

REPORT ON EXAMINATION
OF THE
BLACKROCK INSURANCE CORPORATION
AS OF
DECEMBER 31, 2010

DATE OF REPORT

MAY 11, 2012

EXAMINER

GILBERT DENTON

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

May 11, 2012

Honorable Benjamin M. Lawsky
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 30748 dated August 18, 2011 attached hereto, I have made an examination into the condition and affairs of Blackrock Insurance Corporation as of December 31, 2010, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Blackrock Insurance Corporation.

Wherever the term “Department” appears herein without qualification, it should be understood to indicate the New York State Department of Financial Services.

1. SCOPE OF EXAMINATION

The examination covered the period from the Company's licensing and commencement of business on December 2, 2005 through December 31, 2010.

The examination comprised a verification of assets and liabilities as of December 31, 2010. The examination also included a review of income, disbursements and company records deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. Additionally, a review was performed to determine whether the captive insurer was operating within the guidelines of its charter and by-laws, conforming with its plan of operation as submitted to the Department of Financial Services, and operating in compliance with Article 70 of the New York Insurance Law.

Comments and recommendations are limited to those items requiring financial adjustment, procedural recommendation or instances where the Company was not conforming to the application submitted to the Department or Article 70 of the New York Insurance Law.

2. DESCRIPTION OF COMPANY

Blackrock Insurance Corporation is a pure captive insurance company and is a wholly-owned subsidiary of CBS Corporation, a worldwide entertainment company. The Company was incorporated as a stock insurer and licensed as a pure captive insurance company on December 2, 2005, and commenced business on December 2, 2005, under the laws of New York State. The Company provides insurance coverage to CBS Corporation and its affiliates.

A. Articles of Incorporation

Pursuant to its articles of incorporation, the Company was organized to transact the kinds of property and casualty insurance business specified in paragraphs 4, 5, 6, 7, 8, 9, 10, 12, 13, 15 (on an excess basis only), 16, 19 and 20 (inland marine portion only) of subsection (a) of Section 1113 of the New York Insurance Law and subject at all times to the limitations of the business of pure captive insurance companies set forth in Article 70 of the New York Insurance Law.

B. By-Laws

The company appears, in all material respects, to be in compliance with its by-laws.

C. Capital Structure

Section 7004(a)(1) of the New York Insurance Law states that a pure captive insurance company incorporated as a stock insurer is required to possess, and thereafter maintain, unimpaired paid-in-capital and surplus of not less than \$250,000, of which \$100,000 shall represent paid-in capital.

At December 31, 2010, capital paid in was \$100,000, consisting of 100,000 shares of \$1 par value per share common stock. CBS Corporation paid \$250,000 to acquire all 100,000 shares of common stock issued by the Company. The remaining, \$150,000 was allocated to additional paid-in capital.

D. Management and Control

(i) Captive Manager

Section 7003(b)(4) of the New York Insurance Law Insurance Law states that no captive insurer can do any captive insurance business in this state unless it utilizes a captive manager resident in New York State that is licensed as an agent or broker under the provisions of the New York Insurance Law or any other person approved by the Superintendent of insurance.

Pursuant to a management agreement dated December 1, 2005, the Company is managed by Aon Insurance Managers (USA) Inc., (“AIM”) a Vermont corporation. In accordance with Section 7003(b)(4)(B), AIM was approved by the Department to perform as a captive manager in New York State. Under the management agreement, AIM is responsible for such duties as maintaining a home office and principal place of business in New York State for the Company; assisting the Company in complying with the rules, regulation and requirements of the Captive Act, pursuant to Article 70 of the New York Insurance Law; maintaining the Company’s books and records in accordance with established accounting principles; preparing financial and statistical reports as necessary, as well as any and all other business functions and duties associated with the operation of a captive insurance company. The Company does not have any employees.

(ii) Board of Directors

The Company exercises its corporation powers through a board of directors consisting of not less than three nor more than ten members. The directors are elected at the annual meeting of the shareholder of the Company. At December 31, 2010, the board of directors was comprised of the following four members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
J. Kenneth Hill Pennington, NJ	Senior Vice President & Treasurer, CBS Corporation
Joseph R. Ianniello New York, NY	Executive Vice & Chief Financial Officer, CBS Corporation
Eugene Mellevold Darien, CT	Vice President, CBS Corporation
Angeline C. Straka New York, NY	Senior Vice President & Deputy General Counsel CBS Corporation

During the period under examination, the board met five times. A review of the board of directors' meetings revealed that one of the directors did not attend any of the five meetings. Members of the board have a fiduciary responsibility and must evince an on-going interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that appropriate policy decisions may be reached by the board. Members, who fail to attend at least one-half of the board's meetings, unless appropriately excused, do not fulfill such criteria. Board members who are unable or unwilling to attend meeting consistently should resign or be replaced.

(iii) Officers

As stated in its charter, the officers of the Company shall be elected by the board of directors at its annual meeting. As of December 31, 2010, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Eugene Mellevold	President
J. Kenneth Hill	Treasurer
Angeline Straka	Secretary
Joseph Ianniello	Vice President

E. Plan of Operation

Blackrock writes property coverage for CBS Corporation and its affiliates with a limit of \$1 billion per occurrence. The property coverage is excess of a self-insured retention of \$15 million per occurrence and in the aggregate annually. The coverage also contains sub-limits for specific perils and is in excess of various deductibles.

The Company also writes certified terrorism coverage, with a limit of \$1.5 billion.

F. Reinsurance

The Company does not assume any business.

The Company ceded 99.5% of its property coverage premiums to various reinsurers. The property coverage risks are 100% reinsured by various reinsurers.

