent considered appropriate.

## 2. DESCRIPTION OF COMPANY

Exchange Indemnity Company New York was incorporated under the laws of New York State as a captive insurance company on March 23, 2012 and commenced business on June 1, 2012. The Company is a wholly owned subsidiary of Exchange Indemnity Company ("EIC"), a captive insurer licensed in Vermont and ultimately owned by Verizon Communications Inc. ("Verizon").

### A. Articles 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 \$74,013,304, consisting of 100,000 shares of common stock with a par value of \$1 per share and paid-in capital of \$73,913,304. In addition, the Company had accumulated other comprehensive income due to unrealized gain on investments of \$3,711,457 and retained earnings of \$6,990,882 for a total capital and surplus (surplus as regards policyholders) of \$84,715,643.

D. Corporate Records

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

E. Operations

On June 1, 2012, the Company entered into a Commercial Inland Marine Quota Share Reinsurance Agreement with EIC to cover the handset program for Verizon's cellular subscribers. The Company assumed 15% of the gross liabilities under the agreement. The limit of the liability was \$1,500 per occurrence or two claims per subscriber in a 12-month period. The policy has no expiration and the assumed premium amount was \$309,409,291.

The Company provided Verizon and its affiliated and associated companies with a Primary Casualty Deductible Reimbursement Policy.

Effective June 1, 2017, the Company entered into a reinsurance agreement to cede 50% of the inception to date gross liabilities of the Primary Casualty Deductible Reimbursement Policy to EIC. A detailed program is as follows:

<u>Coverage</u>	<u>Policy limit</u>	<u>Direct Premiums</u>	<u>Ceded reinsurance</u>	<u>Reinsurer</u>	<u>Ceded Premium</u>
Automobile Liability 6/30/17 – 6/30/18	\$10M each accident plus unlimited ALAE with no aggregate.	\$19,807,681	Cede 50% quota share of the direct program.	EIC	\$9,903,841
General Liability 6/30/17 – 6/30/18	\$5M each occur. plus unlimited ALAE, \$10M products/completed operations aggregate and \$80M general aggregate for indemnity only.	\$32,931,117	Cede 50% quota share of the direct program.	EIC	\$16,465,558
Workers' Compensation 6/30/17 – 6/30/18	\$4M each occur. with no aggregate.	\$134,605,646	Cede 50% quota share of the direct program.	EIC	\$75,612,212
Total Premiums		\$187,344,444			\$101,981,611

The examination's review notes that EIC is not an authorized reinsurer in New York State, however, subsequent to the period covered by the examination, effective January 1, 2021, the Company commuted the above-mentioned quota share reinsurance arrangement. The Company also novated and transferred historical policies issued from its inception in 2012 through the policy period ending June 30, 2018, to EIC. After the completion of these transactions, the Company does not have any reinsurance balances receivable from EIC.

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 Services Inc. (“Marsh”) which is authorized to act as a manager for captive insurance companies by the Department.

Pursuant to a management agreement dated April 13, 2012, 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 and 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 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>
Robert J. Burden Stony Point NY	Executive Director Tax, Verizon Communications Inc.
David G. Cammarata Hainesport, NJ	Assistant Treasurer - Risk Management, Verizon Communications Inc.
Audrey E. Prashker Scarsdale, NY	Vice President & General Counsel - Capital Markets, Verizon Communications Inc.

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

<u>Name</u>	<u>Title</u>
David G. Cammarata	President
Paul W. Hartzel	Secretary
Terrence P. Gallagher	Treasurer & Vice President
Paul L. Mattiola, Jr.	Vice President Tax
Paul W. Hartzel	Vice President
Robert J. Burden	Vice President
Mark S. Denesevich	Vice President
Susan E. Bixby	Vice President
Audrey E. Prashker	Vice President

G. Certified Public Accountant

Ernst & Young, LLP was the Company's independent public accounting firm for the period covered by the examination. As of December 31, 2017, Ernst & Young, LLP stated that in its opinion, the Company's financial statements present fairly, in all material respects, the financial position of Exchange Indemnity Company New York.

