

REPORT ON EXAMINATION

OF THE

PREMIER MANAGEMENT INSURANCE, INC.

AS OF

DECEMBER 31, 2007

DATE OF REPORT

MAY 29, 2009

EXAMINER

VERONICA DUNCAN BLACK

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STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

May 29, 2009

Honorable Eric R. Dinallo  
Superintendent of Insurance  
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30290 dated January 29, 2009, attached hereto, I have made an examination into the condition and affairs of Premier Management Insurance, Inc. as of December 31, 2007, and submit the following report thereon.

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

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

The examination was conducted at the Company’s administrative offices located at 300 Broadhollow Road, Melville, New York 11747.

## 1. SCOPE OF EXAMINATION

The purpose of this examination was to determine whether the Company was operating within its by-laws, was complying with Article 70 of the New York Insurance Law and its plan of operation, as submitted to the Department.

A review was conducted of the Company's operations from December 23, 2003, its date of incorporation as a New York captive insurance company, through December 31, 2007. The review included an analysis of the Company's financial condition, the corporate records, and limited tests of the various income and disbursement items as deemed necessary. This report is submitted on an "exception" basis. Comments and recommendations are limited to those items requiring financial adjustment, procedural recommendations, or instances where the Company was not complying with 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 ("CPA") to the extent considered appropriate.

## 2. DESCRIPTION OF COMPANY

The Company was incorporated and licensed on December 23, 2003 and commenced operations as a captive insurance company under the laws of the State of New York on December 31, 2003. The Company is a wholly-owned subsidiary of CA, Inc., formerly known as Computer Associates, Inc. ("CA"). CA is one of the world's largest software companies. CA is a business consulting and software development company that helps organizations to achieve their business goals by building, integrating and supporting mission-critical applications and systems for optimized quality.

### A. Articles of Incorporation

The purpose of the Company, as stated in its articles of incorporation, was to form a corporation for the purpose of transacting the kinds of insurance specified in Section 1113 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 New York Insurance Law.

B. By-Laws

The by-laws of the Company were reviewed, and it was determined that the Company was operating in full compliance with its by-laws in all material respects.

C. Capital Structure

The Company was incorporated as a pure captive insurance company. On December 23, 2003, the Company issued 100,000 shares of common stock at \$1 par value per share to its parent company in exchange for \$250,000 in cash and a capital contribution of \$309,677,161. Section 7004(a) of the New York Insurance Law requires a captive insurer to maintain a minimum surplus of not less than \$250,000. In addition, the Department requires the Company to maintain an additional amount of \$50,000,000 in surplus pursuant to Section 7004(c) of the New York Insurance Law. The Company reported the additional surplus requirement as restricted cash in its 2007 annual statement.

Gross paid in and contributed surplus did not change during the examination period. The gross paid in and contributed surplus is as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2003	Beginning gross paid in and contributed surplus	\$309,827,161
	Total surplus contributions	0
2007	Ending gross paid in and contributed surplus	<u>\$309,827,161</u>

D. Corporate Records

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

E. Plan of Operation

The Company's plan of operation states that it will provide its parent company, CA, and all of its domestic subsidiaries with insurance coverage as permitted by Article 70 of the New York Insurance Law. The business plan states that the Company will provide additional excess coverage in the catastrophe layer for aircraft liability, general liability, automobile liability, sexual misconduct liability, directors and officers' liability, electronic data processing errors & omissions liability, and

employment practices liability. In August 2004, the Company revised its business to include crime insurance coverage as a line of business. During the examination period, the Company also amended its plan of operation to write errors and omissions run-off insurance coverage on a claims-made basis for four of its affiliates.

F. Reinsurance

The Company did not engage any type of reinsurance program for the period under examination.

G. Management

Captive Manager

The Company is managed by Marsh Management Services, Inc., (“Marsh”) pursuant to Section 7003(b)(4) of the New York Insurance Law. Effective January 1, 2004, the Company executed a management agreement with Marsh. The agreement requires Marsh to perform, under the direction and control of the Company, certain management and administrative services, including underwriting and policyholder, accounting, claims administrative, and any regulatory reporting services deemed necessary to the captive insurer.

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 at least three members. At December 31, 2007, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jay H. Diamond Scarsdale, NY	Vice President & Associate General Counsel, Computer Associates, Inc.
David S. Keating Garden City, NY	Senior Vice President – Finance, Computer Associates, Inc.
James H. Hodge Rye, New York	Treasurer, Computer Associates, Inc.

A review of the minutes of the board of directors' meetings held during the examination period indicate that the meetings were generally well attended and that each board member had an acceptable record of attendance.

