

REPORT ON EXAMINATION

OF THE

AXA ART INSURANCE CORPORATION

AS OF

DECEMBER 31, 2012

DATE OF REPORT

NOVEMBER 27, 2013

EXAMINER

KEVIN MCNAMEE

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

November 27, 2013

Honorable Benjamin M. Lawsky  
Superintendent of Financial Services  
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 31002 dated May 7, 2014 attached hereto, I have made an examination into the condition and affairs of AXA Art Insurance Corporation 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 AXA Art Insurance Corporation

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 home office located at 3 West 35<sup>th</sup> Street, New York, NY 10001.

## 1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2007. This examination covered the five year period from January 1, 2008 through December 31, 2012. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which 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. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners relied upon audit work performed by the Company’s independent public accountants when appropriate.

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

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

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

## 2. DESCRIPTION OF COMPANY

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

Capital paid in is \$3,000,000 consisting of 300 shares of \$1,000 par value per share common stock. Gross paid in and contributed surplus is \$8,934,800 and is unchanged during the examination period.

### 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 meets four times during each calendar year. At December 31, 2012, 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, Luhring Augustine Gallery
Christiane Fischer New York, NY	President & Chief Executive Officer, AXA Art Insurance Corporation
William Goldstein New York, NY	Corporate Controller, Integro Insurance Brokers
Andrew Gundlach New York, NY	Portfolio Manager, Arnhold & S. Bleichroeder Advisors, LLC.
Dr. Ulrich Guntram Cologne, Germany	Chief Executive Officer, AXA Art Versicherung AG
Janine Hill New York, NY	Deputy Director, Studies Administration, of the Council on Foreign Relations;

Name and ResidencePrincipal Business Affiliation

	Board Member, Trustees of the Academy of American Poets; Nasher Museum of Art, Duke University; Our Lady of Angels Parochial School
Alexander C. Kemper Kansas City, MO	Chairman, The Collectors Fund; The Board of Pollenware
Robert Lippincott III Jupiter, FL	Principal, C & L Advisors, LLC.
Aaron M. Milrad Toronto, ON Canada	Counsel, Fraser Milner Casgrain LLP;
	Chairman, The Museum Trustee Association of North America;
	Vice Chairman, The George R. Gardiner Museum of Ceramic Art;
	Board Member, The International Foundation for Art Research in New York; The Tel Aviv Museum; The Canadian Friends of the Israel Museum; Member of the Photography Committee, The Art Gallery of Ontario
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
Marc M. Tract, Esq. New York, NY	Partner, Katten Muchin Rosenman, LLP
	Board Member, Various other insurance companies
Anthony Williams New York, NY	Partner, DLA Piper US, 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 had an acceptable record of attendance.

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

<u>Name</u>	<u>Title</u>
Christiane Fischer	President and Chief Executive Officer
Gary A. Kerr	Corporate Secretary
Ernest Riefenhauser	Chief Financial Officer and Treasurer
Robert Pittinger	Vice President, Director of Underwriting
Colin Quinn	Vice President, Director of Claims

B. Territory and Plan of Operation

As of December 31, 2012, the Company was licensed to write business in all fifty 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 and the Company's 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 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 Premiums</u>	<u>Premiums Written in New York State as a percentage of Total Premium</u>
2008	\$14,171,658	\$45,517,262	31.13%
2009	\$14,369,112	\$42,424,890	33.87%
2010	\$16,544,427	\$42,710,569	38.74%
2011	\$16,077,089	\$44,311,069	36.28%
2012	\$15,180,440	\$44,296,712	34.27%

The Company specializes principally in writing inland marine and related lines of business, with an emphasis on personal and commercial fine art coverage and other insurance floaters. As of December 31, 2012, the Company's business was produced by 1,015 active brokers. Ninety-nine percent of its business is historically generated through brokers.

### C. Reinsurance

Assumed reinsurance accounted for 8% of the Company's gross premium written at December 31, 2012. As of the prior examination date, the Company's assumed premiums accounted for less than 1% of the Company's gross premiums written. The Company's assumed reinsurance program consists mainly of property coverage assumed on a quota share and surplus share basis, pursuant to the terms of treaty agreements with affiliated cedants.

During the examination period, the Company assumed business from AXA Assurances, a Canadian insurer that was an affiliate of the Company until September 2011, when it was sold to an unaffiliated entity. The Company continued to assume business from AXA Assurances after the sale. The Company was unable to provide a written reinsurance agreement covering the assumption of business from AXA Assurances, claiming that this assumption was covered under a reinsurance agreement between the Company and AXA Insurance (Canada), the parent company of AXA Assurances prior to its sale. It is noted that AXA Assurances was not a party to this agreement.

Good business practices dictate that any contractual arrangement between two parties, including a reinsurance agreement, should be reduced to written form and signed by each of the parties. It is recommended that the Company execute a written agreement before entering into any reinsurance arrangement.

Further, during the period of time prior to September 2011, when AXA Assurances was an affiliate of the Company, the Company was in violation of Section 1505(b) of the New York Insurance Law, which states:

The books, accounts and records of each party to all such transactions shall be so maintained as to clearly and accurately disclose the nature and details of the transactions including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties.

It is recommended that the Company comply with Section 1505(b) of the New York Insurance Law.

The Company has structured its ceded reinsurance program as follows:

<u>Type of Contract</u>	<u>Cession</u>
<u>Property</u>	
<u>Treaties with AXA Art Versicherung AG</u>	
100% Unauthorized	
1 <sup>st</sup> Terrorism Excess of Loss	\$185,500,000 excess of \$14,500,000 each risk with respect to terrorism.
2nd Terrorism Excess of Loss	\$50,000,000 excess of \$200,000,000 each risk with respect to terrorism.
Reporter Excess of Loss	\$348,000,000 excess of \$14,500,000 each risk.
1st Lower Excess of Loss Layer	\$12,000,000 each risk, each loss occurrence excess of \$2,500,000 each risk, each loss occurrence.
Lower CAT Excess of Loss (XL) Layer	\$7,250,000 each loss occurrence excess of \$14,500,000 each loss occurrence. The Lower CAT-XL only operates if two or more risks are involved in one loss occurrence, regardless of the number or type of policies.

<u>Type of Contract</u>	<u>Cession</u>
Per Occurrence Excess of Loss – 4 Layers	
1 <sup>st</sup> Layer	\$21,750,000 excess of \$21,750,000 each loss occurrence.
2 <sup>nd</sup> Layer	\$36,250,000 excess of \$43,500,000 each loss occurrence.
3 <sup>rd</sup> Layer	\$36,250,000 excess of \$79,750,000 each loss occurrence.
4 <sup>th</sup> Layer	\$58,000,000 (Natural Catastrophe) excess of \$116,000,000 each loss occurrence.
Non-Art Excess of Loss – 3 Layers	
1 <sup>st</sup> Layer	\$4,350,000 excess of \$1,450,000 each risk.
2 <sup>nd</sup> Layer	\$8,700,000 excess of \$5,800,000 each risk.
3 <sup>rd</sup> Layer	\$14,500,000 excess of \$14,500,000 each risk.
Jewelry Excess of Loss	\$9,500,000 excess of \$500,000 each risk.
Warehouse Excess of Loss	\$125,000,000 excess of \$250,000,000 each risk, each loss occurrence.
<u>Treaty with AXA Insurance Company</u>	
Quota-Share	60% quota share of all business written.
100% Authorized	

The majority of the Company's premiums written was ceded to authorized reinsurer AXA Insurance Company, an affiliated entity, via a 60% quota share agreement effective January 1, 2008. The Company has received approval to do so, pursuant to the provisions of Section 1308(e)(1) of the New York Insurance Law. Cessions to unauthorized reinsurer AXA Art Versicherung AG, has not changed since the last examination.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that not all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d) (2) of the New York Insurance Law.

The Company submitted the 2012 Per Occurrence Excess of Loss Reinsurance Agreement - Warehouse Excess of Loss between the Company and AXA Art Versicherung AG, effective January 1, 2012, to the Department on June 21, 2012. The Company acknowledged in the filing that the Department was not notified prior to the implementation date.

Pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law states:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period.”

It is therefore recommended that going forward, the Company adhere to the provisions of Section 1505 (d)(2) of the New York Insurance Law and notify the Superintendent in writing before entering into any agreements with affiliates.

All significant 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 found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions, except for the classification of AXA Assurances as an affiliate on Schedule F, Part 1. AXA Assurances had been sold in 2011 and is no longer an affiliated entity as of the examination date.

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 and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. 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 SSAP No. 62.

