



**REPORT ON EXAMINATION  
OF  
LCT INSURANCE COMPANY**

**AS OF DECEMBER 31, 2019**

**EXAMINER:  
DATE OF REPORT:**

**WEI CAO  
NOVEMBER 6, 2020**

## TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	2
	A. Articles of incorporation	2
	B. By-laws	2
	C. Capital structure	3
	D. Corporate records	3
	E. Operations	3
	F. Management and control	4
	G. Certified public accountant	5
3.	Financial statements	6
	A. Balance sheet	6
	B. Statement of income	7
	C. Capital and surplus account	8
4.	Losses and loss adjustment expenses	8
5.	Article 70 compliance	8
6.	Subsequent events	9
7.	Summary of comments and recommendations	9

KATHY HOCHUL  
Governor



ADRIENNE A. HARRIS  
Superintendent

October 25, 2022

Honorable Adrienne A. Harris  
Superintendent  
New York State Department of Financial Services  
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 32130 dated September 2, 2020, attached hereto, I have made an examination into the condition and affairs of LCT Insurance Company as of December 31, 2019, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate LCT Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

Due to the COVID-19 pandemic, this examination was conducted remotely.

## 1. SCOPE OF EXAMINATION

The examination covers the period from January 1, 2015, through December 31, 2019, 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 reviewed 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

LCT Insurance Company was incorporated under the laws of the State of New York on January 29, 2004, and commenced business on January 30, 2004. LCT Insurance Company is a wholly owned subsidiary of Tiffany & Co. and was formed to provide Tiffany & Co. and its subsidiaries with various self-insured coverages.

### A. Article 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 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, 2019, the Company's paid-in capital was \$250,000,000, consisting of 100,000 shares of common stock with a par value of one dollar per share and an additional paid-in capital amount of \$249,900,000. The Company had retained earnings of \$194,371,000 and a noncontrolling interest in TRM Investments, LLC of \$3,723,000 for a total capital and surplus (surplus as regards policyholders) of \$448,094,000.

D. Corporate Records

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

E. Operations

As of December 31, 2019, the Company provided its parent, affiliates and subsidiaries with the following coverages:

- General Liability Deductible Reimbursement: \$500,000 per occurrence inclusive of allocated loss adjustment expenses.
- Integrated Risks Policy: with various limits.
- Excess Cyber Policy: \$30,000,000 per loss and in the aggregate, in excess of \$20,000,000 of underlying limits of insurance.
- Trade Credit Insurance: \$2,000,000 per occurrence and in the aggregate.
- Excess Employment Practices Liability Policy: \$20,000,000 per loss and aggregate limit in excess of \$15,000,000 of underlying insurance and self-insured retentions.
- Pollution Liability Insurance Policy: \$3,000,000 per occurrence and in the aggregate, with a \$25,000 per occurrence deductible.
- Excess Wage & Hour Liability Policy: \$20,000,000 per loss and in the aggregate, in excess of \$30,000,000 of underlying insurance and self-insured retentions.
- Wage and Hour Liability Insurance Policy: \$30,000,000 per claim and annual aggregate.
- Workers Compensation Liability: \$500,000 per occurrence inclusive of allocated loss adjustment expenses and applicable loss assessments.

The Company neither assumed nor ceded 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 New York State unless it utilizes a captive manager resident in this State that is licensed as an agent or broker under the provisions of Article 21 of the Law, or any other person approved by the Superintendent.

During the period covered by this examination, the Company was managed by Marsh Management Services, Inc. (“Marsh”), which is authorized to act as a manager for captive insurance companies by the Department.

Pursuant to a management agreement effective October 1, 2011, Marsh has the responsibility for providing the Company with underwriting, administrative 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 and the preparation of the annual financial report required by the Department.

(ii) Board of Directors

Pursuant to the Company’s by-laws, its business and affairs shall be managed under the direction of the board of directors. There shall not be less than three board members, two of whom shall be residents of New York State. At December 31, 2019, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Mark J. Erceg Washington, UT	Executive Vice President – Chief Finance Officer, Tiffany & Co.
Leigh Marie Harlan New York, NY	Associate General Counsel, Tiffany & Co.
Jason Wong New York, NY	Vice President – Treasurer, Tiffany & Co.

