# REPORT ON EXAMINATION
# OF
# EXCHANGE INDEMNITY COMPANY NEW YORK

## AS OF DECEMBER 31, 2022

**EXAMINER:** **WEI CAO**
**DATE OF REPORT:** **APRIL 24, 2024**

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March 26, 2025

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 32588 dated December 14, 2023, attached hereto, I have made an examination into the condition and affairs of Exchange Indemnity Company New York as of December 31, 2022, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Exchange Indemnity Company New York. Wherever the designation "the Parent" or "EIC" appear herein, without qualification, it should be understood to refer to Exchange Indemnity Company.

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, 2018, through December 31, 2022, 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

Exchange Indemnity Company New York was incorporated under the laws of New York State as a captive insurance company on March 23, 2012, and commenced business on June 1, 2012. The Company is a wholly owned subsidiary of its immediate parent, EIC, a captive insurer licensed in Vermont that is in turn owned by Verizon Communications Inc. ("Verizon").

### 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 to 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, 2022, the Company's paid-in capital was $72,707,789, consisting of 100,000 shares of common stock with a par value of $1 per share and additional paid-in capital of $72,607,789. Additionally, the Company had an accumulated other comprehensive loss due to an unrealized loss on investments of $2,926,343 and retained earnings of $89,177,691 for a total capital and surplus (surplus as regards policyholders) of $158,959,137.

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 underwrote property and casualty exposures on a direct and assumed basis for Verizon and its affiliated and associated companies . The Company directly underwrote workers' compensation and automobile and general liability and assumes handset replacement coverage ("inland marine") for Verizon's customers from EIC.

The prior report on examination, dated December 31, 2017, detailed the Company entering into a reinsurance agreement with the Parent. Under this agreement the Company ceded 50% of its direct business program to EIC, an insurance company not authorized to do business in New York.

Effective January 1, 2020, the 50% quota share agreement was commuted and the risk reverted to the Company as the coverage for the program-years prior to June 30, 2019, was novated to EIC. Accordingly, effective October 1, 2022, coverage for the program-year June 30, 2019, through June 30, 2020, was novated to the Parent as well.

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 Marsh Management Service Inc. ("Marsh"), which is authorized to act as a manager for captive insurance companies by the Department.

Pursuant to a management agreement, effective April 13, 2012, 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 and maintaining true and complete books of account and records of all business conducted under this agreement.

The management agreement was amended during the period covered by the examination to reflect updated compensation fees.

(ii) Board of Directors

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than three nor more than ten members, two of whom shall be residents of New York State. On December 31, 2022, the board of directors was comprised of the following three members:

| Name and Residence | Principal Business Affiliation |
|---|---|
| Stephen A. Devaney<br>Irvington, NY | Associate General Counsel,<br>Verizon Communications Inc. |
| Robert L. Ernst<br>New York, NY | Vice President & Deputy General Counsel,<br>Verizon Communications Inc. |
| Salvatore R. Parascandolo<br>Old Bridge, New Jersey | Executive Director,<br>Verizon Communications Inc. |

At least two of the board members were residents of New York State as required by Section 7005(g) of the Law. During the period covered by the examination, the board of directors met at least once each year pursuant to Section 7003(b)(2) of the Law. A review of the meeting minutes indicated that they were well attended.

(iii) Officers

As of December 31, 2022, the principal officers of the Company were as follows:

| Name | Title |
|---|---|
| Salvatore R. Parascandolo | President & Chairman |
| Ronald Klein | Vice President & Secretary |
| Terrence P. Gallagher | Vice President & Treasurer |
| Stephen A. Devaney | Vice President |
| Maureen Raeside | Vice President & Controller |
| Susan E. Bixby | Vice President & Controller |
| Robert Ernst | Vice President |
| Paul L. Mattiola Jr | Vice President-Tax |

G. Certified Public Accountant

Ernst & Young LLP ("E&Y") was the Company's independent certified public accounting firm for the period covered by this examination. E&Y expressed that the Company's statutory financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022, and the results of its operations and its 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 | $1,911,753 | |
| Investments at fair value | 115,012,512 | |
| Investment Income due and accrued | 2,315,917 | |
| Accounts and premiums receivable | 129,748,231 | |
| Restricted cash & loss escrow funds | 5,155,000 | |
| Intercompany receivable due from affiliates | 279,755,093 | |
| Intercompany receivable due from Parent | 108,496,059 | |
| Prepaid expenses | 64,152 | |
| Deferred tax asset | 10,964,353 | |
| Total assets | | $653,423,070 |
| Liabilities | | |
| Unearned premium | $102,203,659 | |
| Losses and loss adjustment expenses | 363,166,673 | |
| Losses payable | 14,760,047 | |
| Commissions, expenses, and fees | 6,285,623 | |
| Accrued expenses | 94,127 | |
| Taxes payable | 7,953,804 | |
| Total liabilities | | $494,463,933 |
| Capital and Surplus | | |
| Common stock | $100,000 | |
| Additional paid in capital | 72,607,789 | |
| Unrealized gain (loss) on investments | (2,926,343) | |
| Retained earnings | 89,177,691 | |
| Total capital and surplus | | 158,959,137 |
| Total liabilities and capital and surplus | | $653,423,070 |

B. Statement of Income

The Company's net income for the period covered by the examination was $270,677,681 as detailed below:

| | | |
|---|---|---|
| Underwriting Income | | |
| Net premiums earned | | $2,387,364,839 |
| Deductions: | | |
| Incurred losses and loss adjustment expenses | $1,736,032,683 | |
| Other underwriting expenses | 41,091,660 | |
| Commissions and brokerage | 298,258,736 | |
| General administrative expenses | 2,503,304 | |
| Total operating deductions | | 2,077,886,383 |
| Net underwriting income | | 309,478,456 |
| Investment income | | |
| Investment income | 16,071,872 | |
| Miscellaneous income | 22,488,435 | |
| Total investment income | | 38,560,307 |
| Total income before tax | | 348,038,763 |
| Federal income tax expenses | | 77,361,082 |
| Net income | | $270,677,681 |

C. Capital and Surplus Account

The Company's capital and surplus increased $74,243,493 during the period covered by this examination, detailed as follows:

| | | | |
|---|---|---|---|
| Capital and surplus as of January 1, 2018 | | | $84,715,644 |
| | Increase in surplus | Decrease in surplus | |
| Net income | $270,677,681 | | |
| Other comprehensive income | | $7,434,188 | |
| Dividends | | 189,000,000 | |
| Total increases and decreases in surplus | 270,677,681 | 196,434,188 | |
| Net increase in surplus | | | 74,243,493 |
| Capital and surplus as of December 31, 2022 | | | $158,959,137 |

## 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2022, the Company report unpaid losses and loss adjustment expenses of $363,166,673. The Company's opining actuarial firm, Marsh Management Services Inc., noted in its Statement of Actuarial Opinion that, in its opinion, that the amounts reported had been evaluated in accordance with accepted actuarial standards and met the requirements of the insurance laws of the State of New York. It was also noted that a reasonable provision 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. SUMMAY 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 _____, 2025.

***APPOINTMENT NO. 32588***

***NEW YORK STATE***

# *DEPARTMENT OF FINANCIAL SERVICES*

*I,* ***Adrienne A. Harris****, 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*

***Exchange Indemnity Company New York***

*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 14th day of December, 2023*

*ADRIENNE A. HARRIS*
*Superintendent of Financial Services*

*By:* Joan Riddell

*Joan Riddell*
*Deputy Bureau Chief*