The Company issues coverage for acts of terrorism, as certified by the Treasury Secretary, pursuant to the Terrorism Risk Insurance Program Reauthorization Act of 2007 (“TRIPRA”), which was signed into law on December 26, 2007 and requires property and casualty insurers doing business in the United States to issue coverage for acts of terrorism. Pursuant to TRIPRA, the Treasury will reinsure 85% of the covered terrorism losses in excess of the stipulated deductible amount. As of December 31, 2010, the Company’s retention of 15% for covered certified terrorism is reinsured by various unaffiliated reinsurers. Coverage under the program is provided once the loss (certified act of terrorism) equals or exceeds \$100 million dollars. TRIPRA provides an annual aggregate limit of \$100 billion on terrorism risks. This Federal program was based on the Terrorism Risk Insurance Act (“TRIA”) enacted in 2002, which was extended by the Terrorism Risk Insurance Extension Act (“TRIEA”) in 2005. TRIPRA is set to expire on December 31, 2014.

The Company cedes 78.3% of its direct terrorism premiums.

G. 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>
2005	\$ 45,068	\$ 4,742	\$6,489,853	\$ 254,742
2006	\$651,752	\$338,207	\$8,463,516	\$ 592,949
2007	\$516,452	\$275,553	\$7,501,586	\$ 868,502
2008	\$471,532	\$240,533	\$6,378,808	\$1,109,035
2009	\$442,790	\$201,852	\$6,700,724	\$1,310,887
2010	\$418,208	\$202,669	\$6,469,356	\$1,513,556

As noted in the “Capital and Surplus” section of the report, the shareholders’ equity as of December 31, 2010, includes \$1,263,566 of accumulated earnings since inception of the Company.

H. Certified Public Accountant and Actuarial Services

The Company was audited by Johnson Lambert & Company LLP from the date of its inception to the date of examination. The published financial reports of the independent auditor revealed that the financial statements of the Company presented fairly, in all material respects, the financial position of the Company as of the respective years during the examination period.

The board appointed Aon Global Risk Consulting to serve as its actuary to certify its loss and loss adjustment expense reserves.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The examination accepted the financial position of the Company, as presented below and in Blackrock Insurance Company's filed annual statement. The financial statements were prepared in conformity with accounting practices prescribed or permitted by the Department of Financial Services.

BALANCE SHEET AS OF DECEMBER 31, 2010

Assets

Cash and cash equivalents	\$ 2,455,907
Deferred policy acquisition costs	21,185
Prepaid reinsurance premiums	3,977,853
Accrued interest receivable	200
Deferred federal income tax	10,400
Other assets	<u>3,811</u>
Total assets	\$ <u>6,469,356</u>

Liabilities, Capital and Surplus

Liabilities

Losses and loss adjustment expenses	\$ 0
Unearned premiums	4,221,318
Federal income tax payable	720,982
Accounts payable and accrued expenses	<u>13,500</u>
Total liabilities	\$ 4,955,800

Capital and Surplus

Pain-in-capital (par value)	\$100,000
Additional paid-in capital	150,000
Surplus (accumulated earnings)	<u>1,263,556</u>
Total capital and surplus	<u>1,513,556</u>
Total liabilities, capital and surplus	\$ <u>6,469,356</u>

B. Statement of Income

Capital and Surplus increased \$1,263,556 during the five-year period from the Company's commencement of business on December 2, 2005 through December 31, 2010, detailed as follows:

STATEMENT ON INCOME

Underwriting income

Net premiums earned		\$ 2,546,342
Deductions:		
Losses and loss adjustment expenses incurred	\$ 0	
General and administrative expenses incurred	373,755	
Other underwriting expenses incurred	<u>309,507</u>	
Total underwriting deductions		<u>683,262</u>
Net underwriting gain or (loss)		\$ 1,863,080

Investment income

Net investment income earned	\$ <u>111,059</u>	
Net investment gain or (loss)		<u>111,059</u>
Net income before taxes		\$ 1,974,139
Federal and foreign income taxes incurred		<u>710,583</u>
Net income		\$ <u>1,263,556</u>

C. Capital and SurplusCapital and Surplus Account

Capital and surplus as of December 2, 2005			\$ 250,000
	Gains in <u>Surplus</u>	Losses in <u>Surplus</u>	
Net income	\$1,263,556	\$ 0	
Total gains and losses	\$1,263,556	\$ 0	
Net increase (decrease) in surplus			<u>1,263,556</u>
Capital and surplus as of December 31, 2010			\$ <u>1,513,556</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The Company did not report any reserves for losses and loss adjustment expenses during the period covered by this examination. No Actuarial opinion was written during the examination period.

5. ARTICLE 70 COMPLIANCE

Article 70 of the New York State Insurance Law is the governing article of the law for the formation and continued operation of captive insurers in New York State. A review was conducted to confirm the Company's compliance with Article 70. Accordingly, the Company appears to be in compliance with Article 70, no areas of non-compliance surfaced during the examination period.

6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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A. Board of Directors

It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

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Respectfully submitted,

_____/s/_____
Gilbert Denton,
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

GILBERT DENTON, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/s/_____
Gilbert Denton

Subscribed and sworn to before me

this _____ day of _____, 2012.

Appointment No. 30748

*STATE OF NEW YORK
INSURANCE DEPARTMENT*

*I, James J. Wrynn Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:*

Gilbert Denton

as proper person to examine into the affairs of the

BLACKROCK INSURANCE CORPORATION

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 18th day of August, 2011



James J. Wrynn

JAMES J. WRYNN

Superintendent of Insurance