

REPORT ON EXAMINATION

OF THE

AXA ART INSURANCE CORPORATION

AS OF

DECEMBER 31, 2007

DATE OF REPORT

JULY 31, 2008

EXAMINER

JAINARINE TILAKDHARRY

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

July 31, 2008

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22750 dated February 27, 2008, attached hereto, I have made an examination into the condition and affairs of AXA Art Insurance Corporation as of December 31, 2008, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate AXA Art Insurance Corporation.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted initially at the Company's home office located at 4 West 58th Street, New York, NY 10019 and afterwards, at 3 West 35th Street, New York, NY 10001, when the Company moved its home office on June 23, 2008.

1. SCOPE OF EXAMINATION

The Department has performed an examination of AXA Art Insurance Corporation. The previous examination was conducted as of December 31, 2002. This examination covered the five-year period from January 1, 2003 through December 31, 2007. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (“NAIC”). It requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. It is also required that we assess the principles used and significant estimates made by management, as well as to evaluate the overall financial statement presentation, management’s compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company’s own control environment assessment. The examiners also relied upon audit work performed by the Company’s independent public accountants (“CPA”) when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Pensions, stock ownership and insurance plans
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on September 17, 1986, under the original name of Nordstern Insurance Company of America and commenced business on February 9, 1987. The present title was approved by the Department on April 2, 2001.

As of December 31, 2007, the Company's capital paid in was \$3,000,000 consisting of 3,000 shares of common stock at \$1,000 par value per share and its gross paid in and contributed surplus is \$8,934,800. In 2004, it received a capital contribution in the amount of \$2,434,800 from its ultimate parent, AXA Art Versicherungs-AG.

Gross paid in and contributed surplus increased by \$2,434,800 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2003	Beginning gross paid in and contributed surplus	\$6,500,000
2004	Surplus contribution	<u>\$2,434,800</u>
	Total Surplus Contributions	<u>2,434,800</u>
2007	Ending gross paid in and contributed surplus	<u>\$8,934,800</u>

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. The board met four times during each calendar year. At December 31, 2007, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Roland Augustine New York, NY	President, Art Dealers Association of America
Christiane Fischer New York, NY	President & Chief Executive Officer, AXA Art Insurance Corporation
Dr. Dietrich von Frank New York, NY	Partner, Owen & Mandolfo, Inc.
William Goldstein New York, NY	Controller, Integro Insurance Brokers
Andrew Gundlach New York, NY	Director Arnhold and S. Bleichroeder Advisors, LLC.
Dr. Ulrich Guntram Wachtberg, Germany	Chief Executive Officer, AXA Art Versicherung, AG
Robert Lippincott III Jupiter, FL	Principal, C&L Advisors, LLC.
Dr. Lois de Menil New York, NY	Philanthropist
Timotheus R. Pohl New York, NY	Collector
Ernest Riefenhauser New York, NY	Chief Financial Officer & Treasurer, AXA Art Insurance Corporation
Dr. Bodo Sartorius Cologne, Germany	Chief Operating Officer, AXA Art Versicherung, AG
Mark M. Tract, Esq. New York, NY	Partner, Katten Muchin Rosenman, LLP
Anthony Williams New York, NY	Partner, Baker & McKenzie, LLP

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance with the exception of Christopher Condrón, who attended less than 50% of the meetings for which he was eligible to attend. He resigned on December 6, 2007.

As of December 31, 2007, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Christiane Fischer	President & Chief Executive Officer
Ernest Riefenhauser	Chief Financial Officer & Treasurer
Gary Kerr	Secretary

B. Territory and Plan of Operation

As of December 31, 2007, the Company was licensed to write business in all states and the District of Columbia.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
12	Collision
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

Based on the lines of business for which the Company is licensed, its current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$3,200,000.

The Company specializes principally in underwriting inland marine and related lines of business, with an emphasis on personal and commercial fine art coverage and other insurance floaters.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Percentage of Premiums Written in New York</u>
2003	\$7,324,019	\$26,725,554	27.40%
2004	\$7,637,249	\$28,619,410	26.69%
2005	\$9,450,197	\$31,260,855	30.23%
2006	\$11,246,092	\$36,102,414	31.15%
2007	\$11,895,289	\$42,307,960	28.12%

C. Reinsurance

Assumed reinsurance accounted for less than 1% of the Company's gross premium written at December 31, 2007. During the period covered by this examination, its assumed reinsurance business has remained stable since the last examination. The Company utilizes reinsurance accounting as defined in NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principle ("SSAP") No. 62 for all of its assumed reinsurance business.

