

REPORT ON EXAMINATION

OF THE

MOODY'S ASSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2011

DATE OF REPORT

MAY 17, 2013

EXAMINER

WEI CAO

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

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Honorable Benjamin M. Lawsky  
Superintendent of Financial Services  
Albany, New York 12257

May 17, 2013

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30904 dated December 27, 2012, attached hereto, I have made an examination into the condition and affairs of Moody's Assurance Company, Inc. as of December 31, 2011, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Moody's Assurance Company, Inc. Wherever the designation "Parent" or "MIS" appears herein without qualification, it should be understood to refer to Moody's Investors Service, Inc.

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, 2007 through December 31, 2011, and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including invested assets, and losses and loss adjustment expense reserves. The examination included a review of income, disbursements and 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.

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 New York Insurance Law.

The report utilized work performed by the Company's independent certified public accountants 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 pure captive insurance company on May 24, 2002 and commenced operations on June 14, 2002. The Company is a wholly-owned subsidiary of Moody's Assureco Inc., which is in turn owned by Moody's Investors Service Inc.

In December 2009, the Company acquired 100 shares of \$.01 par value common stock of MIS Asset Holdings Inc., a Delaware corporation, for consideration of \$1.00. The Company is the sole stockholder of MIS Asset Holdings Inc.

### **A. Articles of Incorporation**

The Company is organized to transact the kinds of insurance specified in Section 1113 of the New York Insurance Law, subject at all times to the limitation on the business of a captive insurance company set forth in Article 70 of the New York Insurance 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 New York Insurance Law.

As of December 31, 2011, the Company's paid in capital was \$100,000 consisting of 100,000 shares of \$1 par value per share common stock and its surplus as regards policyholders was \$735,002,000.

D. Corporate Records

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

E. Reinsurance

During the examination period, the Company did not assume nor cede any business.

F. Management and Control

(i) Captive Manager

Section 7003(b)(4) of the New York Insurance 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 New York Insurance Law, or any other person approved by the Superintendent.

The Company is managed by Marsh Management Services, Inc. (“Marsh”), which is licensed by the New York Department of Financial Services. Marsh took over the captive management of the Company from Aon Insurance Managers, the captive management arm of AON Risk Consultants, effective January 1, 2008.

Pursuant to the Management Agreement between the Company and Marsh, Marsh provides the Company with financial and accounting services, insurance related services and acts as the principal representative to the Company in all communications and dealings with all regulatory authorities in regard to certain management and administrative services.

(ii) Board of Directors

At December 31, 2011, the board of directors was comprised of the following five members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Joseph J. McCabe Holmdel, NJ	Senior Vice President, Corporate Controller, Moody’s Corporation
John J. Goggins Chatham, NJ	Executive Vice President & General Counsel, Moody’s Corporation
Jeffrey R. Hare Livingston, NJ	Senior Vice President, MCO Planning & Treasury
Jamie L. Kogan Brooklyn, NY	Associate General Counsel, Moody’s Shared Services, Inc.
Christine A. Merkle Flushing, NY	Vice President, Global Insurance

As of December 31, 2011, two of five directors are residents of New York State. Therefore, the Company is in compliance with its by-laws and Section 7005(g) of the New York Insurance Law.

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

(iii) Officers

As of December 31, 2011, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Joseph J. McCabe	President
Thomas A. Fezza	Vice President & Assistant Treasurer
Jane Clark	Vice President & Secretary
Jeffrey R. Hare	Treasurer
Nisala M. Weerasooriya	Assistant Secretary

G. Certified Public Accountant (“CPA”) and Actuarial Services

The Company was audited by the independent CPA firm KPMG, LLP, 345 Park Ave., New York, NY for the years 2008-2011. The Company was audited by PriceWaterhouseCoopers, LLP in 2007. The Company’s opening actuary as of December 31, 2011 was Marsh Management Services, Inc., 100 Bank Street, Burlington, VT 05401.

H. Growth of Company

The following schedule sets forth a summary of the Company’s significant financial information for the period covered by this examination:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholders’ Equity</u>
2007	\$109,200,000	\$176,990,000	\$605,402,000	\$539,577,000
2008	91,491,000	124,973,000	789,119,000	664,550,000
2009	79,490,000	107,337,000	813,335,000	729,187,000
2010	76,091,000	60,834,000	805,704,000	709,186,000
2011	79,377,000	74,816,000	838,133,000	735,002,000

### 3. FINANCIAL STATEMENTS

The financial statements of the Company have been prepared in conformity with generally accepted accounting principles, which differ from statutory accounting principles prescribed or permitted for insurance companies by the New York State Department of Financial Services. The Company's independent accounting firm concluded that the following financial statements present fairly, in all material respects, the financial position Moody's Assurance Company, Inc. as of December 31, 2011.

#### A Balance Sheet

##### Assets

Cash	17,129,000	
Investments in and advances to affiliates	784,879,000	
Accounts and premiums receivable	6,911,000	
Investment income due and accrued	6,669,000	
Deferred tax assets	22,489,000	
Deferred acquisition cost	38,000	
Prepaid premium taxes	<u>18,000</u>	
Total Assets		<u>\$838,133,000</u>

##### Liabilities

Losses and loss adjustment expenses	\$41,828,000	
Accounts payable and accrued expenses	38,878,000	
Unearned premium	<u>22,425,000</u>	
Total liabilities		\$103,131,000

##### Capital and Surplus

Paid in capital (par value)	100,000	
Contributed surplus	49,900,000	
Capital subscription receivable	(49,750,000)	
Surplus (accumulated earnings)	<u>734,752,000</u>	
Total capital and surplus		<u>\$735,002,000</u>
Total liabilities and capital surplus		<u>\$838,133,000</u>

