

REPORT ON EXAMINATION

OF THE

THE HAMILTON INSURANCE CORP.

AS OF

DECEMBER 31, 2014

DATE OF REPORT

NOVEMBER 30, 2015

EXAMINER

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

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

November 30, 2015

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31380 dated September 18, 2015, attached hereto, I have made an examination into the condition and affairs of The Hamilton Insurance Corp. as of December 31, 2014, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate The Hamilton Insurance Corp. Wherever the designation "the Parent" appears herein without qualification, it should be understood to indicate BNY Capital 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 the Company's incorporation on September 10, 2009 through December 31, 2014 and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis or verification. 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 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 and commenced business on November 6, 2009. The Company is controlled by BNY Capital Corporation, its immediate parent, which is in turn ultimately owned by The Bank of New York Mellon Corporation (BNY Mellon).

BNY Mellon is one of the world's ten largest investment managers. It provides investment services and investment and wealth management that helps institutions and individuals succeed in markets all over the world.

A. Articles of Incorporation

The Company is organized to transact the kinds of insurance specified in Section 1113(a) of the 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 the Company to be 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 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, 2014, the Company's paid-in capital was \$1,101,592,275 consisting of 100,000 shares of \$1 par value per share common stock and an additional paid-in capital amount of \$1,101,492,275. The Company had accumulated retained earnings of \$261,853,325 for a total capital and surplus of \$1,363,445,600.

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 the following coverage to its ultimate parent, affiliates and subsidiaries. The coverages are as follows:

- Excess Umbrella Liability. Policy limits of \$150 million excess \$200 million per occurrence and in the aggregate;
- Excess All Risk Property Damage. Policy limits of \$800 million per occurrence and annual aggregate in excess of \$800 million;
- Excess Mortgage Impairment Liability. Policy limits of \$115 million each loss and in the aggregate in excess of \$50 million;
- Political Risk Liability. Policy limits of \$500 million per loss and in the aggregate;
- Copyright, Patent & Trademark Liability. Policy limits of \$100 million per claim and in the aggregate with a \$25 million deductible;
- Excess Professional Liability. Policy limits of \$400 million each loss and in the aggregate, in excess of \$100 million, with a \$25 million self-insured retention;

- Excess Directors and Officers Liability. Policy limits of \$80 million each loss and in the aggregate, in excess of \$120 million with a \$20 million self-insured retention;
- Excess Privacy Legal Liability including notification costs. Policy limits of \$70 million per loss and in the aggregate, in excess of \$30 million (For notification costs, the policy limit is \$25 million per loss and in the aggregate, in excess of \$2 million);
- Unauthorized Trading Liability. Policy limits of \$200 million per loss and in the aggregate with a \$25 million deductible per claim;
- Excess Financial Institution Bond and Computer Crime Insurance Policy. Policy limits of \$150 million each loss and in the aggregate, in excess of \$150 million with a \$10 million self-insured retention;
- Excess All Risk Cash and Securities. Policy limits of \$800 million per loss and in the aggregate, in excess of \$850 million with a \$10 million self-insured retention;
- Primary All Risk Property Damage Policy. Policy limits of \$87.5 million as part of \$400 million per occurrence and in the aggregate, in excess of \$100 million. This policy is fully reinsured as follows:
 - \$18 million of \$87.5 million as part of \$400 million in excess of \$100 million reinsured by Lloyds.
 - \$20 million of \$87.5 million as part of \$400 million in excess of \$100 million reinsured by Hanover Re.
 - \$10 million of \$87.5 million as part of \$400 million in excess of \$100 million reinsured by Arch Re.
 - \$39.5 million of \$87.5 million as part of \$400 million in excess of \$100 million reinsured by Partner Re.

The Company also provides coverage for certified acts of Nuclear, Biological, Chemical or Radiological Terrorism (öNBCRö) under the Terrorism Risk Insurance Program Reauthorization Act of 2007 (öTRIPRA 2007ö). The policy limit was \$800 million for any one Certified Act of Terrorism (a terrorist act meeting criteria defined in the Terrorist Risk Insurance Act and certified by the Secretary of the Treasury, in concurrence with the Secretary of State and the Attorney General) with a \$15 million self-insured retention.

TRIPRA 2007 was signed into law on December 26, 2007 and extends the federal terrorism insurance backstop through 2015. TRIPRA 2007 keeps in place the basic framework of the Terrorism Risk Insurance Act (öTRIAö) which was enacted in 2002. TRIA was extended in 2005 as the Terrorism Risk Insurance Extension Act before being reauthorized as TRIPRA 2007. Subsequent to the examination date on January 12, 2015, the Terrorism Risk Insurance Program Reauthorization Act of

2015, which extends the federal backdrop program for an additional six years through December 31, 2020, was signed into law.

Under this federal program, property and casualty insurers can offer coverage for incidents of international and domestic terrorism. Coverage is triggered once a loss from a Certified Act of Terrorism has been established. Non-certified acts are those that are not certified under TRIA and are not afforded any protection from the federal program.