The company has structured its ceded reinsurance program to limit its maximum exposure to any one risk as follows:

<u>Type of Contract</u>	<u>Cession</u>
Terrorism Excess of Loss 100% Unauthorized	\$187,000,000 excess of \$13,000,000 each risk with respect to terrorism.
"Reporter" Excess of Loss 100% Unauthorized	\$247,000,000 excess of \$13,000,000 each risk.
"Superprotection" Excess of Loss 100% Unauthorized	\$2,600,000 excess of \$1,300,000 each risk, each loss occurrence.
First Lower Excess of Loss 100% Unauthorized	\$9,100,000 excess of \$3,900,000 each risk, each loss occurrence.
Second Lower Excess of Loss 100% Unauthorized	\$6,500,000 excess of \$13,000,000 each risk, each loss occurrence.
First Excess of Loss 100% Unauthorized	\$26,000,000 excess of \$19,500,000 each loss occurrence.
Second Excess of Loss 100% Unauthorized	32,500,000 excess of \$45,500,000 each loss occurrence.
Third Excess of Loss (Natural Catastrophes) 100% Unauthorized	\$104,000,000 excess of \$78,000,000 each loss occurrence.

All of the reinsurance agreements are with the AXA Art Versicherung AG, an unauthorized reinsurer. All the agreements were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133. No exceptions were noted.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer pursuant to Department Circular Letter No. 8 (2005). Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 25 and 26 of SSAP No. 62.

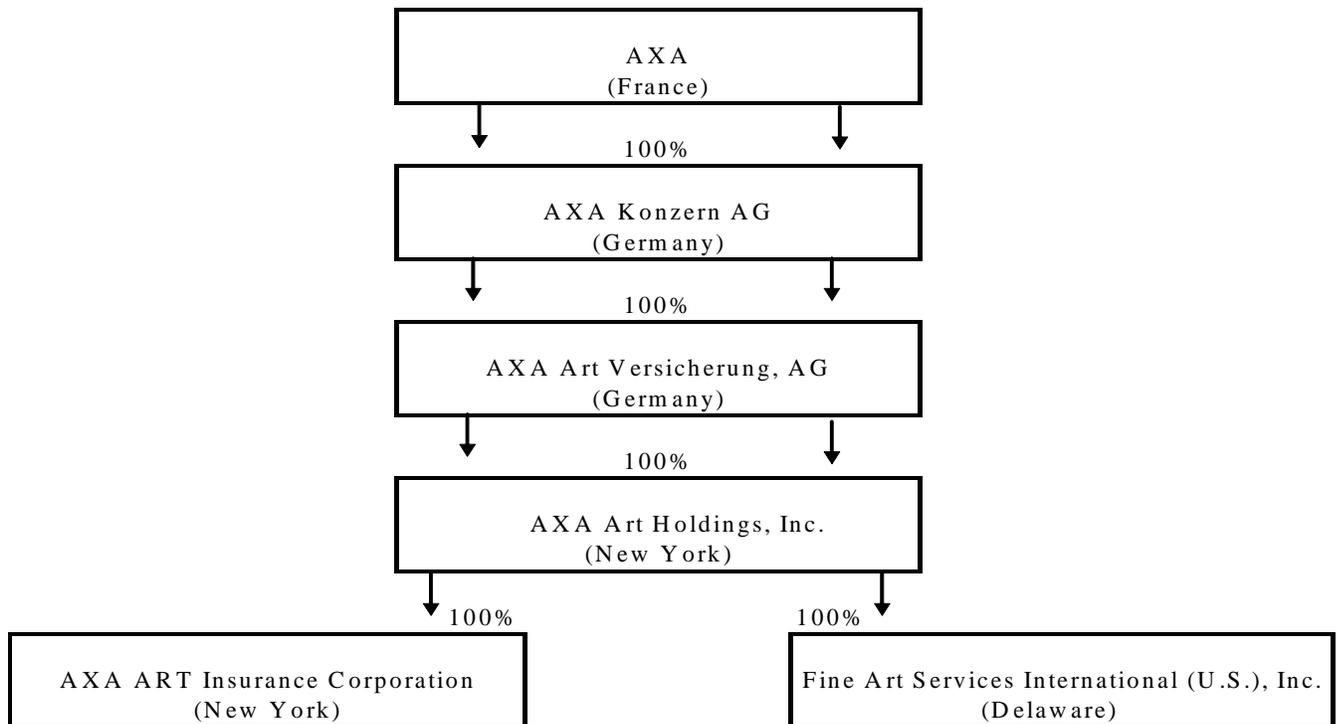
In 2002, the Company entered into a Settlement and Release Agreement ("Agreement") with AXA Art Versicherung-AG ("AAV") to settle outstanding issues concerning subrogation recoveries and reinstatement premiums arising under the 1999 and 2000 per occurrence excess of loss agreements. Pursuant to the agreement, the Company paid the sum of \$404,614 to AAV in full settlement of all liabilities and obligations under the two reinsurance agreements. This transaction was non-disapproved by the Department on November 14, 2002.

