

REPORT ON EXAMINATION

OF THE

SEYMOUR INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

DATE OF REPORT

AUGUST 14, 2013

EXAMINER

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

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

August 14, 2013

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30910 dated December 27, 2012, attached hereto, I have made an examination into the condition and affairs of Seymour 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 Seymour Insurance Company. Wherever the designation “Parent” appears herein without qualification, it should be understood to refer to Seymour Holding 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 October 10, 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

The Company was incorporated under the laws of New York State as a captive insurance company on October 16, 2006 and commenced business on the same day. The Company is a wholly-owned subsidiary of Seymour Holding Corporation, which was established and capitalized by the Durst Organization Inc. The Durst Organization Inc. was founded in 1915 and is one of the oldest family-run, commercial and residential real estate companies in New York City.

### 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 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 \$150,000 consisting of 150,000 shares of \$1 par value per share common stock and its surplus as regards policyholders was \$47,147,212.

D. Corporate Records

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

E. Reinsurance

The Company provides property coverage to the Durst Organization Inc. and its subsidiaries related to exposures under the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) and related Nuclear, Biological, Chemical and Radiological Acts of Terrorism (NBCR). Under TRIPRA, the Company is eligible for 85% reinsurance provided by the U.S. Treasury in excess of a statutorily mandated deductible equal to a percentage of direct earned premiums. The following chart shows the risks insured, reinsured and retained by the Company at December 31, 2011:

<u>Risks Insured:</u>	<u>Risks Reinsured:</u>	<u>Risks Retained:</u>
TRIPRA: \$1.5 billion excess of \$1.0 billion per occurrence, excess of \$100,000 deductible/self-insured risk per occurrence.	85% (\$1,275 million) reinsured by the U.S. Treasury above a statutory deductible equal to a percentage of direct earned premiums.  15% (\$225 million) reinsured in 2 layers (\$97.5 million + \$127.5 million) with outside reinsurers.	Statutory deductible.
NBCR: \$1.3 billion per occurrence in excess of \$100,000 deductible/self-insured risk per occurrence.	85% (\$1,105 million) reinsured by the U.S. Treasury above a statutory deductible equal to a percentage of direct earned premiums.	Statutory deductible + 15% (\$195 million) not reinsured by the U.S. Treasury.

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.

Effective October 26, 2006, the Company is managed by Willis of New York, Inc. (“Willis”), which is licensed as a broker by the New York Department of Financial Services.

Pursuant to the Management Agreement between the Company and Willis, Willis shall render the following services to the Company:

- Assist the Company in initiating and maintaining proper accounting records in accordance with established accounting principles applicable to the business of insurance;
- Arrange for the investment of the Company’s funds in accordance with investment guidelines issued by the Company;
- Maintain and operate such bank accounts necessary for the proper conduct of the insurance operations of the Company;
- Work with the Company to ensure that the books of account and records conform with the laws of the State of New York relating to captive insurance companies;
- Carry out all reporting obligations imposed on captive insurance companies by the laws of the State of New York;
- Advise the Company of all duties and obligations imposed on captive insurance companies by the laws of the State of New York.

(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 nor more than ten members, of which, at least two shall at all times be residents of New York State. At December 31, 2011, the board of directors was comprised of the following four members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Ira Marx New York, NY	Chief Financial Officer, The Durst Organization, Inc.
Douglas Durst New York, NY	Chairman, The Durst Organization, Inc.
Gary Rosenberg New York, NY	Secretary, Seymour Insurance Company
Jonathan Durst New York, NY	President, The Durst Organization, Inc.

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>
Douglas Durst	Chairman
Jonathan Durst	President
Gary Rosenberg	Secretary
Ira Marx	Treasurer
Alexander Durst	Vice President
Helena Durst	Vice President

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

The Company was audited by the independent CPA firm, Saslow Lufkin & Buggy for the years 2007-2011. The Company’s opining actuary as of December 31, 2011 was Willis Casualty Actuarial Practice, One World Financial Center, 200 Liberty Street, New York NY 10281.

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:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholders' Equity</u>
2006	\$1,326,507	\$ 1,221,582	\$21,140,424	\$ 4,287,082
2007	6,574,134	6,886,425	21,488,298	11,173,507
2008	7,924,672	8,065,704	30,324,029	19,239,211
2009	9,711,102	10,064,141	39,133,642	29,303,352
2010	8,552,435	9,179,185	47,295,229	38,482,537
2011	7,991,385	8,774,085	55,928,550	47,147,212

### 3. FINANCIAL STATEMENTS

With the Department's permission, the financial statements of the Company have been prepared in conformity with generally accepted accounting principles, which differ from statutory accounting practices prescribed or permitted by the Department for insurance companies. The Company's independent accounting firm concluded that the following financial statements, present fairly, in all material respects, the Company's financial position as of December 31, 2011.

