

REPORT ON EXAMINATION

OF THE

MAINLAND INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

DATE OF REPORT

MAY 10, 2013

EXAMINER

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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

May 10, 2013

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30906 dated December 27, 2012, attached hereto, I have made an examination into the condition and affairs of Mainland Insurance Company as of December 31, 2011, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Mainland Insurance Company. Wherever the designation “Parent” or “BCSP IV” appears herein without qualification, it should be understood to refer to BCSP IV U.S. Investments, L.P.

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 the Company's inception of August 16, 2006 through December 31, 2011, 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

Mainland Insurance Company is a wholly-owned subsidiary of BCSP IV U.S. Investment, L.P. ("BCSP IV"), a Delaware limited partnership. The Company was organized and licensed under the laws of the State of New York on August 17, 2006 as a pure captive stock insurer and commenced business on August 24, 2006. The Company provides terrorism coverage to 1211 6th Avenue Property Owner, L.L.C., an affiliate of BCSP IV, for its property located at 1211 Avenue of the Americas, New York, NY.

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 limitation on the business of a captive insurance company set forth in Article 70 of the New York Insurance Law.

B. By-Laws

It appears that the Company is in compliance with its by-laws in all material respects.

C. Capital Structure

The Company was incorporated as a stock captive insurance company. Pursuant to Section 7004(a)(1) of the New York Insurance Law, no pure captive insurance company incorporated in this state as a stock insurer shall be issued a license unless it shall possess, and thereafter maintain unimpaired, not less than \$250,000 of total surplus as regards to policyholders.

On the date of its incorporation, the Company issued 1,000 shares of \$100 par value common stock to BCSP IV in exchange for \$250,000 in cash.

As of December 31, 2011, the Company's paid in capital was \$150,000 and its surplus as regards policyholders was \$1,823,974.

D. Reinsurance

The Company provides property coverage related to exposures under the Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA"), for which it is eligible for 85% reinsurance provided by the U.S. Treasury in excess of a statutorily mandated deductible of \$100,000. The Company retains the deductible and purchases a reinsurance policy for the remaining 15% of losses.

E. Corporate Records

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

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 Willis of New York, Inc. (“Manager”), an insurance consultant licensed by the New York Department of Financial Services. The Manager’s duties pursuant to the Management Agreement, as revised effective January 1, 2010, are as follows:

- Provide the Company with such services in connection with all business transactions relating to the insurance operations and activities undertaken by the Company.
- Assist in the establishment and maintenance of the Company’s bank account.
- Act as principal representative and communicate with regulatory authorities.

(ii) Board of Directors

At December 31, 2011, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Kevin Michael Whelan Boston, MA	Managing Director, Beacon Capital Partners, LLC
Stuart Milstein New York, NY	Senior Vice President, Beacon Capital Partners, LLC
P. Bruce Wright New York, NY	Attorney, Sutherland Asbill & Brennan, LLP

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:

<u>Name</u>	<u>Title</u>
Kevin Michael Whelan	President
Kathleen Laubenthal	Secretary
Stuart Milstein	Treasurer

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

The Company was audited by the independent CPA firm of Ernst & Young LLP, 200 Clarendon Street, 47th floor, Boston, MA 02116 for the period from its inception to December 31, 2011. The Company’s opening actuary as of December 31, 2011 was Willis Casualty Actuarial Practice, One World Financial Center, 200 Liberty Street, New York, NY 10281

G. Growth of Company

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

<u>Year</u>	<u>New Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholders’ Equity</u>
2006	\$195,161	\$ 46,715	\$ 919,467	\$ 296,715
2007	548,691	282,902	1,183,010	579,617
2008	557,600	303,531	1,505,535	883,148
2009	570,130	290,920	1,267,994	1,174,068
2010	570,018	303,004	1,596,879	1,477,072
2011	669,822	346,902	1,941,316	1,823,974

3. FINANCIAL STATEMENTS

The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America that differ from statutory accounting practices prescribed or permitted for insurance companies by the New York State Department of Financial Services. The Company's independent accounting firm concluded that the following financial statements, present fairly, in all material respects, the financial position Mainland Insurance Company as of December 31, 2011.

