

REPORT ON EXAMINATION

OF THE

SAMMARNICK INSURANCE CORPORATION

AS OF

DECEMBER 31, 2012

DATE OF REPORT

NOVEMBER 27, 2013

EXAMINER

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

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

November 27, 2013

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31041 dated September 12, 2013, attached hereto, I have made an examination into the condition and affairs of Sammarnick Insurance Corporation as of December 31, 2012, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Sammarnick Insurance Corporation. Wherever the designation “Parent” or “Viacom” appears herein without qualification, it should be understood to indicate Viacom 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 previous examination of the Company was conducted as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2012, 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 captive insurance company on July 1, 2003 and commenced business on the same day. The Company is a wholly-owned subsidiary of Viacom Inc. ("Viacom"), a leading global entertainment company that connects with audiences through compelling content across television, motion picture, online and mobile platforms in over 160 countries and territories.

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 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 mutual insurer, the Company is required to maintain surplus as regards policyholders of not less than \$250,000 pursuant to the provisions of Section 7004(a)(2) of the New York Insurance Law.

As of December 31, 2012, the Company's paid in capital was \$100,000 consisting of 100,000 shares of \$1.00 par value per share common stock and its surplus as regards policyholders was \$892,047,346. Paid in and contributed surplus increased by \$136,970,337 during the examination period, as follows:

<u>Year</u>	<u>Description</u>		
1/1/2008	Beginning paid in and contributed surplus		\$ 50,150,000
2010	Capital contribution from Parent	\$85,538,379	
2011	Capital contribution from Parent	23,842,482	
2012	Capital contribution from Parent	<u>27,589,476</u>	
	Total increase to paid in and contributed surplus		<u>136,970,337</u>
12/31/2012	Ending paid in and contributed surplus		<u>\$187,120,337</u>

D. Corporate Records

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

E. Insurance Program

As of December 31, 2012, the Company provided the following coverage to Viacom and its subsidiaries:

Global Property Insurance Policy

The Company provides property insurance, including acts of terrorism, of \$1 billion in excess of a self-insured retention of \$2,000,000 per occurrence and \$2,000,000 in the aggregate, with various sub-limits by coverage. A portion of certain layers within the \$1 billion limit were not written by the Company, but have been obtained by Viacom directly from outside insurers. The layers not written by the Company consist of 14.67% of the \$150 million in excess of \$100 million layer and 3% of the \$500 million in excess of \$500 million layer.

Integrated Risk Policy

The Company provides various other coverages, including motion picture portfolio, directors' and officers' liability, errors and omissions, and employment practices liability insurance, with per occurrence limits ranging from \$5 million to \$250 million in excess of deductible amounts which vary by coverage. The integrated risk policy also has an annual policy aggregate limit of \$500 million.

Deductible Buy Back Policy

The Company also provides insurance covering the deductible portion of workers' compensation, general liability and automobile liability policies written by an outside insurer, with limits of \$2 million, \$5 million and \$3 million, respectively.

F. Reinsurance

The Company cedes 100% of its property insurance coverage to various reinsurers.

G. 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.

Effective May 15, 2012, the Company is managed by Amethyst Captive Insurance Solutions, Inc. (“Amethyst”), which is authorized to act as a manager for captive insurance companies by the New York Department of Financial Services.

Pursuant to the Management Agreement, Amethyst shall provide expertise in the insurance and business transactions of the Company and provide such management services as specified in the Agreement.

Prior to May 15, 2012, the Company was managed by Willis of New York, Inc. which is licensed as a broker by the New York Department of Financial Services.

(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 members, of which, at least two shall at all times be residents of New York State. At December 31, 2012, the board of directors was comprised of the following five members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Wade Davis New York, NY	Executive Vice President and Chief Financial Officer, Viacom Inc.
Michael Fricklas New York, NY	Executive Vice President and General Counsel, Viacom Inc.
George Nelson Cos Cob, CT	Senior Vice President and Treasurer, Viacom Inc.
Barrie Wexler Plainsboro, NJ	Vice President, Risk Management, Viacom Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jay Kushner Armonk, NY	Sr. Vice President, Global Tax Treasury, Viacom Inc.

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

The Company was in compliance with its By-laws and Section 7003(b)(2) and 7005(g) of the New York Insurance Law.

(iii) Officers

As of December 31, 2012, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Wade Davis	President
George S. Nelson	Vice President and Treasurer
Michael Fricklas	Vice President and Secretary
Barrie Wexler	Vice President and Assistant Treasurer
Jay Kushner	Vice President

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

The Company was audited by the independent CPA firm PricewaterhouseCoopers LLP for the years 2008-2012. The Company’s opining actuary as of December 31, 2012 was Willis Casualty Actuarial Practice, 26 Century Boulevard, Nashville, TN 37214.