B. Statement of Income

The Company's capital and surplus increased \$172,415,000 during the five-year period detailed as follows:

STATEMENT OF INCOME

Underwriting Income

Net premiums earned		\$435,649,000
Deductions:		
Net losses and net loss adjustment expense incurred	\$ 81,081,000	
Policy acquisition expenses	1,083,000	
General and administrative	<u>25,974,000</u>	
Total underwriting deductions		<u>108,138,000</u>
Net underwriting gain or (loss)		\$327,511,000

Investment Income

Royalty income	\$353,654,000	
Interest income on notes receivable	163,837,000	
Other Interest Income	<u>58,000</u>	
Investment income		<u>517,549,000</u>
Net income before tax		\$845,060,000
Federal income tax expenses		<u>300,110,000</u>
Net income		<u>\$544,950,000</u>

C. Capital and Surplus Account

Capital and surplus as of January 1, 2007			\$562,587,000
	Gains in <u>surplus</u>	Losses in <u>surplus</u>	
Net income	\$544,950,000		
Dividend to parent	<u>0</u>	<u>\$372,535,000</u>	
Net increase in surplus	<u>\$544,950,000</u>	<u>\$372,535,000</u>	<u>172,415,000</u>
Capital and surplus as of December 31, 2011			<u>\$735,002,000</u>

#### **4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

As of December 31, 2011, the Company reported total loss and loss adjustment expense reserves of \$41,828,000. The Company's opining actuary stated the following in its Statement of Actuarial Opinion:

"In my opinion, the Company's December 31, 2011 reserves identified herein:

- Meet the relevant requirements of the insurance laws of New York;
- Are computed in accordance with commonly accepted actuarial methods and are fairly stated in accordance with sound actuarial principles;
- Make reasonable provision for all the aggregate for all unpaid losses and loss adjustment expenses under the terms of the Company's policies;
- Are computed in the basis of similar general methods as used at December 31, 2010."

#### **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 of the New York Insurance Law. No significant areas of non-compliance were found.

#### **6. ORGANIZATIONAL STRUCTURE**

The Company is wholly owned by Moody's Investors Service, Inc. ("MIS") through Moody's Assureco Inc. MIS is a leading provider of credit ratings, research covering debt instruments and securities, and risk analysis. Moody's Corporation is the parent company of Moody's Investors Service, Inc.

## 7. INSURANCE PROGRAM

As of December 31, 2011, the Company provided the following insurance coverage to its Ultimate Parent, Moody's Corporation:

<u>Policy coverage</u>	<u>Limits</u>	<u>Policy period</u>
<b>Integrated Risk Policy</b>		
Coverage A: Excess E&O, D&O, Employment Practices and Fiduciary Liability and Crime Insurance	\$250,000,000 per claim and in the aggregate.	January 1, 2011 – January 1, 2012
Coverage B: Excess All Risk Property Damage/Time Element Insurance	\$100,000,000 per claim xs \$300,000,000 per claim and in the aggregate.	January 1, 2011 – January 1, 2012
Coverage C: Primary Reputation Damage Insurance	\$100,000,000 per claim and in the aggregate.	January 1, 2011 – January 1, 2012
Coverage D: Excess Umbrella Liability Insurance	\$100,000,000 xs \$150,000,000 per claim and in the aggregate	January 1, 2011 – January 1, 2012
Coverage E: Excess liability insurance for Coverage A through D	\$2 billion per claim and in the aggregate.	January 1, 2011 – January 1, 2012
<b>Medical Stop Loss</b>	\$200,000 xs \$50,000 per claim each person.	January 1, 2011 – December 31, 2011
<b>Workers Compensation Deductible Reimbursement</b>	\$250,000 per occurrence / \$500,000 annual aggregate	June 30, 2011 – June 30, 2012
<b>Employment Practices Liability, E&amp;O liability and D&amp;O Liability</b>		
Coverage A: Employment Practices Liability	\$1,000,000 per claim	September 30, 2011 – September 30, 2012
Coverage B: D&O Liability	\$5,000,000 per claim	September 30, 2011 – September 30, 2012
Coverage C: E&O Liability	\$2,000,000 per claim	September 30, 2011 – September 30, 2012
<b>All Risk Terrorism Insurance Policy</b>		
Terrorism Risk Insurance Ace of 2002 ("TRIA")	\$200,000,000 xs \$300,000,000 per claim and in the aggregate	November 30, 2011 – November 30, 2012
Nuclear, Biological or Chemical Perils ("NBCR")	\$500,000,000 per claim and in the aggregate	November 30, 2011 – November 30, 2012

**8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION****ITEM****PAGE NO.**

It is recommended that the Company comply with the provisions of its by-laws and hold its annual stockholders meetings as stated therein or amend the by-laws to reflect the current scheduling of the meetings.

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The Company has complied with this recommendation.

**9. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report contains no comments or recommendations.

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 \_\_\_\_\_, 2013.

APPOINTMENT NO. 30904

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

**MOODYS ASSURANCE 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.

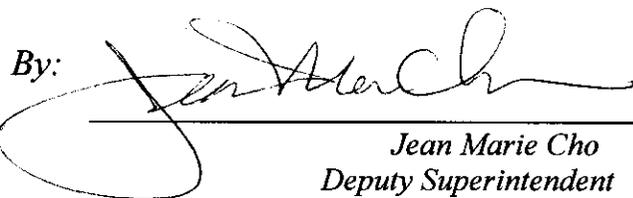
In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York

this 27th day of December, 2012

**BENJAMIN M. LAWSKY**  
Superintendent of Financial Services



By:



Jean Marie Cho  
Deputy Superintendent