

REPORT ON EXAMINATION

OF THE

SENTINEL PROTECTION & INDEMNITY COMPANY

AS OF

DECEMBER 31, 2015

DATE OF REPORT

JANUARY 20, 2017

EXAMINER

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

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Honorable Maria T. Vullo  
Superintendent of Financial Services  
Albany, New York 12257

January 20, 2017

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31537 dated October 26, 2016, attached hereto, I have made an examination into the condition and affairs of Sentinel Protection & Indemnity Company as of December 31, 2015, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Sentinel Protection & Indemnity Company. Wherever the designation “the Parent” appears herein without qualification, it should be understood to indicate General Electric 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, 2011 through December 31, 2015, 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

The Company was incorporated under the laws of New York State as a captive insurance company on December 27, 2005 and commenced business on December 29, 2005. It is licensed to write insurance and reinsurance contracts as a wholly-owned subsidiary of the General Electric Company.

### 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 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, 2015, the Company's paid-in capital was \$67,100,000, consisting of 100,000 shares of common stock with a par value of \$1.00 per share and an additional paid-in capital amount of \$67,000,000. The Company had an accumulated deficit of (\$35,859,343), for a total capital and surplus (surplus as regards policyholders) of \$31,240,657.

D. Corporate Records

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

E. Operations

The company does not write direct business. As of December 31, 2015, the Company's reinsurance program consisted of the assumption and cession of its parents risks, as follows:

<u>Type of Coverage</u>	<u>Description</u>
Property	<p>Assumed:  The Company assumed 100% of the Parent's property risk of \$1.975 billion in excess of \$25,000,000, from unaffiliated insurance companies for domestic and international coverage. The Company retained the first \$25,000,000 per occurrence and \$75,000,000 in the annual aggregate.</p> <p>Ceded:  The Company ceded 100% excess of the first \$25,000,000 per occurrence and \$75,000,000 in the aggregate to unaffiliated reinsurers.</p> <p>The policy is effective December 31, 2014 to December 31, 2016.</p>

<u>Type of Coverage</u>	<u>Description</u>
Transit All Risk	<p>Assumed: The Company assumed transit risk of the Parent from an unaffiliated insurer with a limit of \$200,000,000.</p> <p>Ceded: The Company ceded 100% excess of \$12,500,000 per occurrence and \$20,000,000 in the annual aggregate.</p> <p>The policy is effective December 31, 2014 to December 31, 2016.</p>
Construction All Risk	<p>The Company assumed construction risk of the Parent from an unaffiliated insurer with the limit of \$7,500,000 per occurrence and \$35,000,000 in the aggregate. The Company retains 100% of the risk.</p> <p>The policy is effective December 31, 2015 to December 31, 2016.</p>
Casualty (General, Auto, Employers, Clinical Trial and Excess liability)	<p>The Company assumed 100% casualty risk from an affiliated insurance company with a limit of \$132,250,000 in excess of \$13,750,000. The Company retains 100% of the risks.</p> <p>The policy is effective January 1, 2015 to January 1, 2016.</p>
Nuclear Property	<p>Assumed: The Company assumed Nuclear Property risk of its Parent from an unaffiliated insurer with the limit of \$500,000,000 per occurrence and in the aggregate.</p> <p>Ceded: The Company ceded 100% of the risk to unaffiliated reinsurers.</p> <p>The policy was effective December 31, 2014 to December 31, 2015 and renewed from December 31, 2015 to December 31, 2016.</p>
Aviation	<p>Assumed: The Company assumed aviation liability risks of the Parent from an unaffiliated insurance company with \$150,000,000 per occurrence and in the aggregate.</p> <p>Ceded: The Company ceded 100% of this risk to unaffiliated reinsurers.</p> <p>The policy is effective October 31, 2015 to October 31, 2016.</p>

<u>Type of Coverage</u>	<u>Description</u>
Multiple Specialty Insurance Programs	<p>Assumed:</p> <p>The Company assumed the following specialty risks of the Parent from an unaffiliated insurance company:</p> <ul style="list-style-type: none"> <li>• Error and omissions with limits of \$40,000,000 in excess of \$10,000,000.</li> <li>• Bankers professional liability with limits of \$15,000,000 in excess of \$10,000,000.</li> <li>• Financial institution bond with limits of \$15,000,000 in excess of \$10,000,000.</li> <li>• Commercial Crime with limits of \$15,000,000 in excess of \$10,000,000.</li> </ul> <p>The total policy aggregate is a combined \$50,000,000. The Company retained 100% of the assumed risk.</p> <p>The policy is effective July 11, 2015 to July 11, 2016.</p>

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 who 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 January 1, 2006, Marsh has the responsibility for providing the Company with 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 agreement was amended on January 1, 2014 to reflect an updated annual fee.

