REPORT ON EXAMINATION

OF THE

HAVERSINE INSURANCE COMPANY

AS OF

DECEMBER 31, 2012

DATE OF REPORT DECEMBER 12, 2014

<u>EXAMINER</u> <u>WEI CAO</u>

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Andrew M. Cuomo Governor Maria T. Vullo Acting Superintendent

Honorable Maria T. Vullo Acting Superintendent of Financial Services Albany, New York 12257 December 12, 2014

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31045 dated September 13, 2013, attached hereto, I have made an examination into the condition and affairs of Haversine Insurance Company as of December 31, 2012 and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Haversine Insurance Company. Wherever the designation "Parent" appears herein without qualification, it should be understood to refer to Omnicom Group 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 January 1, 2008 through December 31, 2012, 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 to its plan of operation as submitted to the Department, 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 accountants and its opining actuary to the extent considered appropriate.

2. <u>DESCRIPTION OF COMPANY</u>

Haversine Insurance Company was incorporated under the laws of New York State as a captive insurance company on October 3, 2003, and commenced business on October 17, 2003. The Company is a wholly-owned subsidiary of Omnicom Group Inc. and provides various types of insurance coverage to its Parent's United States subsidiaries. Omnicom Group Inc. is a leading global advertising and marketing communications services company.

A. <u>Articles of Incorporation</u>

The Company is organized to transact the kinds of insurance specified in Sections 1113(a) and 1114 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. <u>By-Laws</u>

The examination revealed that the Company is in compliance with its by-laws in all material respects.

C. <u>Capital Structure</u>

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, 2012, the Company's paid in capital consisted of 100,000 shares of \$1 par value per share common stock and contributed capital of \$1,005,554,880. The Company had accumulated retained earnings of \$1,368,317,282, for a total capital and surplus of \$2,373,972,162.

D. <u>Corporate Records</u>

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

E. Operations

The Company commenced operations on October 17, 2003 and provided the following coverage to its parent and its parent's United States subsidiaries:

Policy coverage	Per Occurrence/Policy Limits	Policy period
Bad Debt Insurance Policy	\$10,000,000 per claim and in aggregate, with a \$25,000 deductible	November 1, 2012- November 1, 2013
Catastrophic Bad Debt Insurance Policy	\$100,000,000 per claim and in aggregate, with a \$10,000,000 deductible	November 1, 2012- November 1, 2013
Excess Directors & Officers Liability Policy	\$100,000,000 per claim, excess of \$100,000,000, with a \$100,000,000 aggregate	November 1, 2012- November 1, 2013

Policy coverage	Per Occurrence/Policy Limits	Policy period
Production E&O Liability Deductible Reimbursement Policy	\$25,000 per occurrence, inclusive of allocated loss adjustment expenses and applicable loss assessments	January 1, 2012- January 1, 2013
Political Risk Insurance Policy	\$100,000,000 per claim and in the aggregate, with a \$100,000 deductible	November 1, 2012- November 1, 2013
Patent Infringement Insurance Policy	\$50,000,000 per claim and in aggregate, with a \$100,000 deductible	November 1, 2012- November 1, 2013
Nuclear/Biological/Chemical/Radiological Insurance Policy	\$250,000,000 per occurrence and in aggregate, with a \$250,000 deductible	November 1, 2012- November 1, 2013
Merger and Acquisition Insurance Policy	\$50,000,000 per occurrence and in aggregate, with a \$100,000 deductible	November 1, 2012- November 1, 2013
Excess Professional Liability Policy	\$90,000,000 per claim and in the aggregate, for claims in excess of \$75,000,000 per claim and \$75,000,000 in the annual aggregate	November 1, 2012- November 1, 2013
Excess Fidelity(Crime) Insurance Policy	\$50,000,000 per occurrence in excess of \$75,000,000 and \$50,000,000 in the aggregate	November 1, 2012- November 1, 2013
Excess Employment Practices Liability policy	\$90,000,000 per claim in excess of \$20,000,000 and \$90,000,000 in the aggregate	November 1, 2012- November 1, 2013
Brand Impairment Insurance Policy	\$100,000,000 per claim and in aggregate, with a \$100,000 deductible	November 1, 2012- November 1, 2013
Excess Property Difference in Conditions Policy	\$170,000,000 per claim and in aggregate, excess \$35,000,000 per claim and in aggregate	November 1, 2012 November 1, 2013

The Company also provides excess property and excess terrorism coverage to its parent and its parent's U.S. subsidiaries. The limit of the coverage is \$200,000,000 per claim and in aggregate with

various self-insured retention amounts. The terrorism insurance policy covers properties damaged resulting from acts of terrorism, as defined under the Terrorism Risk Insurance Program Reauthorization Act of 2007("TRPRA 2007"). Under this act the Company will be reimbursed for 85% of terrorism losses exceeding a statutorily established deductible. The Company retains both the deductible and the remaining 15% of losses.

Effective January 1, 2009, the Company assumes inland marine business from Great Divide Insurance Company ("Great Divide"). Haversine assumes the first \$250,000 of Great Divide's net loss for each and every loss in any one production.

The Company did not cede any business during the examination period.

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 either licensed as an agent or broker under the provisions of the Article 21 of the Law, or a person approved by the Superintendent.