During the period covered by the examination, the board of directors met once each year. A review of the meeting minutes indicated that they were all well attended.

(iii) Officers

As of December 31, 2019, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Leigh Marie Harlan	President
Catherine So	Secretary
Jason Wong	Treasurer

G. Certified Public Accountant

Crowe LLP (“Crowe”) was the Company’s independent certified public accounting firm for the period covered by the examination. Crowe stated that the Company’s consolidated statutory basis financial statements present fairly, in all material respects, the financial position of LCT Insurance Company and its subsidiaries as of December 31, 2019, and the results of their operations and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

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

##### Assets

Cash	\$21,116,000	
Investment	38,815,000	
Notes receivable	400,615,000	
Accrued interest	31,000	
Deferred policy acquisition cost	<u>7,000</u>	
Total assets		<u>\$460,584,000</u>

##### Liabilities

Losses and loss adjustment expenses	\$3,799,000	
Accounts payable	36,000	
Unearned premiums	1,178,000	
Premium taxes payable	14,000	
Deferred taxes	95,000	
Due to Parent for federal income taxes	<u>7,368,000</u>	
Total liabilities		<u>\$12,490,000</u>

##### Capital and Surplus

Common stock	\$100,000	
Additional paid in capital	249,900,000	
Retained earnings	194,371,000	
Noncontrolling interest in TRM Investment LLC	<u>3,723,000</u>	
Total capital and surplus		<u>448,094,000</u>
Total liabilities, capital and surplus		<u>\$460,584,000</u>



B. Statement of Income

The Company's net income for the period covered by the examination was \$68,662,000 as detailed below:

Underwriting Income

Premiums earned		\$57,463,000
Deductions:		
Losses and loss adjustment expenses	\$19,143,000	
General and administrative	858,000	
Unrealized losses on equity expenses	4,124,000	
Premium taxes	<u>176,000</u>	
Total underwriting deductions		<u>24,301,000</u>
Total underwriting income		33,162,000

Investment Income

Investment income	9,786,000	
Interest income on notes receivable from affiliates	46,148,000	
Realized gains on sales of investments	2,597,000	
Unrealized gains on equity securities	<u>4,244,000</u>	
Total investment income		<u>62,775,000</u>
Total income before taxes		95,937,000
Federal income tax expenses		<u>27,275,000</u>
Net income		<u>\$68,662,000</u>

C. Capital and Surplus Account

The Company's capital and surplus increased \$67,039,000 during the period covered by this examination, detailed as follows:

Capital and surplus as of January 1, 2015			\$401,055,000
	Increases in <u>surplus</u>	Decreases in <u>surplus</u>	
Net income	\$68,662,000		
Other comprehensive income	546,000		
Other comprehensive loss	<u>0</u>	\$2,169,000	
Total increases and decreases in surplus	<u>\$69,208,000</u>	<u>\$2,169,000</u>	
Net increases in surplus			<u>67,039,000</u>
Dividends		<u>20,000,000</u>	
Capital and surplus as of December 31, 2019			<u>\$448,094,000</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2019, the Company reported total losses and loss adjustment expense reserves of \$3,799,000. The Company's opining actuarial firm, Marsh Management Services Inc. noted in its Statement of Actuarial Opinion that, in its opinion, the reported statutory reserves were computed in accordance with accepted actuarial standards and principles. It was also noted that a reasonable provision in the aggregate for all unpaid losses and loss adjustment expense obligations of the Company had been made 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. SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus (“COVID-19”) pandemic. The COVID-19 pandemic has continued to develop, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination’s review noted that there has not been a significant impact to the Company. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

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

There is 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 \_\_\_\_\_, 2022.

*NEW YORK STATE*

***DEPARTMENT OF FINANCIAL SERVICES***

*I, Linda A. Lacewell, 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*

***LCT Insurance Company***

*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 2nd day of September, 2020*

***LINDA A. LACEWELL***  
*Superintendent of Financial Services*

*By:*

*Joan Riddell*

\_\_\_\_\_  
*Joan Riddell*  
*Deputy Bureau Chief*

