

REPORT ON EXAMINATION

OF THE

CM INSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2015

DATE OF REPORT

JUNE 23, 2017

EXAMINER

WEI CAO

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

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

June 23, 2017

Madam:

Pursuant to the requirements of the New York Insurance Law and in compliance with the instructions contained in Appointment Number 31582 dated March 24, 2017, attached hereto, I have made an examination into the condition and affairs of CM Insurance Company, Inc. as of December 31, 2015, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate CM Insurance Company, Inc. Wherever the designation "the Parent" appears herein without qualification, it should be understood to indicate the Columbus McKinnon 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, 2011 through December 31, 2015, and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis. Transactions occurring subsequent to this period were review where deemed appropriate. The examination included a review of 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 (the 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 Law.

The report utilized work performed by the Company's independent certified public accountant 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 March 26, 1990 and commenced business on April 1, 1990. The Company was a wholly-owned subsidiary of the Columbus McKinnon Corporation and provided the Parent and its affiliates with professional liability and commercial general liability insurance coverage during the period covered by this examination.

### A. Articles of Incorporation

The Company is organized to transact the kinds of insurance specified in Section 1113(a) 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 found that the Company was 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 a total 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, 2015, the Company's paid-in capital was \$250,000, consisting of 1,000 shares of common stock with a par value of \$100 per share and an additional paid-in capital amount of \$150,000. The Company had total accumulated earnings of \$20,707,778, for a total capital and surplus (surplus as regards policyholders) of \$20,957,778.

D. Corporate Records

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

E. Operations

CM Insurance Company, Inc. provided professional liability coverage for the Parent and its affiliates with a limit \$2,000,000 per claim, including claim expenses. The policy had an aggregate limit of \$3,000,000 per policy year. There was a deductible of \$250,000 per claim, including claim expenses, with an aggregate limit of \$500,000 per policy year. The policy covered the period from April 1, 2014 to April 1, 2015.

The Company also provided commercial general & product liability coverage with an aggregate limit of \$5,000,000.

Total direct premium for both professional and commercial general & product liability coverages in 2015 was \$4,873,953. Premiums are recognized as revenue on a pro rata basis over the policy term. The Company's policy is retrospectively rated and premiums earned by the Company are adjusted based upon actual loss and loss adjustment expenses incurred.

The Company neither assumed nor ceded any business during the period covered by this examination.

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 this State 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.

From January 1, 2011 to March 31, 2014 the Company was managed by Willis of New York, Inc. (öWillisö). It was managed by Marsh Captive Solutions (öMarshö) from April 1, 2014 to December 31, 2015. Both Marsh and Willis are authorized to act as managers for captive insurance companies by the Department.

Pursuant to a management agreement, effective April 1, 2014, Marsh has the responsibility for providing the Company with underwriting, policyholder, claims, and other general management and operational services for a fee. These responsibilities include assisting the Company in complying with the rules, regulations and requirements of the Law. They also included maintaining true and complete books of account and records for all business conducted under this agreement.

(ii) Board of Directors

Pursuant to the Company's by-laws, management of the Company is vested in a board of directors consisting of three members, at least two of whom shall be residents of New York State. At December 31, 2015, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Alan S. Korman East Amherst, NY	Corporate Secretary, Columbus McKinnon Corporation
Gregory P. Rustowicz East Amherst, NY	Vice President, Columbus McKinnon Corporation
Timothy T. Tevens East Amherst, NY	President, Columbus McKinnon Corporation

In accordance with its by-laws and Section 7003(b)(2) of the Law, the board of directors met once annually. A review indicated that the meetings were well attended.

(iii) Officers

As of December 31, 2015, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Timothy T. Tevens	President
Gregory P. Rustowicz	Vice President
Alan Korman	Secretary
Jon Adams	Treasurer

G. Certified Public Accountant (CPA)

Ernst & Young LLP. was the Company's certified public accounting firm for the entire period covered by this examination. The CPA stated that the Company's audited financial statement presented fairly, in all material respects, its financial position at December 31, 2015.

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.

A. Balance SheetAssets

Cash	\$18,167	
Investment	18,123,076	
Premium receivable	727,500	
Restricted cash	250,000	
Deferred tax asset	6,229,281	
Due from parent	<u>8,221,393</u>	
Total assets		<u>\$33,569,417</u>

Liabilities

Loss and loss adjustment expense reserves	\$11,844,139	
Accrued liabilities	40,000	
Unearned premium liability	<u>727,500</u>	
Total liabilities		<u>\$12,611,639</u>

Capital and Surplus

Common stock	\$100,000	
Additional paid-in capital	150,000	
Accumulated other comprehensive income	(13,855)	
Surplus (accumulated earnings)	<u>20,721,633</u>	
Total capital and surplus		<u>\$20,957,778</u>
Total liabilities, capital and surplus		<u>\$33,569,417</u>



B. Statement of Income

The Company's net income for the examination period was \$13,532,444, as detailed below:

STATEMENT OF INCOMEUnderwriting Income

Net premiums earned		\$18,507,284
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## Deductions:

General and administrative expenses	\$18,507,284	
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Underwriting expenses	<u>1,169,740</u>	
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Total underwriting deductions		<u>19,677,024</u>
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Net underwriting gain or (loss)		\$(1,169,740)
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Investment Income

Net investment income	3,573,490	
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Net realized gains on investment	<u>5,920,342</u>	
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Investment income		<u>9,493,832</u>
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Net income before tax		\$8,324,092
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Federal income tax benefit		<u>(5,208,352)</u>
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Net income		<u>\$13,532,444</u>
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C. Capital and Surplus Account

The Company's capital and surplus increased \$11,868,073 during the period covered by this examination, detailed as follows:

Capital and surplus as of December 31, 2010			\$9,089,705
	Increase in <u>surplus</u>	Decrease in <u>surplus</u>	
Net income	\$13,532,444		
Net unrealized appreciation of investment	148,314		
Reclassification adjustment for sale of impaired investment	<u>                    </u>	<u>1,812,685</u>	
Total increase and decrease in surplus	\$13,680,758	\$1,812,685	
Net increase in surplus			<u>11,868,073</u>
Capital and surplus as of December 31, 2015			<u>\$20,957,778</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2015, the Company reported total loss and loss adjustment expense reserves of \$11,844,139. The Company's opining actuarial firm, Marsh Captive Solutions, stated in its Statement of Actuarial Opinion that the reserves met the relevant requirements of the insurance laws of New York and were computed in accordance with accepted actuarial standards and principles. It was also stated that a reasonable provision was made, 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 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. No significant areas of non-compliance were found.

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations in this report.

Respectfully submitted,

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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 \_\_\_\_\_, 2016.

*APPOINTMENT NO. 31582*

*NEW YORK STATE*

***DEPARTMENT OF FINANCIAL SERVICES***

*I, Maria T. Vullo, 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*

***CM Insurance Company, Inc.***

*and to make a report to me in writing of the condition of said*

***COMPANY***

*with such other information as she 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 24th day of March, 2017*

***MARIA T. VULLO***  
*Superintendent of Financial Services*



By:

*Joan P. Riddell*

*Joan Riddell*  
*Deputy Bureau Chief*