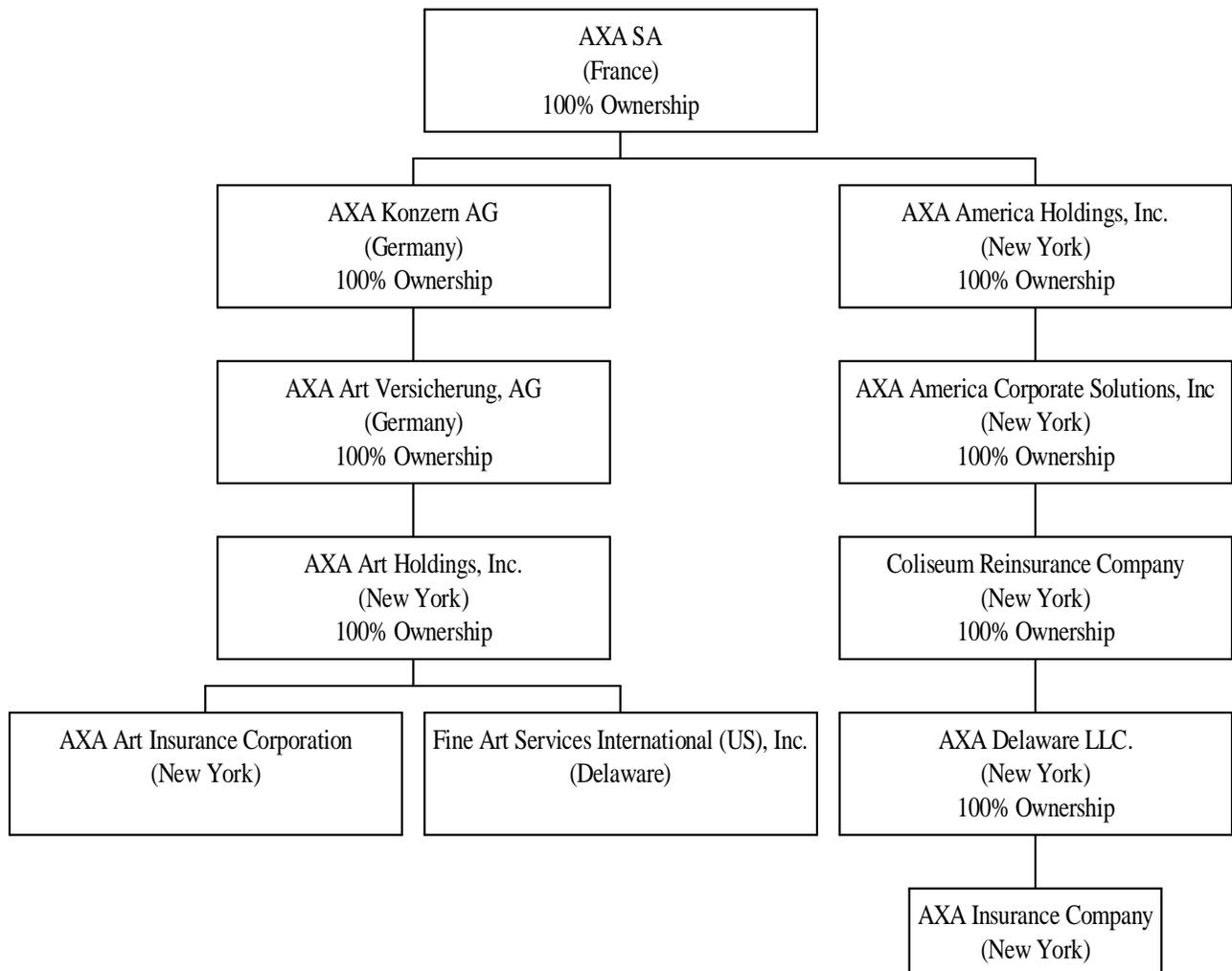
During the period covered by this examination, the Company did not commute any reinsurance agreements.

D. Holding Company System

The Company is a member of the AXA Art Versicherung AG Group. The Company is a wholly-owned subsidiary of AXA Art Holdings, Inc., a New York corporation, which is ultimately controlled by AXA SA.

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 holding company system at December 31, 2012:



At December 31, 2012, 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 Art Services International (US), Inc. ("Fine Art"). Pursuant to the agreement, the Company has agreed to provide to Fine Art, facilities, equipment, office and other space as it may require for the conduct of its business and operations. Fine Art 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. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law and was non-objected to on August 26, 2005.

