

REPORT ON EXAMINATION

OF THE

RVC INSURANCE COMPANY, INC

AS OF

DECEMBER 31, 2011

DATE OF REPORT

SEPTEMBER 27, 2013

EXAMINER

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawskey
Superintendent

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

September 30, 2013

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30909 dated December 27, 2012, attached hereto, I have made an examination into the condition and affairs of RVC Insurance Company, Inc. 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 RVC Insurance Company, Inc. Wherever the designation “Parent” or “CHSLI” appears herein without qualification, it should be understood to refer to Catholic Health Systems of Long Island.

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, 2007 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 December 22, 2004 and commenced business on January 1, 2007. The Company is a wholly-owned subsidiary of Catholic Health System of Long Island ("CHSLI"). Catholic Health System of Long Island is a New York non-for-profit corporation and is an integrated health care delivery system serving Nassau and Suffolk counties. CHSLI includes six hospitals, three nursing homes, a regional home care and hospice group and a community-based agency for persons with special needs.

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 \$100,000 consisting of 100,000 shares of \$1.00 par value per share common stock and its surplus as regards policyholders was \$12,781,000.

D. Corporate Records

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

E. Insurance Program

The Company provides excess professional liability, general liability (excluding terrorism coverage) and employers' liability insurance coverage under a claims-made Health Care Umbrella Liability Policy to its ultimate parent, Catholic Health System of Long Island, and affiliated entities. Coverage attaches at claims in excess of \$1,000,000 per occurrence with a limit of \$59,000,000 per claim and annual aggregate. Coverage also attaches once various underlying annual aggregates are exhausted. Underlying aggregates vary by affiliate and coverage.

F. Reinsurance

As of December 31, 2011, the Company has structured its ceded reinsurance program as follows:

| <u>Treaty</u> | <u>Cession</u> |
|--------------------------------------|---|
| 1 st layer Excess of Loss | \$5,000,000 excess of \$5,000,000 per claim (\$4,000,000 after a 2-year retention layer of \$1,000,000 is exhausted). |
| 2 nd layer Excess of Loss | \$5,000,000 excess of \$10,000,000 per claim. |
| 3 rd layer Excess of Loss | \$25,000,000 excess of \$15,000,000 per claim and in the aggregate. |
| 4 th layer Excess of Loss | \$20,000,000 excess of \$40,000,000 per claim and in the aggregate. |

The first and second layers of reinsurance were added effective November 1, 2011. Pursuant to instructions contained on the Department's website, any proposed changes to a captive insurer's plan of operation subsequent to licensing shall be submitted to the Superintendent thirty days before becoming effective. It is noted that the Company did not submit a request for approval to amend its plan of operation to reflect the change to its reinsurance program until September 16, 2013.

It is recommended that the Company submit any proposed changes to its plan of operation to the Department at least 30 days prior to implementation pursuant to the instructions contained on the Department's website.

G. 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.

Prior to May 1, 2011, the Company was managed by Marsh Management Services, Inc. Effective May 1, 2011, 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:

- Review underwriting policy(ies) and files to ensure RVC contracts of insurance are in conformity with the approved business plan;
- Ensure that the established books of account and records conform with the laws of New York relating to captive insurance companies;
- Carry out, on RVC's behalf, all reporting obligations imposed on captive insurance companies by the laws 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 directors, 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> |
|--|---|
| Richard J.J. Sullivan Jr. Babylon, NY | President Catholic Health Systems of Long Island |
| Lynn Taylor Calverton, NY | Corporate Vice President of Risk Management Catholic Health Systems of Long Island |
| David Decerbo Jericho, NY | Executive Vice President & General Counsel Catholic Health Systems of Long Island |
| Colleen M. Blye Chester Springs, PA | Senior Vice President & Chief Financial Officer Catholic Health Systems of Long Island |

During the period covered by this examination, the board held at least one meeting each year as required pursuant to Section 7003(b)(2) of the New York Insurance Law. 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> |
|---------------------------|----------------|
| Richard J.J. Sullivan Jr. | President |
| David Decerbo | Vice President |
| Lynn Taylor | Secretary |
| Colleen M. Blye | Treasurer |

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

The Company was audited by the independent CPA firm KPMG LLP, 345 Park Ave, New York for the years 2007 – 2011. The Company’s opening actuary as of December 31, 2011 was Oliver Wyman Actuarial Consulting, Inc., 1166 Ave of the Americas, 29th Floor, New York, NY 10036.