### 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	\$14,482,156	
Investment	81,911,184	
Investment income due and accrued	1,259,603	
Accounts and premiums receivable	119,379,836	
Intercompany receivable	289,081,786	
Prepaid reinsurance premiums	46,194,520	
Reinsurance recoverable on unpaid losses	304,095,986	
Reinsurance recoverable on paid losses	5,902,600	
Deferred tax asset	4,945,520	
Loss escrow funds	8,665,000	
Commission receivable	140,567	
Prepaid expenses	<u>271,323</u>	
Total assets		<u>\$876,330,081</u>

##### Liabilities

Losses and loss adjustment expenses	\$621,981,797	
Unearned premium	92,389,041	
Reinsurance payable on paid losses and LAE	14,745,630	
Reinsurance balance payable	54,600,000	
Commission fees	5,273,636	
Accrued expenses	66,000	
Tax payable	2,443,672	
Other liabilities	<u>114,662</u>	
Total liabilities		\$791,614,438

##### Capital and Surplus

Common stock	\$ 100,000	
Additional paid in capital	73,913,304	
Accumulated other comprehensive income	3,711,457	
Retained earnings	<u>6,990,882</u>	
Total capital and surplus		\$ <u>84,715,643</u>
Total liabilities and capital surplus		<u>\$876,330,081</u>

B. Statement of Income

The Company's net income for the period covered by the examination was \$217,050,747 as detailed below:

Underwriting Income

Net premiums earned		\$2,440,250,685
Deductions:		
Loss and LAE	\$1,887,836,001	
Acquisition expenses incurred	269,143,101	
Premium taxes	5,910,141	
Federal Taxes	16,223	
General and administrative expenses	<u>2,837,969</u>	
Total underwriting deductions		<u>2,165,743,435</u>
Net underwriting income		\$ 274,507,250

Investment Income

Investment income	52,137,859	
Realized gain on investment	<u>1,708,799</u>	
Total investment income		53,846,658
Income taxes		<u>111,303,161</u>
Net income		<u>\$217,050,747</u>

C. Capital and Surplus Account

The Company's capital and surplus increased \$84,715,644 during the period from the Company's inception through December 31, 2017 as reported by the Company and detailed as follows:

Capital and surplus as of March 23, 2012			\$	0
	Increases in <u>surplus</u>	Decreases in <u>surplus</u>		
Net income	\$217,050,747			
Common stock	100,000			
Additional paid-in capital	176,913,304			
Other comprehensive income	3,711,457			
Dividends to parent		\$210,059,864		
Return of capital		<u>103,000,000</u>		
Total increases and decreases in surplus	<u>\$397,775,508</u>	<u>\$313,059,864</u>		
Net increase in surplus				<u>\$84,715,644</u>
Capital and surplus as of December 31, 2017				<u>\$84,715,644</u>
<ul style="list-style-type: none"> <li>▪ Net increase in surplus' \$1 difference is due to rounding.</li> </ul>				

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2017, the Company reported total loss and loss adjustment expenses of \$621,981,797. The Company's opining actuarial firm, Marsh Management Services Inc. stated in its Statement of Actuarial Opinion that the Company's statutory reserves met the relevant requirements of the Insurance laws of New York and were computed in accordance with accepted actuarial standards and principles. It also noted that the carried reserves made reasonable provisions in the aggregate for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts 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 \_\_\_\_\_, 2021

**APPOINTMENT NO. 31859**

**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:

**Wei Cao**

as a proper person to examine the affairs of the

**Exchange Indemnity Company of New York**

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 22th day of January, 2019

**MARIA T. VULLO**  
Superintendent of Financial Services



By:

*Joan P. Riddell*

Joan Riddell  
Deputy Bureau Chief