

REPORT ON EXAMINATION

OF THE

RP CAPTIVE INSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2012

DATE OF REPORT

APRIL 26, 2016

EXAMINER

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Acting Superintendent

Honorable Maria T. Vullo
Acting Superintendent of Financial Services
Albany, New York 12257

April 26, 2016

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31048 dated September 13, 2013, attached hereto, I have made an examination into the condition and affairs of RP Captive Insurance Company, Inc. 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 RP Captive Insurance Company, Inc. Wherever the designation “Parent” appears herein without qualification, it should be understood to refer to River Place II Holdings I LLC.

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 covered the period from the Company's inception 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 or verification. The examination included a review of Company records deemed necessary to accomplish such analysis or verification. Transactions occurring subsequent to this period were reviewed where deemed necessary. Additionally, a review was performed to determine whether the captive insurer was operating within its by-laws, conforming to its plan of operation as submitted to the New York State Department of Financial Services, and was in compliance with Article 70 of 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 New York Insurance Law ("the Law").

Work performed by the Company's independent certified public accountants and its opining actuary was utilized 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 August 20, 2007, and commenced business on August 24, 2007. The Company is a wholly-owned subsidiary of River Place II Holdings I LLC. RP Captive Insurance Company, Inc. was formed to provide Terrorism Property coverage for properties owned by the following wholly-owned subsidiaries of the Parent:

- River Place II LLC
- River Place II IH LLC and
- River Place II CH LLC

All of the insured properties are located in New York City.

A. Articles of Incorporation

The Company is organized to transact the kinds of insurance specified in Sections 1113(a) and 1114 of the 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 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 Law.

As of December 31, 2012, the Company's total surplus as regards policyholders of \$330,250 included \$100,000 in common stock with a \$1 par value per share and an additional paid-in-capital amount of \$160,752. The Company also had accumulated earnings totaling of \$69,498.

D. Corporate Records

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

E. Operations

As of December 31, 2012, the Company provided terrorism insurance coverage under the Terrorism Risk Insurance Program Reauthorization Act of 2007("TRIPRA), for the properties referenced in Item 2 of this report. TRIPRA, the reauthorization of the Terrorism Risk Insurance Act of 2002 and extended under the Terrorism Risk Insurance Extension Act of 2005, provides a federal backstop for insured losses resulting from acts of terrorism. Once TRIPRA has been triggered, the federal government will pay 85% of insured terrorism losses in excess of individual insurer

triggers/deductibles, while the insurer is responsible for the remaining 15% of the loss. RP Captive Insurance Company purchased reinsurance for its 15%, to be ceded equally to Axis Re PLC and Lexington Insurance Company. Subsequent to the examination date, the Company changed the percentages ceded to Axis Re SE and Lexington to 75% and 25%, respectively. The change to its Plan of Operation was submitted to the Department for an approval on September 16, 2013.

The Company also cedes 100% of its risk for non-certified acts of domestic terrorism equally to Axis Re PLC and Lexington Insurance Company.

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 the State of New York 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.

Since its inception, the Company has been managed by Willis of New York, Inc. (“Willis”) which is licensed as a broker by the Department.

Pursuant to a management agreement, Willis provided the Company with underwriting, administrative and other general management and operational services for a fee. These services included preparing, compiling and maintaining adequate underwriting policies and files to ensure that Company contracts of insurance were in conformity with the approved business plan. Willis advised the Company on all of the duties and obligations imposed on captive insurance companies and worked to ensure that the books of account and records conformed with the laws of the State of New York.

The management agreement was amended on December 20, 2011 to reflect the revised management fee effective January 1, 2011.

(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 members shall at all times be residents of New York State. As of December 31, 2012, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Larry Silverstein New York, NY	President, Silverstein Properties, Inc.
Michael Levy Melville, NY	Senior Vice President, Silverstein Properties, Inc.
Robbin Orbison New York, NY	Treasurer, Silverstein Properties, Inc.

During the period covered by this examination, the board met once annually. A review of the meetings minutes indicated that they were generally well attended, with the exception Larry Silverstein. Mr. Silverstein did not attend any of the board meeting for which he was eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set-forth their views on relevant matters so that the board can reach appropriate decisions. Individuals who fail to attend an appropriate number of meetings do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend board meetings should resign or be replaced.

(iii) Officers

As of December 31, 2012, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Larry A. Silverstein	President
Michael Levy	Senior Vice President
Shari Natovitz	Vice President & Secretary
Robbin Orbison	Treasurer

G. Certified Public Accountant ("CPA")

The Company was audited by the independent CPA firm, Weiser Mazars, 135 W 50th Street, New York, NY 10020, for the year 2012 and Friedman LLP, for the years 2008 through 2011. Weiser Mazars concluded that the Company's financial statements presented fairly, in all material respects, the Company's financial position as of December 31, 2012.