D. Holding Company System

The Company is a member of the AXA and AXA AG Group. It is a wholly-owned subsidiary of AXA Art Holdings, Inc., a New York corporation, which is ultimately controlled by AXA (France).

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the AXA and AXA AG Group holding company system at December 31, 2007:



At December 31, 2007, the Company was party to the following agreements with other members of its holding company system:

Service and Expense Allocation Agreement

Effective September 1, 2005, the Company entered into a Service and Expense Allocation Agreement with Fine Arts Services International (U.S.), Inc. (“Fine Art”). Pursuant to the agreement, the Company has agreed to provide to Fine Arts, facilities, equipment, office and other space as it may require for the conduct of its business and operations. Fine Arts has agreed to provide to the Company, personnel to provide services including, but not limited to, claims handling, consulting, clerical, administrative and management information systems. The agreement was non-disapproved by the Department on August 26, 2005.

Cost Allocation Agreement

Effective December 1, 2003, the Company entered into a cost allocation agreement with its parent, AXA Art Holdings, Inc. (“AAH”), whereby the AAH provides services to the Company

including equipment, furniture and fixtures necessary for the operations of the Company. This agreement was non-disapproved by the Department on January 5, 2004.

Services Agreement

Effective December 1, 2003, the Company entered into a service agreement with AXA Art Versicherung AG (“AAV”), whereby AAV provides personnel and services to the Company with respect to the following matters: investment management, knowledge management, information technology, corporate control and audit, legal, tax, corporate finance, marketing and communication, reinsurance, accumulation control and underwriting guidelines. This agreement was non-disapproved by the Department on January 5, 2004.

Tax Allocation Agreement

Effective October 1, 1994, the Company files a consolidated federal income tax return with AXA Art Holdings, Inc. and Fine Art Services International (U.S.), Inc. The agreement was non-disapproved by the Department on April 13, 1995.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2007, based upon the results of this examination:

Net premiums written to Surplus as regards policyholders	0.93:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	55%
Premium in course of collection to Surplus as regards policyholders	15%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	<u>Amount</u>	<u>Ratio</u>
Losses incurred	\$29,520,291	22.67%
Loss adjustment expenses incurred	4,932,125	3.79
Other underwriting expenses incurred	71,609,875	54.99
Net underwriting gain	<u>24,149,817</u>	<u>18.55</u>
Premiums earned	<u>\$130,212,108</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2007 as determined by this examination and as reported by the Company:

Assets	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$44,939,459		\$44,939,459
Common stocks	7,410,954		7,410,954
Cash, cash equivalents and short-term investments	6,756,129		6,756,129
Other invested assets	2,308,153		2,308,153
Receivable for securities	253,704		253,704
Investment income due and accrued	610,056		610,056
Uncollected premiums and agents' balances in the course of collection	6,217,813	\$476,938	5,740,875
Amounts recoverable from reinsurers	197,623		197,623
Current federal and foreign income tax recoverable and interest thereon	424,163		424,163
Net deferred tax asset	979,150		979,150
Receivable from parent, subsidiaries and affiliates	68,092	68,092	
Aggregate write-ins for other than invested assets	<u>484,103</u>	<u>298,039</u>	<u>186,064</u>
Total assets	<u>\$70,649,399</u>	<u>\$843,069</u>	<u>\$69,806,330</u>

Liabilities, surplus and other fundsLiabilities

Losses		\$8,722,079
Reinsurance payable on paid losses and loss adjustment expenses		5,003
Loss adjustment expenses		934,976
Commissions payable, contingent commissions and other similar charges		196,663
Other expenses (excluding taxes, licenses and fees)		1,468,660
Unearned premiums		16,750,191
Ceded reinsurance premiums payable (net of ceding commissions)		4,145,464
Drafts outstanding		264,269
Payable to parent, subsidiaries and affiliates		217,349
Aggregate write-ins for liabilities		<u>8,574</u>
Total liabilities		\$32,713,228
Surplus and other funds		
Common capital stock	\$3,000,000	
Gross paid in and contributed surplus	8,934,800	
Unassigned funds (surplus)	<u>25,158,302</u>	
Surplus as regards policyholders		<u>37,093,102</u>
Total liabilities, surplus and other funds		<u>\$69,806,330</u>