During the examination period, 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, Marsh has the responsibility for providing the Company with financial and accounting, administrative and other insurance related services for a fee. These responsibilities also include assisting the Company in complying with the rules, regulations and requirements of the Captive Act and with the preparation of the annual financial report required by the Department.

(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, of which, at least two shall at all

times be residents of New York State. At December 31, 2012, the board of directors was comprised of the following four members:

Name and Residence Principal Business Affiliation

Dennis E. Hewitt President & CEO, Greenwich, CT Omnicom Capital

Michael J. O'Brien Senior Vice President, General Counsel and Secretary,

New York, NY Omnicom Group

Maeve C. Robinson Treasurer,

Greenwich, CT Omnicom Capital

Andrew L. Castellaneta Assistant Controller, New York, NY Omnicom Group

During the period covered by this examination, the board met once annually. A review of the meeting minutes during the examination period indicated that all the board meetings were generally well attended.

(iii) Officers

As of December 31, 2012, the principal officers of the Company were as follows:

Name Title

Dennis E. Hewitt President
Michael J. O'Brien Secretary
Andrew L. Castellaneta Treasurer

Andrea G. Berkley Assistant Secretary
Anthony R. Neville Assistant Treasurer

G. Certified Public Accountant ("CPA")

The Company was audited by the independent CPA firm Saslow, Lufkin & Buggy, LLP. for the years 2008 through 2012. The CPA firm concluded that the Company's financial statements presented fairly, in all material respects, the financial position of the Company as of December 31, 2012.

3. FINANCIAL STATEMENTS

The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States.

A. <u>Balance Sheet</u>

Assets

Cash	\$	250,000
Intercompany deposits		847,021,002
Notes due from affiliated company	1,	553,544,486
Deferred policy acquisition costs		175,981
Premiums receivable		478,403
Deferred federal income taxes		6,098,748
Federal income taxes receivable from Parent	_	56,009,811

Total assets \$2,463,578,431

Liabilities

Losses and loss adjustment expenses	1,946,724
Unearned premiums	87,488,333
Other liabilities	21,963
Accounts payable	98,615
Accrued expenses	<u>50,634</u>

Total liabilities \$ 89,606,269

Capital and Surplus

Common stock	\$	100,000
Contributed capital	1,0	05,554,880
Retained earnings	<u>1,3</u>	68,317,282

Total capital and surplus \$2,373,972,162

Total liabilities and capital surplus \$2,463,578,431

B. <u>Statement of Income</u>

The Company's net income is \$804,577,614 as detailed below:

STATEMENT OF INCOME

Underwriting Income

Net premiums earned \$699,798,951

Deductions:

Incurred losses and loss adjustment expense incurred \$7,054,511 General and administrative expenses 4,361,672

Total underwriting deductions \$11,416,183

Net underwriting gain or (loss) \$688,382,768

Investment income \$549,428,946

Net income before tax \$1,237,811,714

Federal income tax expenses 433,234,100

Net income \$804,577,614

C. Capital and Surplus Account

The Company's capital and surplus increased \$804,577,614 during the five-year period detailed as follows:

Capital and surplus as of January 1, 2008 \$1,569,394,548

Gains in Losses in surplus surplus

Net income \$804,577,614 \$0

Net increase in surplus \$ <u>804,577,614</u>

Capital and surplus as of December 31, 2012 \$ 2,373,972,162

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2012, the Company reported total loss and loss adjustment expense reserves of \$1,946,724. The Company's opining actuary stated the following in its Statement of Actuarial Opinion:

"In my opinion, the amounts recorded in the audited financial statement as of December 31, 2012:

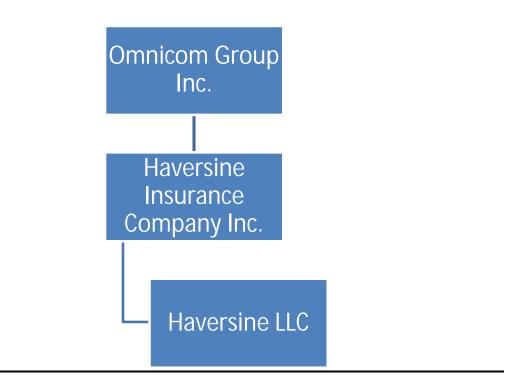
- Meet the relevant requirements of the captive insurance laws of New York.
- Are computed in accordance with commonly accepted actuarial methods and are fairly stated in accordance with sound actuarial principles.
- Make reasonable provision in the aggregate for all unpaid loss and loss adjustment expenses under the term of the Company's policies.

5. ARTICLE 70 COMPLIANCE

Article 70 of the Law is the governing section 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. ORGANIZATIONAL STRUCTURE

The following is the organizational chart of Haversine Insurance Company:



7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations in this report.

		Respectfully submitted,
		Wei Cao Senior Insurance Examiner
STATE OF NEW COUNTY OF N WEI CAO, being her, is true to the	EW YORK	oses and says that the foregoing report, subscribed by edge and belief.
		Wei Cao
Subscribed and s	worn to befo	
this d	ay of	, 2015.

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, <u>BENJAMIN M. LAWSKY</u>, 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

Haversine Insurance Company

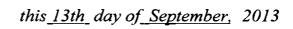
and to make a report to me in writing of the condition of said

COMPANY

with such other information as he shall deem requisite.

By:

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



BENJAMIN M. LAWSKY Superintendent of Financial Services

OF FINANCIA.

Jean Marie Cho Deputy Superintendent