3. FINANCIAL STATEMENTS

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

A Balance Sheet

Assets

Cash	\$223,664
Premium receivable	384,597
Prepaid reinsurance premiums	160,071
Deferred policy acquisition costs	3,534
Deferred tax asset	8,144
Income taxes receivable	<u>6,109</u>

Total Assets		<u>\$786,119</u>
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Liabilities

Unearned premiums	\$429,337
Reinsurance balance payable	2,414
Accrued expenses	21,570
Assessment tax payable	<u>2,548</u>

Total liabilities		\$455,869
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Capital and Surplus

Common stock	\$100,000
Additional paid in capital	160,752
Retained earnings	<u>69,498</u>

Total capital and surplus		<u>\$330,250</u>
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Total liabilities and capital surplus		<u>\$786,119</u>
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B. Statement of Income

The Company's net income for the examination period was \$1,217,268 as detailed below:

STATEMENT OF INCOMEUnderwriting Income

Net premiums earned		\$2,224,308
Deductions:		
Policy acquisition and other underwriting expenses	<u>\$419,186</u>	
Total underwriting deductions		<u>419,186</u>
Net underwriting gain or (loss)		\$1,805,122
Dividend income	<u>\$21,808</u>	
Total dividend income		<u>21,808</u>
Income before federal income taxes		\$1,826,930
Current income tax	\$617,806	
Deferred income tax	<u>(\$8,144)</u>	
Total federal income tax		<u>609,662</u>
Net income		<u>\$1,217,268</u>

C. Capital and Surplus Account

The Company's capital and surplus increased \$330,250 during the period covered by this examination, detailed as follows:

Capital and surplus as of August 20, 2007			\$0
	<u>Gains in surplus</u>	<u>Losses in surplus</u>	
Net income	\$1,217,268		
Common stock	100,000		
Paid in capital	160,752		
Net increase in surplus			\$1,478,020
Dividends		<u>\$1,147,770</u>	
Capital and surplus as of December 31, 2012			<u>\$ 330,250</u>

4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

As of December 31, 2012, the Company reported total loss and loss adjustment expense reserves of \$0. The Company's opining actuary as of December 31, 2012, Willis Casualty Actuarial, One World Financial Center, 7th Floor, New York, NY 10281, stated the following in its Statement of Actuarial Opinion:

"This opinion is based on information provided by Vice President of RP Captive Insurance Company, Inc. as of 5/2/13 that there are no known claims or potential for claims for RP Captive Insurance Company, Inc. with occurrence dates from 1/1/12 to 12/31/12. In my opinion, the \$0 loss and loss expense reserve amount carried on the balance sheet as of 12/31/12 make reasonable provision for all unpaid loss and loss expense obligations for RP Captive Insurance Company, Inc.

Totally, in my opinion, the amounts carried on account of the items identified:

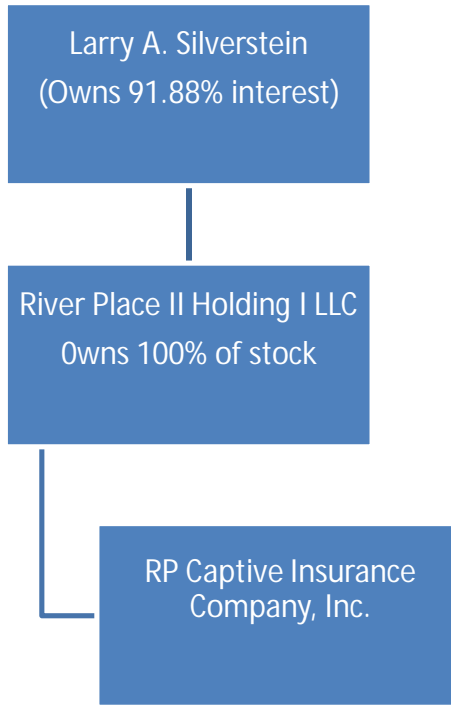
- Meet the relevant requirements of the insurance laws of New York.
- Are computed in accordance with accepted actuarial standards and principles.
- Make a reasonable provision in the aggregate for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements."

5. **ARTICLE 70 COMPLIANCE**

Article 70 of the Law is the governing section 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 Law. No significant areas of non-compliance were found.

6. **ORGANIZATIONAL STRUCTURE**

The below is the organizational chart of the RP Captive Insurance Company, Inc.:



7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

ITEM

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Management and Control

It is recommended that board members who are unable or unwilling to attend board meetings should resign or be replaced.

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Respectfully submitted,

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.

Wei Cao

Subscribed and sworn to before me

this _____ day of _____, 2014.

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

RP Captive 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 13th day of September, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By:



Jean Marie Cho
Deputy Superintendent