

REPORT ON EXAMINATION

OF THE

SENTINEL PROTECTION & INDEMNITY COMPANY

AS OF

DECEMBER 31, 2010

DATE OF REPORT

OCTOBER 12, 2012

EXAMINER

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawskey  
Superintendent

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

October 12, 2012

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30844 dated April 19, 2012, attached hereto, I have made an examination into the condition and affairs of Sentinel Protection & Indemnity Company as of December 31, 2010, and submit the following report thereon.

Wherever the designation “the Company” or “Sentinel” appears herein without qualification, it should be understood to indicate Sentinel Protection & Indemnity Company. Wherever the designations “Parent” or “GE” appear herein without qualification, they should be understood to refer to 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.

This examination was conducted at the Office of Marsh Management Services Inc, 48 South Service Road Suite 310, Melville, NY 11747. Sentinel is managed by Marsh Management Services Inc. as of December 31, 2010.

## **1. SCOPE OF EXAMINATION**

The examination covers the period from January 1, 2006 through December 31, 2010, 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**

Sentinel Protection & Indemnity Company was incorporated under the insurance laws of the State of New York on December 27, 2005 and commenced business as a captive insurance company on December 29, 2005.

The Company is licensed to write insurance and reinsurance contracts as a captive insurance company. Sentinel is controlled by General Electric Company, its parent, through its ownership of 100% of the outstanding voting shares of the Company. Business written by the Company relates to insurance exposures of the parent company.

### **A. Articles of Incorporation**

The Company is organized to transact the kinds of insurance specified in Section 1113(a) and Section 1114 of the New York Insurance Law, subject at all times to the limitation on the business of a pure captive insurance company set forth in Article 70 of the New York Insurance Law.

B. By-Laws

It appears that the Company is in compliance with its by-laws in all material respects.

C. Capital Structure

The Company was incorporated as a stock captive insurance company. Pursuant to Section 7004(a)(1) of the New York Insurance Law, no pure captive insurance company incorporated in this state as a stock insurer shall be issued a license unless it shall possess, and thereafter maintain unimpaired, not less than \$250,000 of total surplus as regards to policyholders, of which \$100,000 shall represent paid-in capital. As of December 31, 2010, the Company's paid in capital was \$100,000 and its surplus as regards policyholders was \$45,978,562.

D. Reinsurance

As of December 31, 2010, the Company's reinsurance program consisted of the assumption and cession of risks of its parent, as follows:

<u>Type of Coverage:</u>	<u>Assumption/Cession</u>
<u>Property:</u>	<p><u>Assumed:</u> 100% of \$1.725 billion excess of \$25 million, \$75 million annual aggregate assumed from unaffiliated insurance companies with limits of \$25 million per occurrence and \$75 million annual aggregate.</p> <p><u>Ceded:</u> 100% excess of the first \$25 million per occurrence, \$75 million annual aggregate. Ceded to unaffiliated authorized reinsurers.</p>
<u>Transit All Risk:</u>	<p><u>Assumed:</u> 100% of \$200,000 assumed from an unaffiliated insurance company.</p> <p><u>Ceded:</u> 100% excess of \$12.5 million per occurrence, \$20 million annual aggregate. Ceded to unaffiliated authorized reinsurers.</p>
<u>Construction All Risk:</u>	<p><u>Assumed:</u> Risks assumed from an unaffiliated insurance company with limits of \$7.5 million per occurrence and \$35 million aggregate.</p> <p><u>Ceded:</u> None.</p>

<u>Type of Coverage:</u>	<u>Assumption/Cession</u>
<u>Casualty:</u>	<u>Assumed:</u> \$131.6 million excess of \$13.4 million assumed from an affiliated insurance company.  <u>Ceded:</u> None.
<u>Nuclear Property:</u>	<u>Assumed:</u> 100% of business written by an unaffiliated insurance company with limits of \$500 million per occurrence.  <u>Ceded:</u> 100% of the limits assumed to unaffiliated authorized reinsurers.
<u>Multiple Specialties Insurance:</u>	<u>Assumed:</u> \$40 million excess of \$10 million for Errors and Omissions; \$15 million excess of \$10 million for Bankers' professional; \$15 million excess of \$10 million for Financial institution bond; \$15 million excess of \$10 million for Commercial crime.  <u>Ceded:</u> None

Additionally, during the period from March 21, 2008 through December 31, 2009, the Company directly assumed the terrorism risk of its parent company with limits of \$240 million excess of \$760 million and ceded 100% of the limits written to an unaffiliated authorized reinsurer. The coverage was not renewed after December 31, 2009.

E. Corporate Records

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

F. 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.

The Company is managed by Marsh Management Services, Inc. (“Marsh”), which is licensed by the New York Department of Financial Services. Pursuant to the Management Agreement between the Company and Marsh, Marsh provides the Company with financial and accounting services, insurance related services, and acts as the principle representative to the Company in all communications and dealings with all regulatory authorities in regard to certain management and administrative services.

(ii) Board of Directors

At December 31, 2010, the board of directors was comprised of the following five members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Stacey L. Regan Stratford, CT	General Electric Company
R. Scott McCurdy Shelton, CT	General Electric Company
Matthew J. Zakrzewski Monroe, CT	General Electric Company
Nisala D. Weerasooriya Lake Grove, NY	Marsh Management Services, Inc.
Donna M. Weber Sea Cliff, NY	Marsh Management Services, Inc.

A review of the meeting minutes during the examination period indicated that the Company is in compliance with its by-laws, and all the board meetings were generally well attended.

