



**REPORT ON EXAMINATION  
OF  
HUDSON VALLEY INSURANCE COMPANY**

**AS OF DECEMBER 31, 2016**

**EXAMINER:  
DATE OF REPORT:**

**WEI CAO  
OCTOBER 16, 2023**

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KATHY HOCHUL  
Governor



ADRIENNE A. HARRIS  
Superintendent

October 16, 2023

Honorable Adrienne A. Harris  
Superintendent 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 31682 dated November 2, 2017, attached hereto, I have made an examination into the condition and affairs of Hudson Valley 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 Hudson Valley Insurance Company. Wherever the designation “the Parent” appears herein without qualification, it should be understood to indicate PepsiCo, Inc.

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

The examination was conducted at the Company’s management office located at 48 South Service Road, Melville, NY 11747.

## 1. SCOPE OF EXAMINATION

The examination covers the period from the Company's incorporation 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 November 8, 2011 and commenced operations on January 1, 2012. The Company is a wholly-owned subsidiary of its immediate parent, Mountainview Insurance Company, Inc. ("Mountainview"), which is in turn wholly-owned by the Parent.

### A. Article 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 \$17,227,000, consisting of 100,000 shares of common stock with a par value of \$1 per share and additional paid-in capital of \$17,127,000. The Company had retained earnings of \$11,486,000 for a total capital and surplus (surplus as regards policyholders) of \$28,713,000.

D. Corporate Records

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

E. Operations

As of December 31, 2016, the Company provided the Parent, its subsidiaries and controlled affiliates, with deductible self-insured retention and indemnification coverage for lines of business including workers' compensation, automobile liability, and general and product liability. A detailed insurance program is as follows:

Coverage	Limit	Period
Automobile Liability	\$7,500,000 per occurrence and \$10,000,000 per occurrence for bottling-related	1/1/16 – 1/1/17
General and Products Liability	\$5,000,000 per occurrence	1/1/16 – 1/1/17
Workers' Compensation	\$5,000,000 per occurrence	1/1/16 – 1/1/17

The Company cedes 80% of its risk to Mountainview via a quota share reinsurance agreement. For the period covered by the examination it was noted that the credit taken for the cession to Mountainview, an unauthorized insurer, was not in compliance with Section 7010(c) of the Law.

Subsequent to the examination, on July 17, 2023, the Company and Mountainview entered a "Commutation and Release and Assumption Reinsurance Agreement." Effective December 31, 2022, this agreement settles and commutes all the Company's respective past, present and future obligations and liabilities, under the quota share reinsurance agreement. No comment or recommendation regarding this issue will be added to the report on examination.

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 January 1, 2012, Marsh has the responsibility for providing the Company with underwriting, policyholder services, claims, and other general management and operational services for a fee. The responsibilities also 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 of 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. At December 31, 2016, the board of directors was comprised of the following four members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Courtney Cerqueira New York, NY	Counsel, Corporate & Finance, PepsiCo, Inc.
Kevin Gould Basking Ridge, NJ	Vice President and Assistant Controller, Financial Reporting, PepsiCo, Inc.
Ashraf Kilada Merrick, NY	Senior Manager & Treasury, PepsiCo, Inc.
Ryan Zenga Newtown, CT	Director, Tax Planning, PepsiCo, 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>
Ashraf Kilada	President
Ryan Zenga	Vice President
Elan Irom	Treasury
Courtney Cerquiera	Vice President & Secretary

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, in its opinion, the Company’s audited financial statement presented fairly, in all material respects, its financial position as of December 31, 2016.

### 3. FINANCIAL STATEMENTS

#### A. 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	\$107,686,000
Investment	19,128,000
Reinsurance recoverable	379,110,000
Premium taxes receivable	11,000
Deferred tax asset	<u>2,618,000</u>
Total assets	<u>\$508,553,000</u>

##### Liabilities

Losses and LAE	\$473,888,000
Amounts due to affiliates	4,044,000
Taxes payable	1,873,000
Accrued expenses	<u>35,000</u>
Total liabilities	<u>\$479,840,000</u>

##### Capital and Surplus

Common stock	\$100,000
Additional paid in capital	17,127,000
Retained earnings	<u>11,486,000</u>
Total capital and surplus	<u>\$28,713,000</u>
	<u>\$508,553,000</u>

Total liabilities, capital and surplus



B. Statement of Income

The Company's net income for the examination period was \$11,486,000, as detailed below:

Underwriting Income

Net premiums earned		\$223,812,000
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Deductions:

Loss and LAE	\$209,407,000	
General and administrative expenses	<u>4,634,000</u>	

Total underwriting deductions		<u>214,041,000</u>
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Net underwriting income		\$9,771,000
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Investment income

Total investment income		2,151,000
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Other income

Total other income		<u>5,531,000</u>
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Net income before income taxes		\$17,453,000
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Income taxes		<u>5,967,000</u>
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Net income		<u>\$11,486,000</u>
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C. Capital and Surplus Account

The Company's capital and surplus increased \$28,713,000 during the period covered by this examination, detailed as follows:

Capital and surplus as of November 8, 2011			\$0
	<u>Increase in Surplus</u>	<u>Decrease in Surplus</u>	
Net income	\$11,486,000	\$0	
Common stock	100,000		
Additional paid-in capital	150,000		
Capital contribution	<u>16,977,000</u>	_____	
Total increases and decreases in surplus	<u>\$28,713,000</u>	<u>\$0</u>	
Net increase in surplus			<u>\$28,713,000</u>
Capital and surplus as of December 31, 2016			<u>\$28,713,000</u>

#### **4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

As of December 31, 2016, the Company reported total loss and loss adjustment expense reserves of \$473,888,000. The Company's opining actuarial firm, Oliver Wyman, stated in its Statement of Actuarial Opinion that the Company's reserves met the requirements of the Law and were computed in accordance with accepted loss reserving standards and principles. It was also noted that the carried reserves made 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. 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,

\_\_\_\_\_/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 \_\_\_\_\_, 2023.

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

**Hudson Valley 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 2nd day of November, 2017

**MARIA T. VULLO**  
Superintendent of Financial Services



By:

*Joan P. Riddell*

Joan Riddell  
Deputy Bureau Chief