REPORT ON EXAMINATION

OF THE

BOLTON INSURANCE COMPANY

AS OF

DECEMBER 31, 2012

DATE OF REPORT	JANUARY 30, 2014
EXAMINER	KEVIN MCNAMEE

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NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

January 30, 2014

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31047 dated December 18, 2013, attached hereto, I have made an examination into the condition and affairs of Bolton Insurance Company as of December 31, 2012, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Bolton Insurance Company. Wherever the designation “Parent” or “ITT” appears herein without qualification, it should be understood to refer to ITT Corporation.

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, 2008 through December 31, 2012, 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 captive insurance company on December 31, 2003 and commenced business on January 1, 2004. The Company is a wholly-owned subsidiary of ITT Corporation ("ITT"), a global engineering and manufacturing company specializing in as a supplier of pumps, systems and services to move, control and treatment of water and other fluids.

A. Articles of Incorporation

The Company is organized to transact the kinds of insurance specified in Sections 1113(a) and 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 revealed that the Company is 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 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, 2011, the Company's paid in capital was $100,000 consisting of 100,000 shares of $1.00 par value per share common stock and its surplus as regards policyholders was $1,310,274. In 2004, a promissory note of $7,221,000 from ITT was issued to reflect the correct level of capitalization per the license application and is reported as contributed surplus.

D. Corporate Records

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

E. Reinsurance

The Company participated in one assumed reinsurance agreement for the period ended December 31, 2012. Pursuant to the terms of the reinsurance agreement, the Company agreed to accept 100% of the first $500,000 per occurrence, less the policy deductible, for insurance related jointly to Factory Mutual Insurance Company, an unaffiliated company domiciled in Rhode Island and FM Insurance Company, Ltd., an unaffiliated company domiciled in the United Kingdom. The contract contained the required standard clauses including an insolvency clause which meets the requirements of Section 1308 of the New York Insurance Law.

The Company did not engage any ceded reinsurance arrangements for the period under examination.

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

The Company is managed by Aon Insurance Managers (USA) Inc. ("AIM"), a Vermont corporation. Effective December 31, 2010, Adrian Richardson was licensed as a captive manager on the behalf of AIM pursuant to Section 7003(b)(4)(B) of the New York Insurance Law. Effective January 1, 2004, the Company executed a captive services agreement with AIM. The agreement requires AIM to perform certain consulting and administrative services in connection with the operations of the Company, including maintaining the books and the records of the Company, assisting with certain underwriting functions, and administrating the day to day activities of the Company.

(ii) Board of Directors

Pursuant to the Company's by-laws, management of the Company is vested in a board of directors consisting of not less than three members, of which, at least two shall at all times be residents of New York State. At December 31, 2012, the board of directors was comprised of the following three members:

Name and Residence	Principal Business Affiliation
Karim Issa Eastchester, NY	President, ITT Corporation
Colleen Ostroski Eastchester, NY	Vice President & Treasurer, ITT Corporation
Fern Daves Bronxville. NY	Vice President & Secretary, ITT Corporation

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

(iii) Officers

As of December 31, 2011, the principal officers of the Company were as follows:

Name	Title
Karim Issa	President
Colleen Ostroski	Vice President & Treasurer
Fern Daves	Vice President & Secretary

G. Certified Public Accountant ("CPA") and Actuarial Services

The Company was audited by the independent CPA firm Deloitte & Touche, LLP located in Stamford CT, for the years 2011 – 2012. The opining actuary as of December 31, 2012 was Deloitte & Touche, LLP as well.

H. Growth of Company

The following schedule sets forth a summary of the Company's significant financial information for the period covered by this examination:

Year	Net Premiums Earned	Net Income	Assets	Shareholders' Equity
2008	$ 23,778,792	$ 4,359,146	$68,094,124	$7,457,835
2009	$ 23,084,922	$(1,400,388)	$73,011,042	$6,057,447
2010	$ 22,025,053	$ 1,502,827	$61,204,490	$7,560,274
2011	$(19,419,590) *	$(245,442)	$32,301,079	$7,314,832
2012	$ 7,813,100	$ 1,466,442	$34,683,557	$8,781,274

* The negative earned premiums in 2011 is the result of a transaction whereby the Parent company separated two of its business segments into two independent, publicly traded companies. Pursuant to this transaction, the Company commuted $39.1 million of loss reserves back to the Parent in exchange for $38.9 million in earned premiums.

3. FINANCIAL STATEMENTS

With the Department's permission, the Company's financial statements have been prepared in conformity with generally accepted accounting principles, which differ from statutory accounting principles prescribed or permitted by the Department for insurance companies. The Company's independent CPA firm concluded that the following financial statements present fairly, in all material respects, the Company's financial position as of December 31, 2012.

A Balance Sheet

Assets		
Cash	$8,930,629	
Investments in and advances to affiliates	8,309,230	
Accounts and premiums receivable	8,990,781	
Investment income due and accrued	4,418,980	
Deferred tax assets	1,231,380	
Prepaids/Deferred acquisition cost	1,067,642	
Taxes receivable	1,734,915	
Total Assets		$34,683,557
Liabilities		
Losses and loss adjustment expenses	$18,123,519	
Accounts payable and accrued expenses	599,460	
Unearned premium	7,179,304	
Total liabilities		$25,902,283
Capital and Surplus		
Paid in capital (par value)	100,000	
Contributed surplus	7,371,000	
Surplus (accumulated earnings)	1,310,274	
Total capital and surplus		$ 8,781,274
Total liabilities, capital and surplus		$34,683,557

Note: Subsequent to the issuance of the December 31, 2008 financial statements, it was noted by Deloitte & Touche, LLP. that certain losses and loss adjustment expenses related to policies underwritten by the Company had been paid directly by the Parent company and had not been appropriately allocated to the Company. As a result, the 2008 balance sheet, statement of income and retained earnings and statement of cash flows, had been restated from amounts previously reported. The beginning retained earnings (deficit) for 2008 had been restated from $(3,445,214) to $(4,372,311) for amounts relating to the years ended December 31, 2007 and 2006. The cumulative effect of the restatement on Surplus was $(927,097).

B. Statement of Income

The Company's capital and surplus increased $5,682,585 during the five-year period detailed as follows:

STATEMENT OF INCOME

Underwriting Income		
Net premiums earned	$57,282,277	
Other insurance income-Novation per Audit Report	38,911,769	
		$96,194,046
Deductions:		
Net losses and net loss adjustment expense incurred	$32,479,286	
Other underwriting expenses (including Novation)	53,187,003	
Policy acquisition expenses	5,864,448	
General and administrative	851,382	
Total underwriting deductions		92,382,118
Net underwriting gain or (loss)		$ 3,811,928
Investment income		4,930,510
Net income before tax		$ 8,742,438
Federal income tax expenses		3,059,853
Net income		$ 5,682,585

C. Capital and Surplus Account

	Gains in surplus	Losses in surplus	
Capital and surplus as of December 31, 2007			$ 4,025,786
Net income	$5,682,585	$ 0	
Effect of 2008 restatement	0	927,097	
Net increase in surplus	$5,682,585	$927,097	$ 4,755,488
Capital and surplus as of December 31, 2012			$ 8,781,274

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2012, the Company reported total loss and loss adjustment expense reserves of $18,123,519. The Company's opining actuary noted the following in its Statement of Actuarial Opinion:

The Company's December 31, 2012 reserves identified herein:

- Meet the relevant requirements of the insurance laws of New York;
- Are computed in accordance with commonly accepted actuarial methods and are fairly stated in accordance with sound actuarial principles;
- Make reasonable provision for all the aggregate for all unpaid losses and loss adjustment expenses under the terms of the Company's policies;

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 of the New York Insurance Law. No significant areas of non-compliance were found.

6. ORGANIZATIONAL STRUCTURE

The Company is a wholly-owned subsidiary of ITT Industries. The Company has no consolidating subsidiaries, special purpose entities, or other entities not consolidated but under common ownership.

7. INSURANCE PROGRAM

As of December 31, 2012, the Company provided the following Contractual Indemnification insurance coverage, indemnifying the insured for deductible and/or retention amounts contained in an scheduled commercial insurance policy, to its Ultimate Parent, ITT Corporation:

Policy coverage	Limits	Policy period
Automobile Liability	$1,000,000 each occurrence for Liability	October 31, 2012 – October 31, 2013
	$1,000,000 each occurrence for No-Fault	
	$1,000,000 each occurrence for Uninsured Motorist	
General Liability	$1,000,000 each occurrence for Bodily Injury and Property Damage	October 31, 2012 – October 31, 2013
	$1,000,000 each Person or Organization for Personal Injury and Advertising Injury	
	$1,000,000 per claim for Employee Benefits	
Workers' Compensation	$1,000,000 per occurrence for Bodily Injury by Accident/No Policy aggregate	October 31, 2012 – October 31, 2013
	$1,000,000 each Person for Bodily Injury by Accident/No Policy aggregate	

8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

ITEM		PAGE NO.
A.	Management – Board of Directors	
i.	It is recommended that the board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
	The Company has complied with this recommendation.	
ii.	It is recommended that the Company comply with charter and by-laws and Section 7005(g) of the New York Insurance Law by requiring that at least two of its directors be residents of the state of New York.	6
	The Company has complied with this recommendation.	
B.	Losses and Loss Adjustment Expense	
	This examination reiterates the CPA's recommendation in regard to the Company taking the necessary steps to monitor the reporting of its property losses.	9
	The Company has complied with this recommendation.	

9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

Respectfully submitted,

_____________/s/____________
Kevin McNamee
Senior Insurance Examiner

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

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

_____________/s/____________
Kevin McNamee

Subscribed and sworn to before me

this__________ day of ___________________, 2014.

APPOINTMENT NO. 31047

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, 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:*

Kevin McNamee

as a proper person to examine the affairs of the

Bolton Insurance Company

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 18th day of December, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Jean Marie Cho
Deputy Superintendent