I. 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>
2008	\$178,581,858	\$114,308,511	\$503,367,151	\$320,850,921
2009	178,375,925	116,332,351	653,711,241	437,183,272
2010	178,657,700	112,468,725	828,123,958	635,190,376
2011	169,249,887	110,526,573	911,920,288	769,559,431
2012	143,309,452	94,898,439	1,001,711,504	892,047,346

3. FINANCIAL STATEMENTS

With the Department's permission, the financial statements of the Company have been prepared in conformity with generally accepted accounting principles, which differ from statutory accounting practices prescribed or permitted by the Department for property/casualty insurance companies. The Company's independent accounting firm concluded that the following financial statements present fairly, in all material respects, the Company's financial position as of December 31, 2012.

A Balance Sheet

Assets

Cash and cash equivalents	\$ 16,854,789
Funds held in escrow	205,000
Notes receivable from Parent	958,173,966
Accrued interest receivable	13,551,626
Premium receivable	2,244,426
Reinsurance recoverable	327,286
Deferred policy acquisition costs	301,077
Prepaid reinsurance premiums	929,320
Federal income tax receivable from Parent	2,165,844
Deferred federal income tax asset	<u>6,958,170</u>

Total Assets

\$1,001,711,504

Liabilities

Losses and loss adjustment expenses	\$ 15,877,452	
Accounts payable and accrued expenses	400,762	
Unearned premiums	93,009,821	
Unearned ceding commission	152,311	
Claims payable	<u>223,812</u>	
Total liabilities		<u>\$109,664,158</u>

Capital and Surplus

Capital stock	\$ 100,000	
Contributed surplus	187,120,337	
Surplus (Accumulated earnings)	<u>704,827,009</u>	
Total capital and surplus		<u>892,047,346</u>
Total liabilities, capital and surplus		<u>\$1,001,711,504</u>

B. Statement of Income

The Company's capital and surplus increased \$684,441,698 during the five-year period detailed as follows:

STATEMENT OF INCOME**Underwriting Income**

Net premiums earned	\$848,174,822	
Commission earned on ceded premiums	<u>6,240,146</u>	
Total underwriting income		\$854,414,968
Deductions:		
Net losses and net loss adjustment expense incurred	\$ 31,858,586	
General and administrative expenses	1,251,825	
Policy acquisition expenses	5,559,713	
Brokerage fees	<u>6,240,146</u>	
Total operating deductions		<u>44,910,270</u>
Net underwriting gain or (loss)		\$809,504,698

Investment Income

Investment income		<u>32,546,953</u>
Net income before tax		\$842,051,651
Federal income tax expenses		<u>293,517,052</u>

Net income			<u>\$548,534,599</u>
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C. Capital and Surplus Account

Capital and surplus as of January 1, 2008			\$207,605,648
	<u>Gains in</u>	<u>Losses in</u>	
	<u>surplus</u>	<u>surplus</u>	
Net income	\$548,534,599		
Haverstraw novation		\$1,063,238	
Capital contributions from Parent	<u>136,970,337</u>	<u>0</u>	
	<u>\$685,504,936</u>	<u>\$1,063,238</u>	<u>684,441,698</u>
Net increase in surplus			
Capital and surplus as of December 31, 2012			<u>\$892,047,346</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2012, the Company reported total loss and loss adjustment expense reserves of \$15,877,452. The Company's opining actuary stated the following in its Statement of Actuarial Opinion:

"My opinion concludes the following about the reserve amounts that are listed in the scope paragraph:

1. They meet the requirements of the captive insurance laws of New York,
2. Are computed in accordance with generally accepted loss reserving practices and fairly stated in accordance with sound loss reserving principles,
3. Are based on factors relevant to policy provisions,
4. Are based on loss data as of October 31, 2012 and December 31, 2012 provided by the captive manager, and
5. Make reasonable provision for all the unpaid loss and loss adjustment obligations of the Company for coverages defined within this opinion under the terms of the policies and agreements provided to me for review."

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 subsidiary of Viacom Inc ("Viacom") which is an American global mass media company specializing in movie production and cable television networks.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

<u>ITEM</u>		<u>PAGE NO.</u>
	<u>Capital Structure</u>	
A.	It is recommended that the Company maintain at least \$250,000 in the type of minimum capital and surplus investments specified in Section 7004(b) of the New York Insurance Law.	4
	The Company has complied with this recommendation.	
B.	<u>Management-Board of Directors</u>	
	It is recommended that the board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	8
	The Company has complied with this recommendation.	
C.	<u>Certified Public Accountant</u>	
	It is recommended that the Company file audited financial statements with the Department annually and in a timely manner pursuant to Section 7006(b) of the New York Insurance Law.	8
	The Company has complied with this recommendation.	

8. 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. 31041

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

Sammarnick Insurance Corporation

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

COMPANY

with such other information as he shall deem requisite.

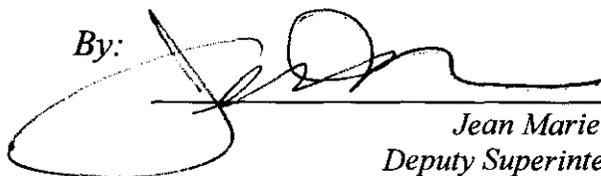
In Witness Whereof, I have hereunto subscribed by name and affixed the official Seal of the Department at the City of New York

this 12th day of September, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By:



Jean Marie Cho
Deputy Superintendent