



**REPORT ON EXAMINATION
OF
HHC INSURANCE COMPANY, INC.**

AS OF DECEMBER 31, 2019

**EXAMINER:
DATE OF REPORT:**

**WEI CAO
MAY 11, 2021**

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

June 3, 2024

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 32187 dated January 26, 2021, attached hereto, I have made an examination into the condition and affairs of HHC Insurance Company Inc. 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 HHC Insurance Company, Inc.

Wherever the designation “Parent” appears herein without qualification, it should be understood to refer to the New York City Health and Hospital Corporation.

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

Due to the outbreak of a novel coronavirus (“COVID-19”) pandemic, the 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 the 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 Company 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 procedural recommendations, those items requiring financial adjustment, 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 July 2, 2003, and commenced business on December 15, 2004. The Company is a not-for profit pure captive insurance company incorporated as a mutual insurer. The Company is a wholly owned subsidiary of the New York City Health and Hospitals Corporation.

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 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 mutual insurer, the Company is required to possess and thereafter maintain unimpaired not less than \$250,000 of total surplus as regards to policyholders, pursuant to Section 7004(a)(2) of the Law. As of December 31, 2019, the Company's total surplus was \$81,732,421.

D. Corporate Records

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

E. Operations

During the period covered by the examination the Company provided professional liability insurance coverage ("medical malpractice") to its Parent's attending physicians practicing in the areas of neurosurgery, obstetrics, and gynecology. Indemnity coverage was provided on a claims-made basis with limits up to \$1.3 million per occurrence and \$3.9 million in the aggregate on each claim. With the existence of this coverage, insureds are eligible to access additional coverage provided by the New York State Excess Liability Pool ("Pool"). The Pool provides access to an additional \$1 million per occurrence and \$3 million in the aggregate of coverage in excess the Company's limits. In addition, the Parent provides its attending physicians with indemnification for each claim greater than the combined aforementioned coverage limits of \$2.3 million per occurrence and \$6.9 million in the aggregate.

The Company assumes business from the New York Medical Malpractice Insurance Plan ("MMIP") which was established by Department Regulation 170 and provides that all insurers licensed to write medical malpractice insurance in New York, on a direct basis after June 30, 2000, must become members. The Company is a member despite the provisions of Section 7011 of the Law, which prohibits captive insurers from joining, contributing financially, or receiving any benefit from any plan or pool, association or guaranty or insolvency fund in this state. In 2003, as a condition of licensing the Company as a captive insurer and maintaining that license, the New York City Health and Hospitals Corporation agreed to voluntarily waive any and all rights or protections afforded by Section 7011. Consequently, the Company was allowed to become a member of MMIP. MMIP operates as a mechanism for providing medical malpractice insurance to all eligible health care practitioners and facilities that are otherwise unable to

secure coverage in the voluntary market. It's funded by all licensed medical malpractice insurers in this state on a pro rata basis, based on their share of the medical malpractice insurance market.

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 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 AON Insurance Managers Inc. ("AON"), which is authorized to act as a manager for captive insurance companies by the Department.

Pursuant to a management agreement, effective March 1, 2011, AON is responsible for providing financial statement reporting and regulatory compliance as well as administrative services for the Company.

(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. The number of directors shall be at least five but no more than seven. At December 31, 2019, the board of directors was comprised of the following five members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Machelle Allen New York, NY	Vice President, New York City Health and Hospitals Corporation
Andrea G. Cohen New York, NY	Secretary, New York City Health and Hospitals Corporation
Vincent Calamia Staten Island, NY	President, United Healthcare Company/Northwell Health
Mitchell H. Katz Brooklyn, NY	Board member, New York City Health and Hospitals Corporation
John Ulberg Jr. Latham, NY	Treasurer, New York City Health and Hospitals Corporation

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

(iii) Officers

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

<u>Name</u>	<u>Title</u>
Vincent Calamia	President
Machelle Allen	Vice President
Andrea G. Cohen	Secretary
John Ulberg Jr.	Treasurer

G. Certified Public Accountant

Klynveld Peat Marwick Goerdeler LLP (KPMG) was the Company's independent certified public accounting firm for the years 2015 through 2017. Grant Thornton held the position for years 2018 and 2019. Grant Thornton expressed that the Company's financial statements present fairly, in all material respects, the results of its operations and cash flows for 2019 is 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

Intercompany loan	\$90,625,173	
Due from the Pool	3,111,824	
Accounts receivable	<u>5,433</u>	
Total assets		<u>\$93,742,430</u>

Liabilities

Losses and loss adjustment expenses	\$10,541,514	
Unearned premium	40,887	
Premium deficiency reserve	2,221	
Claims payable	75,000	
Due to Parent	1,283,690	
Accounts payable	<u>66,697</u>	
Total liabilities		<u>\$12,010,009</u>

Surplus

Unassigned surplus	<u>\$81,732,421</u>	
Total surplus		<u>\$81,732,421</u>
Total liabilities and surplus		<u>\$93,742,430</u>

B. Statement of Income

The Company's net income for the period covered by the examination was \$20,265,826 as detailed below:

Underwriting Income

Premiums earned		\$13,635,842
Deductions		
Loss and LAE	\$(7,325,554)	
Change in premium deficiency reserve	(44,330)	
Administrative expenses	<u>1,197,185</u>	
Total operating deductions		<u>(6,172,699)</u>
Total underwriting income		19,808,541
Total investment income		<u>457,285</u>
Net Income		<u>\$20,265,826</u>

C. Surplus Account

The Company's surplus increased \$20,265,826 during the period covered by this examination, detailed as follows:

Surplus as of January 1, 2015			\$61,466,595
	Increase in <u>surplus</u>	Decrease in <u>surplus</u>	
Net income	<u>\$20,265,826</u>	\$0	
Net increase in surplus			<u>20,265,826</u>
Surplus as of December 31, 2019			<u>\$81,732,421</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2019, the Company reported outstanding losses and loss adjustment expense reserves of \$10,541,514. The Company's opining actuarial firm, AON, noted in its Statement of Actuarial Opinion that loss and loss adjustment expense provisions met the requirements of the insurance laws of New York and were computed in accordance with accepted loss reserving standards and principles and in a manner that conforms to the Standards of Practice promulgated by the Actuarial Standards Board.

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 the outbreak of COVID-19 a global pandemic. The pandemic presented significant uncertainty to the U.S. and global insurance and reinsurance industry. With the full effect of COVID-19 still unknown, the Department has been in communication with the Company regarding the impact on its operations and financial position.

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

There are 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 _____, 2024.

APPOINTMENT NO. 32187

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

HHC 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 26th day of January, 2021

LINDA A. LACEWELL
Superintendent of Financial Services

By:

Joan Riddell

Joan Riddell
Deputy Bureau Chief

