

REPORT ON EXAMINATION

OF THE

ACE CAPITAL TITLE REINSURANCE COMPANY

AS OF

DECEMBER 31, 2012

DATE OF REPORT

AUGUST 30, 2013

EXAMINER

SHEIK H. MOHAMED

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

August 30, 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 31001 dated May 7, 2013, attached hereto, I have made an examination into the condition and affairs of ACE Capital Title Reinsurance 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 ACE Capital Title Reinsurance Company.

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 office located at 436 Walnut Street, Philadelphia, PA 19106.

1. SCOPE OF EXAMINATION

The Department has performed an examination of ACE Capital Title Reinsurance Company, a multi-state reinsurer. 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. 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 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

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 that involve departures from laws, regulations or rules, or that 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 October 12, 1995. It became licensed and commenced business on March 6, 1996. The Company provides structured reinsurance to the title insurance industry.

On April 15, 2004, ACE Capital Re Overseas Ltd. ("ACRO"), the Company's previous owner, sold one hundred percent of the common stock of the Company to ACE Bermuda Insurance Ltd. ("ACE Bermuda"). ACE Bermuda is one hundred percent owned by ACE Limited ("ACE"), a Switzerland domiciled holding company whose shares are traded on the New York Stock Exchange.

At December 31, 2012, paid in capital was \$2,000,000 consisting of 200,000 shares of common stock at \$10 par value per share. The Company has 200,000 authorized shares. Gross paid in and contributed surplus was \$23,000,000 and was 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 seven nor more than twenty five members. The board meets four times during each calendar year. At December 31, 2012, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Seth Bradley Gillston New York, NY	Senior Vice President, ACE Financial Solutions
Jessica Adrienne Glick New York, NY	Assistant General Counsel, ACE Risk Management

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Gary Edward Kramer Philadelphia, PA	Vice President, Underwriting, ACE Financial Solutions
Matthew George Merna Mendham, NJ	Division President, ACE Risk Management
James Scott Sanpietro Wantagh, NY	Deputy General Counsel, ACE Risk Management
Ronald Brent Shelton, New York, NY	Vice President, Underwriting, ACE Risk Management
Richard Michael Sica, Cold Spring Harbor, NY	Executive Vice President, ACE Risk Management

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>
Matthew George Merna	President
James Scott Sanpietro	Secretary
Dimitry DiRienzo	Treasurer

B. Territory and Plan of Operation

As of December 31, 2012, the Company was licensed to write business in the states of New York, Michigan, Texas and California. According to its certificate of authority, the Company was empowered to transact the business of title insurance as defined in paragraph 18 of Section 1113(a) of the New York Insurance Law.

During 2004, the Company discontinued solicitation of all reinsurance business to the title insurance industry. The remaining business previously sold continues to be administered by the Company. The Company does not write direct business.

Based on the lines of business for which the Company is licensed and pursuant to the requirements of Section 6402 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$500,000.

C. Reinsurance

All of the Company's business is assumed reinsurance. It ceded a small portion of its business through a retrocession arrangement.