As of December 31, 2014, the Company also provides a standalone non-certified terrorism policy with the following limits:

- \$120 million per occurrence/aggregate.
- \$35 million quota share of \$100 million in excess of \$120 million per occurrence/aggregate.
- \$45.5 million quota share of \$130 million in excess of \$220 million per occurrence/aggregate.
- \$52.5 million quota share of \$150 million in excess of \$350 million per occurrence/aggregate.
- \$125 million quota share of \$300 million in excess of \$500 million per occurrence/aggregate.

The policy is fully reinsured with third party reinsurance carriers.

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 the State of New York 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.

Since the Company's inception, it has been 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 September 10, 2009, Marsh has the responsibility for providing the Company with recordkeeping, underwriting, claims, actuarial and other general management and operational services for a fee. These responsibilities also include assisting the Company in complying with the rules, regulations and requirements of the Law.

(ii) Board of Directors

Pursuant to its by-laws, management of the Company is vested in a board of directors consisting of not less than three directors, of which at least two shall at all times be residents of New York State. At December 31, 2014, the board of directors was comprised of the following four members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
David R. Nesbit Pittsburgh, PA	Managing Director, The Bank of New York Mellon Corporation
Carmelo C. Casella Clifton, NJ	Vice President, The Bank of New York Mellon Corporation
Joseph A. Giacobino Bronx, NY	Senior Associate, The Bank of New York Mellon Corporation
Nisala M. Weerasooriya Lake Grove, NY	Senior Vice President, Marsh Management Services, Inc.

During the examination period, the board of directors met once every year. A review of the meeting minutes indicated that all the board meetings were well attended.

(iii) Officers

As of December 31, 2014, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Carmelo C. Casella	President & Chief Executive Officer
Joseph A. Giacobino	Vice President
Michael D. Koto	Treasurer
Nisala M. Weerasooriya	Secretary
Cristina M. Rice	Assistant Secretary
Susan K. Maroni	Assistant Secretary
Audrey M. Edwards	Assistant Secretary
Matthew J. McNulty	Chief Financial Officer & Controller

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, 2014.

3. FINANCIAL STATEMENTS

The financial statements of the Company have been prepared in accordance with accounting practices prescribed or permitted by the Department.

A. Balance SheetAssets

Cash	\$331,213,599	
Notes receivable	1,101,242,275	
Accrued interest receivable	68,035	
Reinsurance balances receivable	33,115	
Ceded unearned premiums	460,366	
Deferred acquisition costs	277,437	
Deferred tax asset	4,567,820	
Prepaid expenses	<u>6,283</u>	
Total assets		<u>\$1,437,868,930</u>

Liabilities

Unearned premiums	\$63,299,608	
Accounts payable	638	
Payable to affiliate	316	
Income tax payable	11,113,892	
Accrued expenses	<u>8,876</u>	
Total liabilities		<u>\$74,423,330</u>

Capital and Surplus

Common stock	\$100,000	
Additional paid-in capital	1,101,492,275	
Retained earnings	<u>261,853,325</u>	
Total capital and surplus		<u>\$1,363,445,600</u>
Total liabilities, capital and surplus		<u>\$1,437,868,930</u>

B. Statement of Income

The Company's net income for the examination period was \$386,853,325 as detailed below:

STATEMENT OF INCOMEUnderwriting Income

Net premiums earned		\$518,624,758
Deductions:		
General and administrative expenses	1,216,529	
Policy acquisition expenses	<u>2,317,484</u>	
Total underwriting deductions		<u>3,534,013</u>
Net underwriting gain		\$515,090,745
Investment Income		<u>81,273,529</u>
Net income before tax		\$596,364,274
Federal income tax expenses		<u>209,510,949</u>
Net income		<u>\$386,853,325</u>

C. Capital and Surplus Account

The Company's capital and surplus increased \$1,363,445,600 during the five-year, one hundred and thirteen-day period covered by this examination, detailed as follows:

Capital and surplus as of September 10, 2009			\$0
	Increase in <u>surplus</u>	Decrease in <u>surplus</u>	
Net income	\$386,853,325		\$0
Issuance of common stock	1,00,000		
Additional paid in capital	250,000		
Notes receivable	1,101,242,275		
Shareholder dividends		<u>125,000,000</u>	
Total increases and decreases	\$1,488,445,600	\$125,000,000	
Net increase in surplus			<u>1,363,445,600</u>
Capital and surplus as of December 31, 2014			<u>\$1,363,445,600</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2014, the Company reported total loss and loss adjustment expense reserves of \$0. The Company's opinioning actuarial firm, Marsh Management Services, Inc. noted in its Statement of Actuarial Opinion that reserves met the relevant requirements of the Law and were computed in accordance with accepted actuarial standards and principles. It was also noted that reasonable provisions in the aggregate had been made for all unpaid loss and loss adjustment obligations under the terms of its contracts 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. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations in this report.

Respectfully submitted,

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.

Wei Cao

Subscribed and sworn to before me

this _____ day of _____, 2017.

APPOINTMENT NO. 31380

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

The Hamilton Insurance Corp.

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 8th day of November, 2017

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan L. Riddell

Joan Riddell
Deputy Bureau Chief