(iii) Officers

As of December 31, 2010, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Stacey Regan	President
Matthew J. Zakrzewski	Vice President
Alan L. Langus	Secretary
Scott McCurdy	Treasurer
Donna Weber	Assistant Secretary
Nisala Weerasooriya	Assistant Secretary

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

The Company was audited by the independent CPA firm KPMG LLP, 345 Park Ave., 22<sup>nd</sup> Floor New York, NY 10154 for the years covered by this examination. The Company’s opining actuary as of December 31, 2010 was KPMG LLP, One Financial Plaza Hartford, CT 06103-4103. The opining actuary was appointed in 2008; the Company did not have an opining actuary in 2006 and 2007.

H. 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>New Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholders’ Equity</u>
2006	\$ 12,477	\$ 54,576	\$ 8,680,364	\$ 54,576
2007	35,127,501	2,724,334	297,928,715	2,901,986
2008	33,080,897	12,993,594	146,494,331	15,664,690
2009	35,963,598	23,168,720	187,981,363	39,089,413
2010	23,730,145	6,932,707	97,566,656	45,978,562



### 3. FINANCIAL STATEMENTS

The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America, which differ from statutory accounting practices prescribed or permitted for insurance companies by the New York State Department of Financial Services. The Company's independent accounting firm concluded that the following financial statements, present fairly, in all material respects, the financial position Sentinel Protection & Indemnity Company as of December 31, 2010.

#### A Balance Sheet

##### BALANCE SHEET AS OF DECEMBER 31, 2010

#### Assets

Stocks	\$ 7,361,806	
Cash	61,359,308	
Accounts and premium receivable	16,101,906	
Reinsurance recoverables on unpaid losses & LAE	16,540	
Funds held by ceding reinsurers	750,000	
Prepaid reinsurance premiums	11,206,123	
Other assets	<u>770,973</u>	
Total Assets		<u>\$97,566,656</u>

#### Liabilities

Losses and loss adjustment expenses	\$ 21,904,472	
Unearned premiums	16,311,720	
Reinsurance payable on paid losses & LAE	2,273,035	
Reinsurance balances payable	10,670,191	
Commissions, expenses and fees	<u>428,676</u>	
Total liabilities		\$51,588,094

#### Capital and Surplus

Paid in capital (par value)	\$ 100,000	
Unrealized gain on investments	4,629	
Surplus (accumulated earnings)	<u>45,873,933</u>	
Total capital and surplus		<u>\$45,978,562</u>
Total liabilities and capital surplus		<u>\$97,566,656</u>

B. Statement of Income

The Company's Capital and surplus increased \$45,978,562 during the five-year period detailed as follows:

STATEMENT OF INCOMEUnderwriting Income

Net premiums earned		\$127,914,618
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## Deductions:

Net losses and net loss adjustment expense incurred	\$83,618,182	
General and administrative expenses	<u>618,037</u>	

Total underwriting deductions		<u>84,236,219</u>
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Net underwriting gain or (loss)		\$ 43,678,399
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Investment Income

Net investment income earned	\$ 854,796	
Net deferred acquisition income	<u>1,859,754</u>	

Investment Income		<u>2,714,550</u>
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Net income before tax		\$ 46,392,949
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Federal Income Tax expense		<u>519,016</u>
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Net income		<u>\$ 45,873,933</u>
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C. Capital and Surplus Account

Capital and surplus as of December 27, 2005		\$ 0
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Gain in surplus

Net income	\$45,873,933	
Issuance of common stock	100,000	
Unrealized gain on investments	<u>4,629</u>	

Net increase in surplus		<u>45,978,562</u>
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Capital and surplus per report on examination as of December 31, 2010		<u>\$45,978,562</u>
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#### **4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

As of December 31, 2010 the Company recorded unpaid loss and loss adjustment expenses (“LAE”) of \$ 21,904,472. The Company’s opening actuary states the following in its “Statement of Actuarial Opinion”:

“In my opinion, the amounts of Loss and Loss Adjustment Expenses of \$21,904,472:

- are consistent with reserves computed in accordance with the accepted loss reserving standards and principles;
- make a reasonable provision , in the aggregate, 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 of the New York Insurance Law. No significant areas of non-compliance were found.

#### **6. ORGANIZATIONAL STRUCTURE**

Sentinel Protection and Indemnity Company is licensed to write insurance and reinsurance contracts as a captive insurance company controlled by General Electric Company (“GE”). GE is an American multinational conglomerate corporation incorporated in Schenectady, New York and headquartered in Fairfield, Connecticut, United States. The Company operates through four segments: Energy, Technology Infrastructure, Capital Finance and Consumer & Industrial.

#### **7. SUMMARY OF COMMENTS OR 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 \_\_\_\_\_, 2012.

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  
**SENTINEL PROTECTION AND INDEMNITY COMPANY**  
and to make a report to me in writing of the condition of said  
**COMPANY**

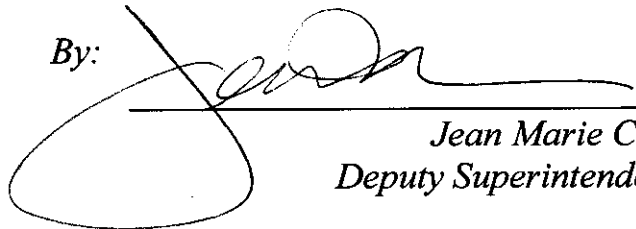
with such other information as he shall deem requisite.

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

this 19th day of April, 2012

**BENJAMIN M. LAWSKY**  
Superintendent of Financial Services

By:

  
\_\_\_\_\_  
Jean Marie Cho  
Deputy Superintendent