(ii) Board of Directors

Pursuant to the Company's by-laws, management of the Company is vested in a board of directors consisting of not less than three nor more than ten members, at least two of whom shall be residents of New York State. At December 31, 2015, the board of directors was comprised of the following four members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
R. Scott McCurdy Shelton, CT	Director and Treasurer, General Electric Company
Stacey L. Regan Stratford, CT	President, General Electric Company
Donna M. Weber Sea Cliff, NY	Assistant Secretary, General Electric Company
Nisala M. Weerasooriya Lake Grove, NY	Assistant Secretary, Marsh Management Services Inc.

In accordance with its by-laws and Section 7003(b)(2) of the Law, the board of directors met once annually. A review indicated that the meetings were well attended.

(iii) Officers

As of December 31, 2015, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Stacey L. Regan	President
R. Scott McCurdy	Treasurer
Jonathan M. Goodman	Secretary
Donna M. Weber	Assistant Secretary
Nisala M. Weerasooriya	Assistant Secretary

G. Certified Public Accountant (“CPA”)

KPMG LLP was the Company’s independent certified public accounting firm for the entire period covered by this examination. The CPA stated that the Company’s audited financial statements presented fairly, in all material respects, its financial position as of December 31, 2015.

3. FINANCIAL STATEMENTSA. 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	\$46,702,884	
Premium receivable	45,215,597	
Loss funds	500,000	
Ceded unearned premiums	42,880,986	
Reinsurance reserves recoverable	158,698,853	
Reinsurance recoverable	837,025	
Receivable from parent company	502,040	
Deferred acquisition costs	1,375,740	
Letter of Credit	<u>67,000,000</u>	
Total assets		<u>\$363,713,125</u>

Liabilities

Loss and loss adjustment expenses	\$222,053,897	
Unearned premium	100,678,841	
Ceded premiums payable	2,444,179	
Losses payable	6,908,770	
Accrued expenses	<u>386,781</u>	
Total liabilities		\$332,472,468

Capital and Surplus

Common stock	\$100,000	
Additional paid-in capital	67,000,000	
Surplus (Retained deficit)	<u>(35,859,343)</u>	
Total capital and surplus		<u>\$31,240,657</u>
Total liabilities, capital and surplus		<u>\$363,713,125</u>

B. Statement of Income

The Company's net income for the period covered by this examination was (\$81,733,276) as detailed below:

STATEMENT OF INCOMEUnderwriting Income

Net premiums earned		\$160,506,100
Deductions:		
Loss and loss adjustment expenses incurred	\$239,923,059	
General and administrative expenses	863,852	
Policy acquisition expenses	<u>4,398,205</u>	
Total underwriting deductions		<u>245,185,116</u>
Net underwriting loss		\$(84,679,016)
Investment income		<u>1,369,929</u>
Net loss before tax		(83,309,087)
Federal income tax		<u>(1,575,811)</u>
Net loss		<u>\$(81,733,276)</u>

C. Capital and Surplus Account

The Company's capital and surplus decreased \$14,737,905 during the period covered by this examination, detailed as follows:

Capital and surplus as of December 31, 2010			\$45,978,562
	Increase in <u>surplus</u>	Decrease in <u>surplus</u>	
Net loss		\$81,733,276	
Change in accumulated other comprehensive income		4,629	
Additional paid-in capital	<u>\$67,000,000</u>	—	
Total increases and decreases	<u>\$67,000,000</u>	<u>\$81,728,647</u>	
Net decrease in surplus			<u>14,737,905</u>
Capital and surplus as of December 31, 2015			<u>\$31,240,657</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2015, the Company reported total loss and loss adjustment expense reserves of \$222,053,897. The Company's opining actuarial firm, Electric Insurance Company, noted in its Statement of Actuarial Opinion that, in its opinion, reported reserves were consistent with reserves computed in accordance with accepted loss reserving standards and principles. It was also noted that reasonable provisions, in the aggregate, had been made for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its policies 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. 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 \_\_\_\_\_, 2018.

*APPOINTMENT NO. 31537*

*NEW YORK STATE*

***DEPARTMENT OF FINANCIAL SERVICES***

*I, Maria T. Vullo, 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*

***Sentinel Protection & Indemnity 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 October, 2016*

*MARIA T. VULLO  
Superintendent of Financial Services*



*By:*

*Joan P. Riddell*

*Joan Riddell  
Deputy Bureau Chief*