As of December 31, 2007, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
William J Burns	President
Jay H. Diamond	Secretary & Vice President
David S. Keating	Treasurer
Richard DiPaola	Vice President
James H. Hodge	Vice President

#### H. Certified Public Accountant

Every captive insurance company licensed to do a captive insurance business in the State of New York is required to file annually, on or before July first, a report of its financial condition at last year-end with an opinion of its independent certified public accountant. A review of the Company's certified public accountant's financial statements for years under examination shows that the Company failed to file financial statements for calendar years 2006 and 2007 in timely manner as required by Section 7006(b) of the New York Insurance Law.

#### I. Growth of Company

The following schedule sets forth the Company's significant summary financial information for the years covered by this examination:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholders' Equity</u>
2004	\$2,745,344	\$350,434,976	\$ 794,260,980	\$ 660,362,137
2005	\$2,935,253	\$329,777,624	\$ 741,730,251	\$ 643,139,761
2006	\$2,354,620	\$583,376,261	\$1,421,326,654	\$1,128,496,022
2007	\$2,419,480	\$396,027,709	\$1,392,797,197	\$1,273,487,709

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The financial statements of the Company are presented in conformity with generally accepted accounting principles. The financial position of the Company as presented and accepted was audited by the Company's certified public accountant:

As of December 31, 2007

#### Asset

Cash	\$ 15,908,210
Accounts and premiums receivable	1,276,189,738
Investments in and advances to affiliates	50,699,249
Restricted cash	<u>50,000,000</u>
Total assets	<u>\$1,392,797,197</u>

#### Liabilities, Capital and Surplus

##### Liabilities

Commissions, expenses and fees	\$ 95,084
Taxes payable	97,225,799
Unearned premium	789,762
Amounts due to affiliates	<u>21,198,843</u>
Total liabilities	\$ 119,309,488

##### Capital and Surplus

Paid in capital	\$ 100,000
Contributed surplus	309,827,161
Surplus (accumulated earnings)	<u>963,560,548</u>
Total capital and surplus	<u>1,273,487,709</u>
Total liabilities, capital and surplus	<u>\$1,392,797,197</u>

B. Statement of Income

Capital and surplus increased \$613,125,572 during the four-year examination period, January 1, 2004 through December 31, 2007.

Underwriting Income

Net premiums earned		\$7,709,353
<u>Underwriting Expense</u>		
General and administrative	\$3,838,192	
Other underwriting expense	<u>34,154</u>	
Total underwriting expense		<u>3,872,346</u>
Underwriting profit(loss)		\$ 3,837,007
Investment income (net)		68,128,432
Other income		1,547,068,699
Other expense		<u>136,372,340</u>
Income before dividends and taxes		\$1,755,406,478
Taxes		<u>446,224,884</u>
Net income		<u>\$1,309,181,594</u>

C. Capital and Surplus Account

Capital and surplus at December 31, 2003			\$660,362,137
	<u>Increase</u>	<u>Decrease</u>	
Net income	\$1,309,181,594		
Dividends		\$592,473,500	
Extraordinary taxes for prior year	70,456,700		
Other:			
Adjustment to 2006 federal income tax		173,498,000	
Other 2006 audit adjustments	<u>0</u>	<u>541,222</u>	
Total increase and decrease	<u>\$1,379,638,294</u>	<u>\$766,512,722</u>	
Net increase in surplus			<u>613,125,572</u>
Surplus as regard policyholder, per report on examination as of December 31, 2007			<u>\$1,273,487,709</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The Company reported no losses and loss adjustment expenses as of December 31, 2007. The examiner did not independently review the loss reserves but rather relied upon the opinion of the Company's actuary and certified public accountant.

The Company believes that its aggregate liability for unpaid losses and loss adjustment expense at year-end of \$0 represents its best estimate, based upon the available data, of the amount required to cover the ultimate cost of losses. The Company's auditors note that due the Company's limited population of insured risk, limited historical experience, economic conditions, legislative actions and other matters, it is not presently possible to determine whether actual loss experience will conform to the assumption used in estimating the liability. As a result, the Company's liability may be in excess of the amount reported in the financial statements. The Company's actuary also notes that the ultimate development of the Company's reserves may vary from the actual reserve reported as of December 31, 2007.

The Statement of Actuarial Opinion, which was prepared by Marsh Management Services, Inc., states that the Company's December 31, 2007 reserves:

“Are computed in accordance with commonly accepted actuarial methods and are fairly stated in accordance with sound actuarial principles. Make reasonable provision in the aggregate for all unpaid losses and loss adjustment expenses under the terms of the Company’s policies. Meet the relevant requirements of the insurance laws of New York.”

Based upon the actuarial opinion, no changes were made to the reserves reported by the Company.