NOTE: The Internal Revenue Service has completed its audits of the Company's consolidated federal income tax returns through tax year 2004. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 2005 to 2007 have yet to commence. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$17,292,652 during the five-year examination period January 1, 2003 through December 31, 2007, detailed as follows:

Statement of Income

Premiums earned		\$ 130,212,108
Deductions:		
Losses incurred	\$ 29,520,291	
Loss adjustment expenses incurred	4,932,125	
Other underwriting expenses incurred	<u>71,609,875</u>	
Total underwriting deductions		<u>106,062,291</u>
Net underwriting gain or (loss)		\$ 24,149,817
 <u>Investment Income</u>		
Net investment income earned	\$ 9,184,054	
Net realized capital gain	<u>1,505,359</u>	
Net investment gain or (loss)		10,689,413
 <u>Other Income</u>		
Net gain or (loss) from agents' or premium balances charged off		<u>(93,497)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 34,745,733
Federal and foreign income taxes incurred		<u>11,526,466</u>
Net income		<u>\$ 23,219,267</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2002			\$19,800,454
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income	\$ 23,219,267	\$ 0	
Net unrealized capital gains or (losses)	3,084,290	0	
Change in net deferred income tax	0	760,390	
Surplus adjustments paid in	2,434,800	0	
Change in non-admitted assets	1,373,015	0	
Dividends to stockholders	0	12,393,558	
Cumulative effect of changes in accounting principles	<u>335,228</u>	<u>0</u>	
Total gains and losses	<u>\$ 30,446,600</u>	<u>\$13,153,948</u>	
Net increase (decrease) in surplus			<u>17,292,652</u>
Surplus as regards policyholders per report on examination as of December 31, 2007			<u>\$37,093,106</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$9,657,055 is the same as reported by the Company as of December 31, 2007. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

- A. Sales and advertising
- B. Underwriting
- C. Rating
- D. Claims and complaint handling

No problem areas were encountered.

6. **COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained six recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Holding Company System</u>	
It was recommended that the Company comply with Section 1505(d) of the New York Insurance Law and notify the Department in writing of transactions within its holding company system.	8
The Company has complied with this recommendation.	
B. <u>Abandoned Property Law</u>	
It was recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.	10
The Company has complied with this recommendation.	
C. <u>Accounts and Records</u>	
1. <u>Custodial Agreement</u>	
It was recommended that the Company amend its custodial agreement to include the required provisions.	11
The Company has complied with this recommendation.	
2. <u>Check Signing</u>	
It was recommended that the Company adhere to its check signing procedures in order to maintain proper safeguards and control of its cash account.	11
The Company has complied with this recommendation.	
3. <u>Agents' Balances</u>	
It was recommended that the Company maintain detailed records to substantiate reported amounts over 90 days past due.	12
The Company has complied with this recommendation.	

ITEMPAGE NO.4. Security Deposits

It was recommended that the Company comply with Section 1314 (a)(1) of the New York Insurance Law.

12

The Company has complied with this recommendation.

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report contains no recommendations.

Respectfully submitted,

_____/S/
Jainarine Tilakdharry
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

JAINARINE TILAKDHARRY, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/S/
Jainarine Tilakdharry

Subscribed and sworn to before me
this _____ day of _____, 2009.

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Jainarine Tilakdharry

as proper person to examine into the affairs of the

AXA ART INSURANCE CORPORATION

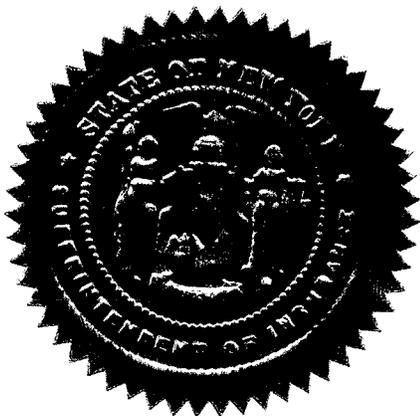
and to make a report to me in writing of the condition of the said

Corporation

with such other information as he shall deem requisite.

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

this 27th day of February, 2008



A handwritten signature in black ink, appearing to read "Eric Dinallo".

ERIC R. DINALLO
Superintendent of Insurance