#### A Balance Sheet

##### Assets

Cash and cash equivalents	\$ 2,643,978	
Other invested assets	2,890,591	
Accounts and premiums receivable	8,345,390	
Demand note receivable from Parent	41,000,000	
Prepaid reinsurance premiums	371,732	
Deferred acquisition costs	98,112	
Premium tax receivable	378	
Interest receivable from Parent on demand note	<u>578,370</u>	
Total assets		<u>\$55,928,551</u>

##### Liabilities

Reinsurance balances payable	\$ 372,750	
Unearned premium	8,322,588	
Accrued expenses	<u>86,000</u>	
Total liabilities		<u>\$8,781,338</u>

##### Capital and Surplus

Paid in capital (par value)	\$ 150,000	
Contributed surplus	2,915,500	
Surplus (accumulated earnings)	<u>44,081,713</u>	
Total capital and surplus		<u>\$47,147,213</u>
Total liabilities and capital surplus		<u>\$55,928,551</u>

B. Statement of Income

The Company's capital and surplus increased \$47,147,213 during the five-year period detailed as follows:

STATEMENT OF INCOMEUnderwriting Income

Net premiums earned		\$42,080,235
Deductions:		
General and administrative	\$326,978	
Underwriting expenses	<u>840,970</u>	
Total underwriting deductions		\$ <u>1,167,948</u>
Net underwriting gain or (loss)		\$40,912,287
<u>Investment Income</u>		
Interest income		<u>3,278,835</u>
Net income		<u>\$44,191,122</u>

C. Capital and Surplus Account

Capital and surplus as of October 10, 2006 0

	<u>Gains in surplus</u>	<u>Losses in surplus</u>	
Net income	\$44,191,122		
Issuance of common stock	\$150,000		
Additional paid in capital	2,915,500		
Unrealized losses on securities available for sale	<u>0</u>	\$109,410	
Total gains and losses in surplus	<u>\$47,256,622</u>	<u>\$109,410</u>	
Net increase in surplus			<u>\$47,147,213</u>
Capital and surplus as of December 31, 2011			<u>\$47,147,213</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The Company reported a liability of \$0 for the captioned items as of December 31, 2011. In the Statement of Actuarial Opinion, the Company's appointed actuary stated the following:

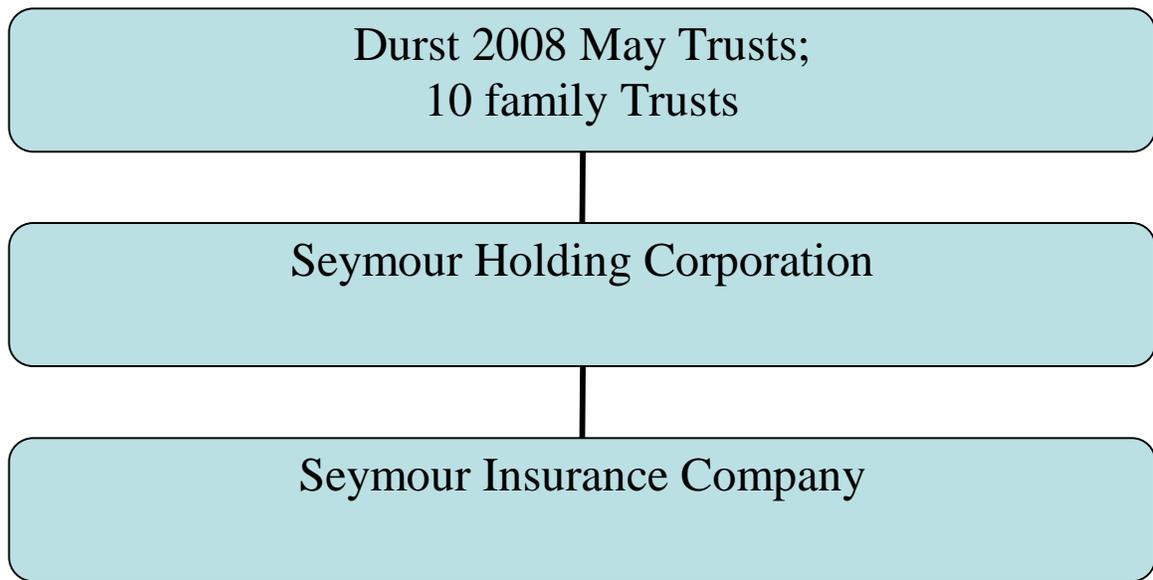
"This opinion is based on information provided by Ira Marx, Treasurer of Seymour Insurance Company, as of 3/6/12 that there are no known claims or potential for claims for Seymour Insurance Company, Inc. with occurrence dates from 1/1/11 to 12/31/11. In my opinion, based on the information provided by Willis Captive Management and Seymour 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 Seymour 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

Below is the organizational chart of Seymour Insurance Company.



## **7. INSURANCE PROGRAM**

As of December 31, 2011, the Company provided terrorism and NBCR insurance for the property portfolio of the Durst Organization, Inc. and its subsidiaries, as follows:

TRIPRA: \$1.5 billion excess of \$1.0 billion each occurrence, regardless of the number of locations involved, with a deductible of \$100,000 each occurrence.

NBCR: First dollar coverage with a limit of \$1.3 billion each occurrence, regardless of the number of locations involved for certified acts of terrorism solely involving NBCR events, with a deductible of \$100,000 each occurrence.

## **8. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report contains no comments or recommendations.

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. 30910

**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*

**SEYMOUR 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*