I. 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>Shareholder’s Equity</u> |
|-------------|--------------------------------|-----------------------|---------------|---------------------------------|
| 2007 | \$ 8,940,000 | \$ (2,739,000) | \$17,745,000 | \$ (489,000) |
| 2008 | \$ 7,635,000 | \$ 154,000 | \$20,819,000 | \$ (335,000) |
| 2009 | \$10,964,000 | \$ (2,452,000) | \$37,734,000 | \$ (2,787,000) |
| 2010 | \$15,604,000 | \$12,258,000 | \$49,242,000 | \$ 9,471,000 |
| 2011 | \$11,912,000 | \$ 3,310,000 | \$56,947,000 | \$12,781,000 |

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 | \$11,391,000 | |
| Investments | 29,595,000 | |
| Insurance premiums receivable | 11,840,000 | |
| Prepaid insurance premiums | 1,331,000 | |
| Deferred policy acquisition costs | 144,000 | |
| Prepaid expenses | 28,000 | |
| Reinsurance recoverable | <u>2,618,000</u> | |
| Total Assets | | <u>\$56,947,000</u> |

Liabilities

| | | |
|---------------------------------------|---------------|--------------|
| Losses and loss adjustment expenses | \$31,842,000 | |
| Unearned premiums | 11,803,000 | |
| Accounts payable and accrued expenses | 502,000 | |
| Due to related parties | <u>19,000</u> | |
| Total liabilities | | \$44,166,000 |

Capital and Surplus

| | | |
|---------------------------------------|-------------------|---------------------|
| Capital stock | \$ 100,000 | |
| Additional paid in capital | 2,150,000 | |
| Surplus (Accumulated earnings) | <u>10,531,000</u> | |
| Total capital and surplus | | <u>12,781,000</u> |
| Total liabilities and capital surplus | | <u>\$56,947,000</u> |

B. Statement of Income

The Company's capital and surplus increased \$12,531,000 during the five-year period detailed as follows:

STATEMENT OF INCOMEUnderwriting Income

| | | |
|---|------------------|-------------------|
| Net premiums earned | | \$55,055,000 |
| Deductions: | | |
| Net losses and net loss adjustment expense incurred | \$42,799,000 | |
| Claim administration fees | 564,000 | |
| Policy acquisition costs | 758,000 | |
| Brokerage fees | 398,000 | |
| Administrative expenses | <u>2,065,000</u> | |
| Total underwriting deductions | | <u>46,584,000</u> |
| Net underwriting gain or (loss) | | \$ 8,471,000 |

Investment Income

| | | |
|--|----------------|---------------------|
| Net investment income | \$ 1,415,000 | |
| Change in unrealized gains(losses) on trading investment | <u>645,000</u> | |
| Total investment income | | <u>2,060,000</u> |
| Net Income | | <u>\$10,531,000</u> |

C. Capital and Surplus Account

| | | |
|---|----------------------------|-------------------|
| Capital and surplus as of December 31, 2006 | | \$ 250,000 |
| | Gains in <u>surplus</u> | |
| Net income | \$10,531,000 | |
| Capital contribution | <u>2,000,000</u> | |
| Net increase in surplus | | <u>12,531,000</u> |
| Capital and surplus as of December 31, 2011 | | \$12,781,000 |

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2011, the Company reported total gross loss and loss adjustment expense reserves of \$31,842,000. The Company's opining actuary stated the following in its Statement of Actuarial Opinion:

In its December 31, 2011 balance sheet, RVC is carrying a loss reserve, on a gross basis, of \$31,842,000.

In my opinion, the amount of \$31,842,000 carried in the balance sheet on amount of the item identified above:

- Meets the requirements of the insurance laws of the State of New York;
- Has been evaluated in accordance with accepted loss reserving standards and principles; and
- Makes a reasonable provision for all net unpaid loss obligations of RVC under the terms of its policies and agreements;

The amount, \$31,842,000, is not discounted to reflect the time value of money.

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

RVC Insurance Company is a not-for-profit single-parent captive company and a wholly owned subsidiary of Catholic Health System of Long Island (CHS). CHS is an integrated health care delivery system serving Nassau and Suffolk counties. CHS includes six hospitals, three nursing homes, a regional home care and hospice group and a community-based agency for persons with special needs.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS**ITEM****Page No.**

It is recommended that the Company submit any proposed changes to its plan of operation to the Department at least 30 days prior to implementation pursuant to the instructions contained on the Department's website.

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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. 30909

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

RVC INSURANCE COMPANY, INC.

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