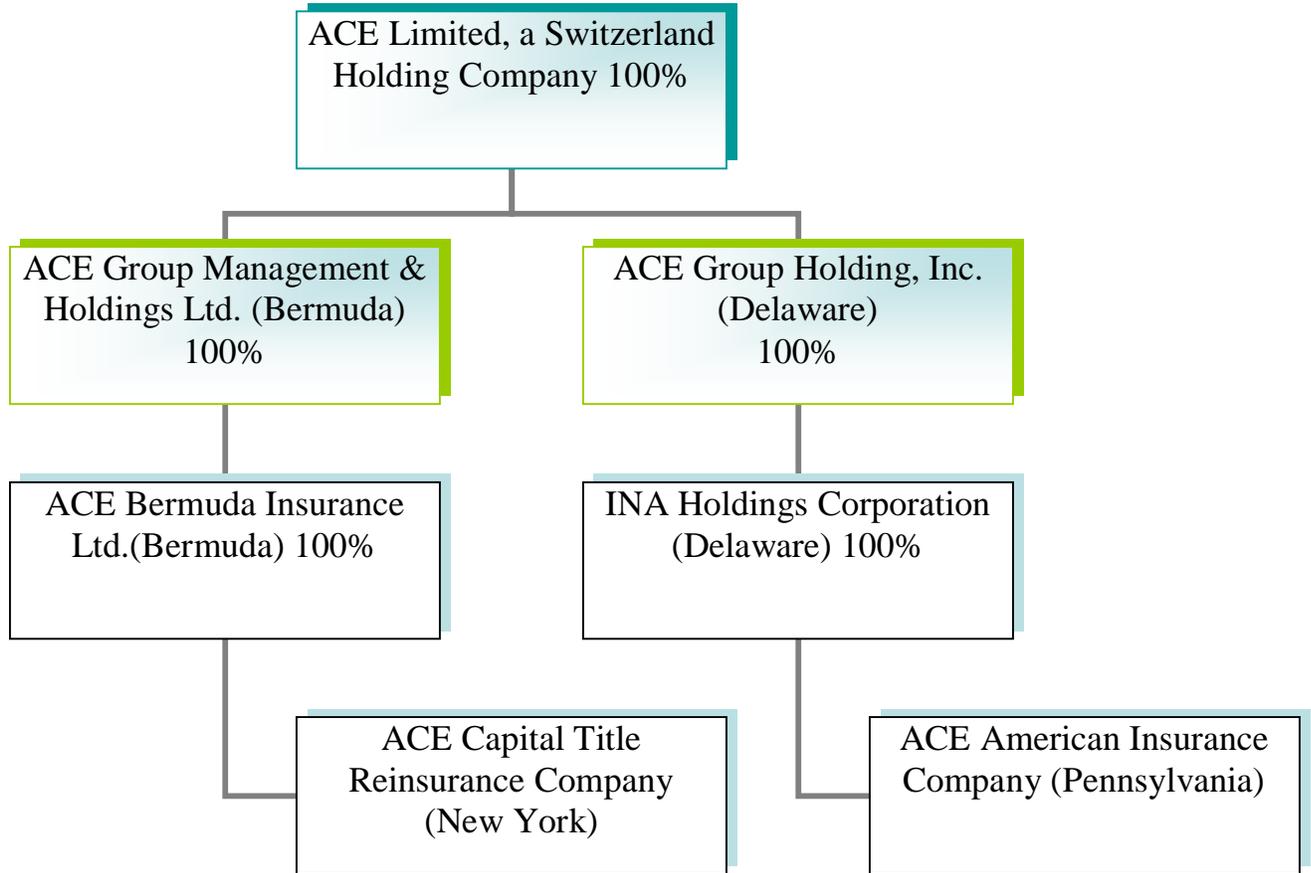
As of December 31, 2012, the Company has only one retrocession agreement in effect. The agreement covers a policy limit of \$195,000,000 excess of \$5,000,000 per risk and was ceded to ACE Bermuda Insurance Limited ("ACE Bermuda"), an affiliated company. The reinsurance treaty met the requirements of Section 1308 of the New York Insurance Law. The agreement was filed with the Department and non-objected to in accordance with Section 1505 of the New York Insurance Law.

D. Holding Company System

The Company is a member of the ACE Limited Group of Companies. The Company is 100% owned by ACE Bermuda Insurance Limited, a Bermuda corporation, which is ultimately controlled by ACE Limited.