## **5. ARTICLE 70 COMPLIANCE**

Article 70 of the New York State Insurance Law is the governing law for the formation and continued operation of captive insurance companies in New York State. A review was performed to test the Company’s compliance with Article 70. No material areas of non-compliance with Article 70 were found during the course of this examination.

## **6. INSURANCE PROGRAM**

The Company was licensed as a captive insurance company to provide additional excess liability insurance to its parent company and its subsidiary companies. For the period under examination, the Company offered the following insurance coverages on a claims-made basis:

1. Aircraft liability policy provides primary hull, liability and war risks coverage with a limit of \$50 million aggregate excess of an underlying insurance policy that provides a limit of \$200 million per occurrence, \$250 million per occurrence for Gulf Stream aircrafts.
2. Commercial general liability provides a limit of \$50 million annual aggregate excess of an underlying insurance policy that provides a limit of \$1 million each occurrence, \$3 million annual aggregate excess of a \$250 hundred thousand self retention. The underlying insurance policy is subject to an umbrella policy that provides a limit of \$125 million general aggregate.
3. Automobile liability policy provides a limit of \$50 million aggregate excess of an underlying insurance policy that provides a limit of \$1 million per accident. The underlying insurance policy is subject to an umbrella policy that provides a limit of \$125 million.
4. EDP errors and omission liability policy provides a limit of \$50 million annual aggregate excess of an underlying insurance policy that provides a limit of \$20 million annual aggregate excess a \$5 million retention.

5. Blanket crime policy provides a limit of \$10 million excess of \$5 million per loss/aggregate excess of an underlying insurance policy that provides a limit of \$5 million.
6. Sexual misconduct liability policy provides a limit of \$50 million annual aggregate excess of an underlying insurance policy that provides a limit of \$5 million aggregate excess of a \$250 hundred thousand self retention. The underlying insurance policy is subject to an umbrella policy that provides a limit of \$125 million.
7. Directors and officers' liability policy provides a limit of \$50 million annual aggregate excess of an underlying insurance policy that provides a limit of \$180 million for individual directors, and a limit of \$150 million for corporate reimbursements and security class actions excess of a \$20 million self retention.
8. Employment practices liability provides a limit of \$50 million annual aggregate excess of an underlying insurance policy that provides a limit of \$180 million excess of \$20 million self retention.
9. Errors and omission insurance policy provides run-off coverage to four affiliated companies. The limits are as follow: a limit of \$7 million per claim/and aggregate excess of a \$100 hundred thousand deductible, a limit of \$10 million per claim/and aggregate excess of a \$50 thousand deductible, a limit of \$15 million per claim/and aggregate excess of a \$50 thousand deductible, and a limit of \$3 million per claim/aggregate excess of a \$50 thousand deductible.

All of the captioned policies except for the automobile liability, electronic data processing ("EDP") errors and omissions liability, blanket crime, and the errors and omissions for run-off polices provide coverage for acts of terrorism as defined under the Terrorism Risk Insurance Act of 2002. On November 26, 2002, the Terrorism Risk Insurance Act of 2002 ("TRIA" or "the Act") was signed into law. On December 26, 2007, the President of the United States signed the Terrorism Risk Insurance Program Reauthorization Act of 2007 into law, which extended TRIA through December 31, 2014. The Act created a United States ("U.S.") government facility that provides reinsurance coverage to insurers as a result of declared terrorism events. The Act established a "program trigger" that must be met before the Treasury will cover a loss. The program trigger is currently \$100 million and applies to all certified acts of terrorism. When the program is triggered, the Federal government is required to pay 85% of insured terrorism losses in excess of individual insurer trigger/deductible while the insurer pays 15%.

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

This report contains no recommendation.



Appointment No. 30290

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, Eric R. Dinallo, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Veronica DuncanBlack**

*as proper person to examine into the affairs of the*

**PREMIER MANAGEMENT INSURANCE, INC**

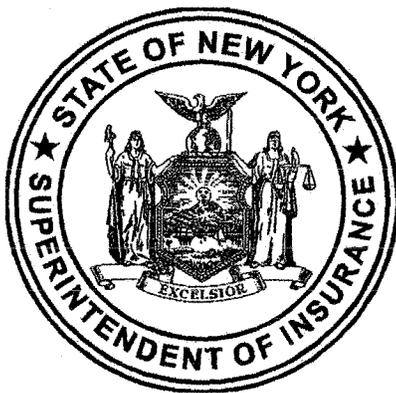
*and to make a report to me in writing of the condition of the said*

**Corporation**

*with such other information as she shall deem requisite.*

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

*this 29th day of January, 2009*



A handwritten signature in black ink that reads "Eric Dinallo".

ERIC R. DINALLO  
Superintendent of Insurance