Effective on July 1, 2009, this agreement was amended to reflect a new location of its leased premises to the Company's current address. This amendment was non-objected to by the Department on May 5, 2009.

Cost Allocation Agreement

Effective December 1, 2003, the Company entered into a cost allocation agreement with its parent, AXA Art Holding, 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 filed with the Department pursuant to Section 1505 of the New York Insurance Law and was non-objected to on January 5, 2004.

Service 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 filed with the Department pursuant to Section 1505 of the New York Insurance Law and was non-objected to on January 5, 2004.

Tax Allocation Agreement

Effective as of 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 tax allocation agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law and was non-objected to on April 13, 1995.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2012, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	48%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	69%
Premiums in course of collection to surplus as regards policyholders	23%

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>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$29,557,727	36.92%
Other underwriting expenses incurred	42,475,609	53.06
Net underwriting gain	<u>8,024,039</u>	<u>10.02</u>
Premiums earned	<u>\$80,057,375</u>	<u>100.00%</u>

F. Accounts and Records

a) Annual Statement Preparation

Examination review of the filed annual statements revealed the following discrepancies/omissions:

- 2012 and 2011 Annual Statements

The Company assumed business from a Canadian Affiliate, AXA Assurances, from January 2008 to September 2011. AXA Assurances was sold effective September 2011 to Intact Financial Corporation and is no longer an affiliate. This change was not reflected in the 2012 and 2011 annual statements and affects the reporting between Affiliated and Non-affiliated entities for the following pages: Page 8 - Underwriting and Investment Exhibit, Page 14.4 - Notes to Financial Services #23 Assumed Reinsurance and Page 20 - Schedule F Part 1. For the 2012 annual statement, discrepancies were also noted for Notes to Financial Statements #19 and for three items reported in the General Interrogatories.

- 2008 – 2010 Annual Statements

Schedule Y Part 2 – Summary of Insurer’s Transactions with Any Affiliates – does not include the Company’s assumed business transactions with its affiliate, AXA Assurances in the annual statements filed for 2008 through 2010.

It is recommended that the Company exercise greater care in the preparation of its annual statement and file such in compliance with the NAIC Annual Statement Instructions.

b) Applications for Insurance

During the course of the examination, the examiners reviewed a sample application form used by the Company and noted that it did not contain the language required by Section 403(d) of the New York Insurance Law.

Section 403 (d) states:

(d) All applications for commercial insurance, individual, group or blanket accident and health insurance and all claim forms, except as provided for in subsection (e) of this section, shall contain a notice in a form approved by the superintendent that clearly states in substance the following:

"Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime, and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation."

It is recommended that the Company's applications for insurance contain the language required by Section 403(d) of the New York Insurance Law.

It is noted that the company has since complied with Section 403(d) and has revised its applications to contain the required language.

c) Expenses

The Examiner requested the intercompany expense allocation methodology and support for intercompany expenses allocations for the amounts reported on the 2012 Underwriting and Investment Exhibit, Part 3 - Expenses. The Company could not provide support for these expenses reported on lines 9 (Employee relations and welfare), 10 (Insurance), 12 (Travel and travel items), 13 (Rent and rent items), 14 (Equipment), 15 (Cost or depreciation of EDP equipment and software) and 17 (Postage, telephone and telegraph).

Regulation 30 Part 107.4 (e) states in part:

"Records required. (1) The methods followed in allocating to expense groups shall be described, kept and supported as set forth under "detail of allocation bases" (see s 109.4[g]). (2) The effects of the application to each operating expense classification of all bases of allocation shall be shown on records kept in clear and legible form. Such records shall be readily available for examination."

It is recommended that the Company keep records of the methods used in allocating intercompany expenses and make these records available to the examination team in accordance with Department Regulation 30 Part 107.4(e).

The Examiner reconciled the gross salaries for 2012 and noted that the amount reported on the 2012 Underwriting & Investment Exhibit - Part 3 line 8.1, column 2 for salaries, includes the payroll taxes. Line 8.2, Payroll Taxes on the 2012 Underwriting & Investment Exhibit - Part 3 is reported as \$0.

Regulation 30 Part 105.9, states:

Salaries and related items

"(a) Salaries.

Includes:

Salaries, bonus, overtime, contingent compensation, pay while on leave, dismissal allowance, pay while training and other compensation of employees.

Commission and brokerage to employees when the activities for which the commission is paid are a part of their duties as employees.