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:

Administrative Services Agreement

Effective July 1, 2009, the Company entered into an Administrative Services Agreement with ACE American Insurance Company ("ACE American"), a Pennsylvania affiliated company, whereby ACE American will provide the Company certain services including, but not limited to: accounting, data processing, tax and auditing; functional support services; policyholders' services; collection services; payroll services; commission payment services; underwriting and issue support; claims administrative assistance; reinsurance recovery assistance; and public relations, advertising, sales and marketing promotional services. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

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

Adjusted liabilities to liquid assets	17.48%
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The above ratio falls within the benchmark range 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	\$ 289,018	5.61%
Other underwriting expenses incurred	3,563,574	69.23
Net underwriting gain	<u>1,294,975</u>	<u>25.16</u>
Premiums earned	<u>\$5,147,567</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, 2012 as determined by this examination and as reported by the Company:

<u>Assets</u>	Examination		Net Admitted <u>Assets</u>
	<u>Assets</u>	Assets Not <u>Admitted</u>	
Bonds	\$45,219,180	\$ 0	\$45,219,180
Cash, cash equivalents and short-term investments	917,583	0	917,583
Receivable for securities	9,750	0	9,750
Investment income due and accrued	536,156	0	536,156
Net deferred tax asset	<u>4,496,992</u>	<u>4,496,992</u>	<u>0</u>
Total assets	<u>\$51,179,661</u>	\$ <u>4,496,992</u>	<u>\$46,682,669</u>
 <u>Liabilities, surplus and other funds</u>			
<u>Liabilities</u>			
Known claims reserve			\$ 81,055
Statutory premium reserve			7,697,562
Other expenses (excluding taxes, licenses and fees)			35,909
Current federal and foreign income taxes			274,820
Payable to parent, subsidiaries and affiliates			<u>71,806</u>
Total liabilities			\$ 8,161,152
 <u>Surplus and Other Funds</u>			
Common capital stock	\$ 2,000,000		
Gross paid in and contributed surplus	23,000,000		
Unassigned funds (surplus)	<u>13,521,517</u>		
Surplus as regards policyholders			<u>38,521,517</u>
Total liabilities, surplus and other funds			<u>\$46,682,669</u>

Note: The Internal Revenue Service has completed its audits, or the statute of limitations had expired, for the Company's Federal Income Tax returns through tax year 2008. 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. There are no current tax audits in progress. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2009 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 increased \$12,446,074 during the five-year examination period January 1, 2008 through December 31, 2012, detailed as follows:

Underwriting Income

Title insurance premium earned (decrease in Statutory Premium Reserve)		\$ 5,147,567
Deductions:		
Losses and loss adjustment expenses incurred	\$ 289,018	
Operating expenses incurred	3,107,493	
Other operating expenses	<u>456,081</u>	
Total underwriting deductions		<u>3,852,592</u>
Net underwriting gain or (loss)		\$ 1,294,975

Investment Income

Net investment income earned	\$9,163,037	
Net realized capital gain	<u>1,100,696</u>	
Net investment gain or (loss)		<u>10,263,733</u>
Net income before federal and foreign income taxes		\$11,558,708
Federal and foreign income taxes incurred		<u>942,420</u>
Net Income		<u>\$10,616,288</u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2007			\$26,075,443
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income	\$10,616,288		
Change in net deferred income tax		\$531,008	
Change in nonadmitted assets	2,760,794		
Prior period adjustment	<u>0</u>	<u>400,000</u>	
Total gains and losses	<u>\$13,377,082</u>	<u>\$931,008</u>	
Net increase (decrease) in surplus			<u>12,446,074</u>
Surplus as regards policyholders per report on examination as of December 31, 2012			<u>\$38,521,517</u>

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

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

<u>ITEM</u>		<u>PAGE NO.</u>
A		
1.	It was recommended that the Company ensure that all future contracts entered into with its independent certified public accountants comply with Department Regulation 118.	8
	The Company has complied with this recommendation.	
2.	It was recommended that the Company exercise greater care in the preparation of its Annual Statement.	8
	The Company has complied with this recommendation.	

5. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report contains no recommendations.

APPOINTMENT NO. 31001

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:

Sheik Mohamed

as a proper person to examine the affairs of the

Ace Capital Title Reinsurance 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.

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