

REPORT ON EXAMINATION

OF

MOODY'S ASSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2016

DATE OF REPORT

MAY 6, 2019

EXAMINER

WEI CAO

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

November 13, 2019

Honorable Linda Lacewell
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law (“the Law”), and in compliance with the instructions contained in Appointment Number 31807 dated August 21, 2018, attached hereto, I have made an examination into the condition and affairs of Moody’s Assurance Company, Inc. as of December 31, 2016, 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 “the Parent” appears herein without qualification, it should be understood to indicate Moody’s Corporation.

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, 2012 through December 31, 2016 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 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 on May 24, 2002, as a wholly-owned subsidiary of Moody's Assureco, Inc. Moody's Assureco, Inc. is wholly-owned by Moody's Investors Service Inc., which is in turn 100% owned by the ultimate parent, Moody's Corporation. The Company commenced operating as a captive insurance company under the laws of New York State on June 14, 2002.

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, 2016, the Company's paid-in capital was \$50,000,000 consisting of 100,000 shares of common stock with a par value of \$1 per share and additional paid-in capital of \$49,900,000. The Company had retained earnings of \$896,269,000 for a total capital and surplus (surplus as regards policyholders) of \$946,269,000.

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 this examination, the Company provided terrorism coverages to its Parent, subsidiaries and other affiliates as follows:

<u>Coverage</u>	<u>Policy period</u>	<u>Policy Limit</u>	<u>Premium</u>
Terrorism (NBCR)	11/30/16 - 11/30/17	\$500,000,000 per occurrence and in the aggregate with no deductible	\$20,000,000
Terrorism other than NBCR	11/30/16 - 11/30/17	\$200,000,000 per occurrence and in the aggregate with a \$300,000,000 self-insured retention	\$300,000

As of December 31, 2016, the Company also provided the following coverage to its insureds:

<u>Coverage</u>	<u>Policy period</u>	<u>Policy limit</u>	<u>Premium</u>
Integrated Risk Policy:			
E&O, D&O, Employment Practices and Fiduciary Liability and Crime Insurance	1/1/16 to 1/1/17	\$250,000,000 per claim and aggregate, in excess of various limits ranging from \$50,000,000 to \$300,000,000	\$2,569,000
Property Damage	1/1/16 to 1/1/17	\$100,000,000 per occurrence and aggregate, in excess of \$300,000,000	\$314,000

<u>Coverage</u>	<u>Policy period</u>	<u>Policy limit</u>	<u>Premium</u>
Excess Liability	1/1/16 to 1/1/17	\$100,000,000 per occurrence and aggregate, in excess of \$150,000,000	\$161,000
Reputation Risk	1/1/16-1/1/17	\$100,000,000 Per occurrence and in the aggregate	\$31,680,000
Excess Liability of policy coverages listed above	1/1/16-1/1/17	\$2,000,000,000 per occurrence and in the aggregate	\$26,420,000
E&O Deductible Reimbursement policy:			
Error & Omissions Liability	9/30/16 to 12/31/16	\$5,000,000 per claim	\$393,710
D & O Deductible Reimbursement Policy:			
Directors & Officers Liability	9/30/16 to 12/31/16	Securities related claims: \$5,000,000 per claim. All other claims: \$1,000,000 per claim	\$291,123
Employment Practices Liability Deductible Reimbursement Policy:			
Employment Practices Liability	9/30/16 to 12/31/16	\$1,000,000 per claim	\$1,027,375
Workers' Compensation Deductible Reimbursement Policy	6/30/16 to 6/30/17	\$250,000 per occurrence with an annual aggregate of \$450,000	\$300,000
Medical Stop Loss Policy	1/1/16 to 12/31/16	\$200,000 excess \$50,000 per claim and in the aggregate	\$4,220,500

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

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. As of December 31, 2016, the Company was managed by Marsh Management Company, 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, 2012, 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, maintaining true and complete books of account and records of all business conducted under this agreement.

(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, 2016, the board of directors was comprised of the following five members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Michael S. Crimmins Ridgewood, 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-Corporate Planning & Risk, Moody's Corporation
Jamie L. Kogan Brooklyn, NY	Deputy General Counsel and Assistant Secretary, Moody's Corporation
Christine A. Merkle Flushing, NY	Senior Vice President, Corporate Insurance & Risk Management, Moody's Corporation

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

(iii) Officers

As of December 31, 2016, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Michael S. Crimmins	President
Thomas A. Fezza	Vice President & Assistant Treasurer
Jane B. Clark	Vice President & Secretary
Jeffrey R. Hare	Treasurer
Nisala M. Weerasooriya	Assistant Secretary

G. Certified Public Accountant (“CPA”)

KPMG LLP was the Company’s independent public accounting firm for the entire period covered by this examination. At December 31, 2016, the CPA stated that the Company’s audited consolidated financial statements present fairly, in all material respects, the financial position of the Parent and its subsidiaries.

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	\$72,899,000	
Notes receivable	846,950,000	
Accrued interest on notes receivable	53,904,000	
Other receivables	7,467,000	
Deferred tax assets	<u>15,121,000</u>	
Total assets		<u>\$996,341,000</u>

Liabilities

Unearned premiums	\$18,758,000	
Losses and loss adjustment expenses	25,922,000	
Accounts payable	<u>5,392,000</u>	
Total liabilities		\$ <u>50,072,000</u>

Capital and Surplus

Common stock	\$ 100,000	
Paid-in capital	49,900,000	
Retained earnings	<u>896,269,000</u>	
Total capital and surplus		<u>\$946,269,000</u>
Total liabilities, capital and surplus		<u>\$996,341,000</u>

B. Statement of Income

The Company's net income for the period covered by this examination was \$422,267,000 as detailed below:

Underwriting Income

Net premiums earned		\$440,324,000
Loss and LAE	\$69,041,000	
Policy acquisition costs incurred	2,285,000	
General and administrative expenses	<u>7,861,000</u>	
Total underwriting deductions		<u>79,187,000</u>
Net underwriting income		361,137,000

Investment Income

Interest income	25,882,000	
Interest income on note receivable	<u>109,771,000</u>	
Total investment income		135,653,000

Other Income

Royalty income	<u>169,959,000</u>	
Total other income		<u>169,959,000</u>
Net income before taxes		666,749,000
Income taxes		<u>244,482,000</u>
Net income		<u>\$422,267,000</u>

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 _____, 2020.

APPOINTMENT NO. 31807

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

Moody's Assurance Company, Inc.

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 21st day of August, 2018

MARIA T. VULLO
Superintendent of Financial Services



By: Joan P. Riddell

Joan Riddell
Deputy Bureau Chief