Excludes:

Salaries or wages of janitors, caretakers, maintenance men and agents paid in connection with owned real estate (see real estate expenses).

(b) Payroll Taxes.

Includes:

Old age benefit taxes

Unemployment insurance taxes

Excludes:

Payroll taxes includible in real estate taxes."

It is recommended that the Company report its salaries and payroll taxes independently as prescribed in Department Regulation 30, Part 105.9.

d) Record Retention

During the course of the examination, the Examiner requested documentation to verify the financial condition of the Company. The Company was unable to provide documentation of the reconciliation of the general ledger accounts to the sub-ledgers or supporting detail, and supporting documentation for the Nonadmitted Assets portion of the Uncollected Premiums and Agents Balances as reported in the 2010 annual statement.

Department Regulation 152 (11 NYCRR 243.2) states in part as follows:

Records required for examination purposes and retention period (b) Except as otherwise required by law or regulation, an insurer shall maintain:

(7) A financial record necessary to verify the financial condition of an insurer, including ledgers, journals, trial balances, annual and quarterly statement workpapers, evidence of asset ownership, and source documents, for six calendar years from its creation or until after the filing of the report on examination in which the record was subject to review, whichever is longer.

It is recommended that the Company maintain its records as required by Department Regulation 152(b)(7).

G. Risk Management and Internal Controls

A risk-focused assessment and review of the Company's controls was performed in accordance with NAIC requirements as outlined in the Examiners' Handbook. As a result of the review, it was noted that twenty seven (27) out of a total of forty eight (48) controls identified by the Company were not fully documented, did not mitigate the risk, and/or could not be adequately verified.

It is recommended that the Company put certain control procedures in place and fully document each risk mitigation strategy in order for examiners to evaluate the existence of controls in place at the Company and to determine whether the control procedures are operating as expected, applied throughout the entire period of reliance, and performed on a timely basis.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2012 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$29,670,980	\$ 0	\$29,670,980
Cash, cash equivalents and short-term investments	15,640,918	0	15,640,918
Other invested assets	637,309	0	637,309
Receivables for securities	301,554	0	301,554
Subtotals, cash and invested assets	46,250,761	0	46,250,761
Investment income due and accrued	350,766	0	350,766
Uncollected premiums and agents' balances in the course of collection	7,571,955	749,915	6,822,040
Amounts recoverable from reinsurers	3,625,060	16,123	3,608,937
Funds held by or deposited with reinsured companies	3,087,632	124,585	2,963,047
Current federal and foreign income tax recoverable and interest thereon	671,949	0	671,949
Net deferred tax asset	1,268,112	385,687	882,425
Electronic data processing equipment and software	156,856	156,856	0
Furniture and equipment, including health care delivery assets	518,912	518,912	0
Receivables from parent, subsidiaries and affiliates	48,626	48,626	0
Aggregate write-ins for other than invested assets	<u>337,265</u>	<u>244,514</u>	<u>92,751</u>
Total assets	<u>\$63,887,894</u>	<u>\$2,245,218</u>	<u>\$61,642,676</u>

Liabilities, surplus and other funds

Losses and loss adjustment expenses		\$ 3,997,353
Reinsurance payable on paid losses and loss adjustment expenses		13,767
Commissions payable, contingent commissions and other similar charges		94,523
Other expenses (excluding taxes, licenses and fees)		1,497,899
Unearned premiums		6,400,874
Dividends declared and unpaid - Stockholders		1,152,915
Ceded reinsurance premiums payable (net of ceding commissions)		6,050,044
Funds held by company under reinsurance treaties		12,444,333
Drafts outstanding		76,301
Payable to parent, subsidiaries and affiliates		<u>32,437</u>
Total liabilities		<u>\$31,760,446</u>
 <u>Surplus and other funds</u>		
Common capital stock	\$ 3,000,000	
Gross paid in and contributed surplus	8,934,800	
Unassigned funds (surplus)	<u>17,947,430</u>	
Surplus as regards policyholders		<u>\$29,882,230</u>
Totals		<u>\$61,642,676</u>

Note: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2008 through 2012. 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. Statement of Income

Surplus as regards policyholders decreased \$7,210,876 during the five-year examination period January 1, 2008 through December 31, 2012, detailed as follows:

Underwriting Income

Premiums earned		\$80,057,375
Deductions:		
Losses and loss adjustment expenses incurred	\$29,557,727	
Other underwriting expenses incurred	<u>42,475,609</u>	
Total underwriting deductions		<u>72,033,336</u>
Net underwriting gain or (loss)		\$ 8,024,039

Investment Income

Net investment income earned	\$ 6,242,160	
Net realized capital gain	<u>269,646</u>	
Net investment gain or (loss)		\$ 6,511,806

Other Income

Aggregate write-ins for miscellaneous income	\$ <u>(82,699)</u>	
Total other income		\$ <u>(82,699)</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$14,453,146
Federal and foreign income taxes incurred		<u>3,314,282</u>
Net Income		<u>\$11,138,864</u>

Capital and Surplus Accounts

Surplus as regards policyholders per report on examination as of December 31, 2007			\$37,093,106
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$11,138,864		
Net unrealized capital gains or (losses)		\$ 339,664	
Change in net deferred income tax		405,648	
Change in nonadmitted assets		1,402,149	
Cumulative effect of changes in accounting principles	71,039		
Dividends to stockholders		16,285,697	
Aggregate write-ins for gains and losses in surplus	<u>12,379</u>	<u>0</u>	
Total gains and losses in surplus	<u>\$11,222,282</u>	<u>\$18,433,158</u>	
Net increase (decrease) in surplus			( <u>\$ 7,210,876</u> )
Surplus as regards policyholders per report on examination as of December 31, 2012			<u>\$29,882,230</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$3,997,353 is the same as reported by the Company as of December 31, 2012. 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. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained no comments or recommendations.

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A	<u>Reinsurance</u>	
i.	It is recommended that the Company execute a written agreement before entering into any reinsurance arrangement.	7
ii.	It is recommended that the Company comply with Section 1505(b) of the New York Insurance Law.	7
iii.	It is recommended that going forward, the Company adhere to the provisions of Section 1505(d)(2) of the New York Insurance Law and notify the Superintendent in writing before entering into any agreements with affiliates.	9
B	<u>Accounts and Records</u>	
i.	It is recommended that the Company exercise greater care in the preparation of its annual statement and file such in compliance with the NAIC Annual Statement Instructions.	14
ii.	It is recommended that the Company's applications for insurance contain the language required by Section 403(d) of the New York Insurance Law.	14
iii.	It is recommended that the Company keep records of the methods used in allocating intercompany expenses and make these records available to the examination team in accordance with Department Regulation 30 Part 107.4(e).	14
iv.	It is recommended that the Company report its salaries and payroll taxes independently as prescribed in Department Regulation 30, Part 105.9.	15
v.	It is recommended that the Company maintain its records as required by Department Regulation 152(b)(7).	16
C	<u>Risk Management and Internal Controls</u>	
i.	It is recommended that the Company put certain control procedures in place and fully document each risk mitigation strategy in order for examiners to evaluate the existence of controls in place at the Company and to determine whether the control procedures are operating as expected, applied throughout the entire period of reliance, and performed on a timely basis.	16

Respectfully submitted,

\_\_\_\_\_/s/  
Kevin McNamee  
Senior Insurance Examiner

STATE OF NEW YORK     )  
  )ss:  
COUNTY OF NEW YORK    )

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

\_\_\_\_\_/s/  
Kevin McNamee

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2014.

APPOINTMENT NO. 31002

NEW YORK STATE  
**DEPARTMENT OF FINANCIAL SERVICES**

I, **BENJAMIN M. LAWSKY**, 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:

**Kevin McNamee**

as a proper person to examine the affairs of the

**Axa Art Insurance Corporation**

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

**COMPANY**

with such other information as he shall deem requisite.

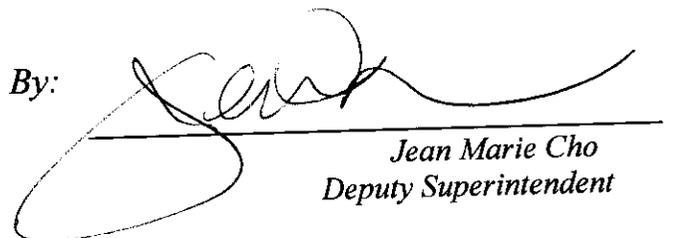
In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York

this 7th day of May, 2013

**BENJAMIN M. LAWSKY**  
Superintendent of Financial Services



By:

  
\_\_\_\_\_  
Jean Marie Cho  
Deputy Superintendent