A Balance Sheet

BALANCE SHEET AS OF DECEMBER 31, 2011

Assets

Cash	\$1,902,735	
Prepaid reinsurance premium	14,055	
Deferred tax asset	24,279	
Deferred acquisition cost	<u>247</u>	
Total Assets		<u>\$1,941,316</u>

Liabilities

Taxes payable	\$ 25,179	
Unearned premium	47,342	
Accrued expenses	<u>44,821</u>	
Total liabilities		<u>\$ 117,342</u>

Capital and Surplus

Paid in capital (par value)	\$ 100,000	
Contributed surplus	150,000	
Surplus (accumulated earnings)	<u>1,573,974</u>	
Total shareholders' equity		<u>\$1,823,974</u>
Total liabilities and capital surplus		<u>\$1,941,316</u>

B. Statement of Income

The Company's capital and surplus has increased \$1,823,974 since its inception of August 24, 2006 detailed as follows:

STATEMENT OF INCOME

Underwriting Income

Net premiums earned	\$3,111,422	
Interest income	<u>\$17,865</u>	
Total revenues		\$3,129,287
Deductions:		
General and administrative	\$ 688,622	
Premium tax expenses	<u>\$36,047</u>	
Total operating deductions		<u>724,669</u>
Income before federal income tax expenses		\$2,404,618
Federal Income tax expense	<u>\$ 830,644</u>	
Net Income		<u>\$1,573,974</u>

C. Capital and Surplus Account

Capital and surplus as of August 24, 2006		\$ 0
	<u>Gain in surplus</u>	
Net income	\$1,573,974	
Issuance of common stock	\$ 100,000	
additional paid in capital	<u>150,000</u>	
Net increase in surplus		<u>\$1,823,974</u>
Capital and surplus as of December 31, 2011		<u>\$1,823,974</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for losses and loss adjustment expenses of \$0 is the same as the amount reported by the Company on its 2011 filed annual statement.

Pursuant to the 2011 “Statement of Actuarial Opinion”, the opinion on the loss and loss adjustment expense reserves is based on the assumption that all reserves are backed by valid assets, which have suitably scheduled maturities and/or adequate liquidity to meet the cash flow requirements of the Company. As of February 3, 2012 that there are no known claims or potential for claims for the Company with occurrence dates from January 1, 2011 to December 31, 2011. The Company’s opening actuary stated the following in its “Statement of Actuarial Opinion”:

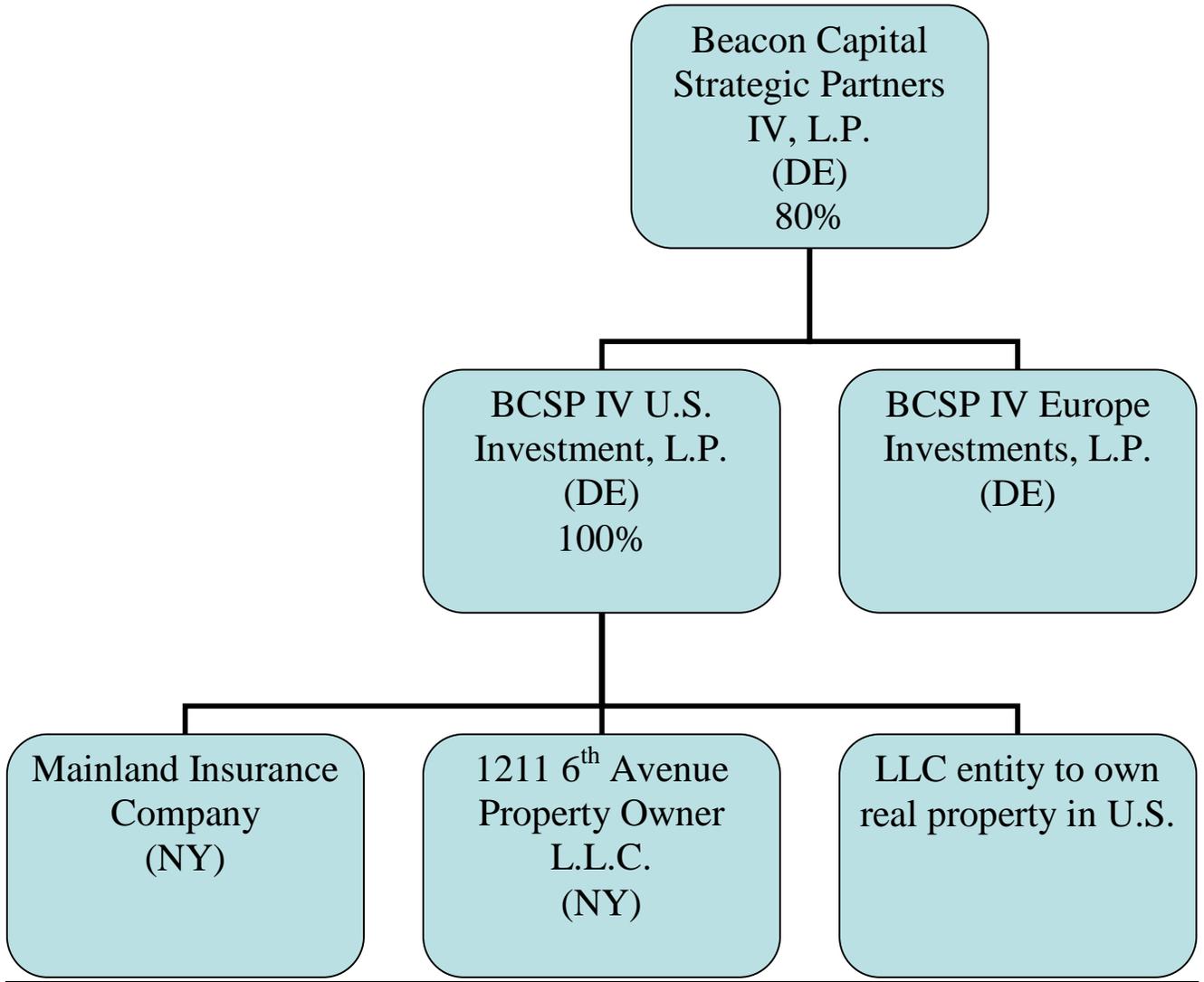
“Based on the information provided by Willis Captive Management and Mainland Insurance Company, the \$0 loss and loss expense reserve amount carried on the balance sheet as of December 31, 2011 make reasonable provision for all unpaid loss and loss expense obligations for Mainland Insurance Company.”

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

Mainland Insurance Company is wholly-owned by BCSP IV U.S. Investments, L.P., a Delaware limited partnership established on November 8, 2005.



7. INSURANCE PROGRAM

Mainland Insurance Company provides Terrorism Risk Insurance to its Parent, BCSP IV U.S. Investments, L.P. and its affiliate, 1211 6th Avenue Property Owner L.L.C. The insurance policy covers direct physical loss or damage to the insured property located at 1211 Avenue of Americas, New York, NY, and resulting time element loss resulting from a certified act of terrorism as defined under the Terrorism Risk Insurance Program Reauthorization Act of 2007. The Company does not have any other insurance policies.

8. 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 _____, 2013.

APPOINTMENT NO. 30906

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:

Wei Cao

as a proper person to examine the affairs of the

MAINLAND 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.

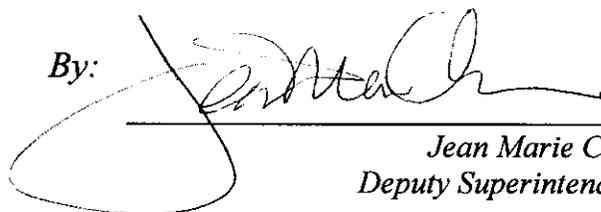
*In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York*

this 27th day of December, 2012

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By:



Jean Marie Cho
Deputy Superintendent