

REPORT ON EXAMINATION

OF

CHIMERA SQUARE INSURANCE COMPANY

AS OF

DECEMBER 31, 2016

DATE OF REPORT

APRIL 4, 2018

EXAMINER

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Department of Financial Services

KATHY HOCHUL
Governor

ADRIENNE A. HARRIS
Superintendent

January 25, 2022

Honorable Adrienne A. Harris
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law and in compliance with the instructions contained in Appointment Number 31700 dated January 5, 2018, attached hereto, I have made an examination into the condition and affairs of Chimera Square Insurance Company 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 Chimera Square Insurance Company. Wherever the designation “the Parent” appears herein without qualification, it should be understood to indicate WPP Group USA, 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 examination covers the period from July 1, 2011, 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 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 was 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 on June 10, 2011 and commenced business on July 1, 2011. The Company is a wholly owned subsidiary of WPP Group USA, Inc.

WPP Group USA, Inc. provides communications and media management services. It offers advertising, media, public relations and affairs, branding, promotion, and marketing services. WPP Group USA, Inc., formerly known as WPP US Holdings, Inc., was founded in 1997 and is based in New York City.

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 \$2,505,000, consisting of 1000 shares of common stock with a par value of \$100 per share and paid-in capital of \$2,405,000. The Company had retained earnings of \$29,515,438 for a total capital and surplus (surplus as regards policyholders) of \$32,020,438.

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 excess errors and omissions coverage to the Parent and its affiliates with a limit of \$10,000,000 excess of \$25,000,000 per wrongful act and in the aggregate. The Company cedes 50% of this coverage to Marketing Services Risk Surety Ltd. ("MSRS"), an affiliated insurer that is not licensed or authorized to do business in New York.

The Company also provides terrorism insurance coverage to the Parent and its affiliates with a limit up to \$800,000,000, for any one act certified as an "act of terrorism." Terrorism coverage is backstopped by the Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA"). TRIPRA is a temporary public/private risk-sharing plan, established by the federal government, that partially reimburses eligible insurers for insured losses caused by a covered act of terrorism. As of December 31, 2016, TRIPRA reimburses insurers for 84% of covered losses, while the insurer is responsible for the remaining 16%. The Company cedes its retained 16% of the terrorism risk to MSRS.

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 who is licensed as an agent or broker under the provisions of Article 21 of the Law, or any other person approved by the superintendent.

During the period covered by this examination, the Company was 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 July 1, 2011, Marsh has the responsibility for providing the Company with underwriting, policyholder services, claims, and other 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, and maintaining true and complete books of account and records for 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 three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Kevin Farewell Nutley, NJ	Tax Counsel, WPP Group USA, Inc.
Thomas Lobene Tuckaho, NY	Treasurer, WPP Group USA, Inc.
Ronald Pearlroth Ardsley, NY	Vice President, WPP Group USA, Inc.

In accordance with its by-laws and Section 7003(b)(2) of the Law, the board of directors met once 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>
Ronald Pearlroth	President
Kevin Farewell	Vice President & Secretary
Thomas Lobene	Vice President & Treasurer

G. Certified Public Accountant (“CPA”)

Deloitte & Touch LLP was the Company’s independent certified public accounting firm for the period of July 1, 2011 (commencement of operations) to December 31, 2013. Effective January 1, 2014, Saslow Lufkin & Buggy, LLP became the Company’s CPA and remained in that capacity until it was acquired by Crowe Horwath LLP in 2015. Effective July 1, 2015, and through December 31, 2016, Crowe Horwath LLP was the Company’s independent certified public accounting firm. The CPA stated that the audited financial statements presented fairly, in all material respects, the financial position of Chimera Square Insurance Company as of December 31, 2016.

3. FINANCIAL STATEMENTSA. 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	\$ 264,150	
Notes receivable from Parent	38,985,183	
Prepaid reinsurance	4,314,167	
Deferred policy acquisition costs	78,000	
Deferred tax asset	<u>308,032</u>	
Total assets		<u>\$43,949,532</u>

Liabilities

Unearned premiums	\$ 8,714,617	
Due to affiliates	91,445	
Taxes payable	3,024,260	
Accrued expenses	<u>98,772</u>	
Total liabilities		<u>\$11,929,094</u>

Capital and Surplus

Common stock	\$ 100,000	
Paid in capital	2,405,000	
Retained earnings	<u>29,515,438</u>	
Total capital and surplus		<u>\$32,020,438</u>
Total liabilities, capital and surplus		<u>\$43,949,532</u>

B. Statement of Income

The Company's net income for the examination period was \$29,515,438, as detailed below:

Underwriting Income

Net premiums earned		\$47,090,259
Deductions:		
Policy acquisition costs incurred	1,297,615	
General and administrative expenses	<u>701,271</u>	
Total underwriting deductions		<u>1,998,886</u>
Net underwriting income		\$45,091,373
Investment income		316,993
Income taxes		<u>15,892,928</u>
Net income		<u>\$29,515,438</u>

C. Capital and Surplus Account

The Company's capital and surplus increased \$32,020,438 during the period covered by this examination, detailed as follows:

Capital and surplus as of July 1, 2011			\$0
	Increase in <u>surplus</u>	Decrease in <u>surplus</u>	
Net income	\$29,515,438	\$0	
Common stock	100,000		
Capital contribution	<u>2,405,000</u>	_____	
Total increases and decreases	<u>32,020,438</u>	<u>0</u>	
Net increase in surplus			<u>\$32,020,438</u>
Capital and surplus as of December 31, 2016			<u>\$32,020,438</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2016, the Company reported total loss and loss adjustment expense reserves of \$0. The Company's opining actuarial firm, Marsh Management Services Inc. stated in its Statement of Actuarial Opinion that Company reserves met the relevant requirements of the Law and were computed in accordance with accepted actuarial standards and principles. It was also noted that carried reserves made a reasonable provision, in the aggregate, for all unpaid loss and loss adjustment expense obligations of the Company 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.

6. 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 _____, 2022.

APPOINTMENT NO. 31700

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

Chimera Square Insurance Company

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 5th day of January, 2018

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief