

REPORT ON EXAMINATION  
OF  
ARISTA INSURANCE COMPANY  
AS OF  
DECEMBER 31, 1999

DATE OF REPORT

MARCH 7, 2001

EXAMINER

JAINARINE TILAKDHARRY



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

March 7, 2001

Honorable Neil D. Levin  
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 21698, dated February 1, 2001, attached hereto, I have made an examination into the conditions and affairs of the Arista Insurance Company as of December 31, 1999 and submit the following report thereon.

The examination was conducted at the Company's office located at 116 John Street, New York, New York 10039.

Wherever the designations "Company" or "Arista" appear herein without qualification, they should be understood to indicate the Arista Insurance Company.

## 1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1994. This examination covers the five-year period from January 1, 1995 through December 31, 1999 and was limited in its scope to review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, loss and loss adjustment expense reserves and provision for reinsurance. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bonds, other insurance and pension plans
- Territory and plan of operation
- Market conduct activities
- Growth of Company
- Business in force
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

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

Transactions made subsequent to this period were reviewed where deemed appropriate by the examiner. 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

Arista Insurance Company was incorporated under the laws of the State of New York on May 21, 1979 and became licensed to transact insurance business effective October 11, 1979.

The capital of Arista under its original charter was fixed at \$200,000, consisting of 200 shares of common stock with a par value of \$1,000 per share.

At the date of this examination the capital of the Company was \$200,000, consisting of 200 shares with a par value of \$1,000 per share. Gross paid in and contributed surplus amounted to \$253,000 at December 31, 1999.

### 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 members nor more than twenty-one members. As of the examination date, the board of directors was comprised of thirteen members.

The Company's directors as of December 31, 1999 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Stephen A. Cohen New York, NY	Attorney, Morrison, Cohen, Singer & Weinstein. LLP
Richard Farkas Long Branch, NJ	Chairman, IMC Group
Martin Feinman Floral Park, NY	Retired
Alan Friedland Boca Raton, FL	Retired
Daniel Glassman Syosset, NY	Retired
Richard Greenwald Tarrytown, NY	Retired
Susan J. Hall Flushing, NY	Senior Vice President, Secretary and Treasurer, Arista Investors Corp.
Bernard Kooper Syosset, NY	President, Bernard Kooper Life Agency
Michael Krasner Jamaica Estates, NY	President, Louis D. Krasner Inc.
Stanley S. Mandel New York, NY	President, Arista Investors Corp.
Peter Norton Selen, NY	Vice President, Arista Investors Corp.
Louis Saltzman Old Brookville, NY	President, Saltzman-American Business Agency
Oscar Trepel Floral Park, NY	Retired

The minutes of all meetings of the board of directors held during the examination period were reviewed. All meetings were well attended.

As of December 31, 1999, the principal officers of the Company were:

<u>Name</u>	<u>Title</u>
Stanley Mandel	Chairman of the Board and President
Susan June Hall	Senior Vice President, Secretary and Treasurer

B. Territory and Plan of Operation

At December 31, 1999 the Company was licensed to do business in New York State only.

The following schedule shows the direct premiums written in New York State during the period of the examination:

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
1994	\$15,994,483
1995	\$23,385,871
1996	\$23,248,598
1997	\$20,830,665
1998	\$ 9,059,864
1999	-0-

The Company ceased underwriting in 1998. Subject to the provisions of Section 1203 of the New York Insurance Law, the company must obtain prior approval of the Superintendent of Insurance before it can resume underwriting any insurance business.

As of the December 31, 1999, 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 State Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident and health
14	Glass

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, Arista Insurance Company is required to maintain a minimum surplus to policyholders in the amount of \$300,000.

C. Reinsurance

The Company entered into an Assumption Reinsurance Agreement dated September 23, 1998 (the "Treaty") with Guardian Life Insurance Company of America ("Guardian"). The transaction contemplated by the Treaty occurred on November 12, 1998 and deemed effective as of July 1, 1998. Pursuant to the Treaty, the Company ceded to Guardian all of Arista's liabilities under each and every policy of the insurance underwritten by Arista. Arista discontinued all sales of insurance on November 12, 1998. This agreement was approved by the Insurance Department pursuant to Section 1308 (f)(2) of the New York Insurance Law.

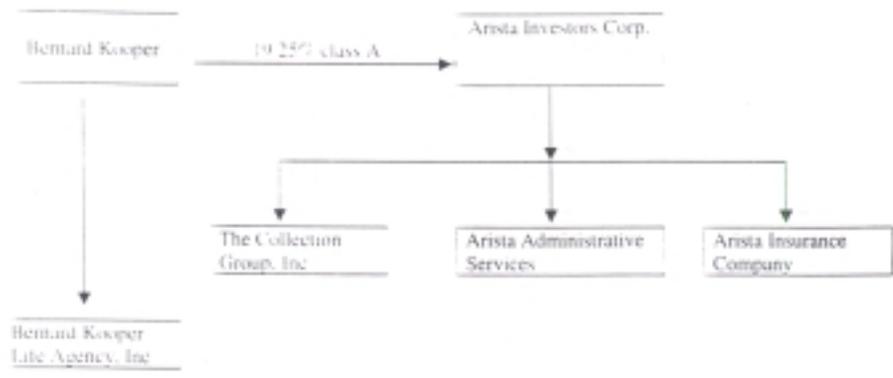
The Company had no other ceded reinsurance agreements as of the examination date.

D. Holding Company System

Arista Investors owns 100% of the outstanding shares of the Arista Insurance Company. Bernard Kooper owned 19.25% (20.4% if his wife's share were included) of Class A Common Stock of Arista's Investors Corp. Therefore, it appears that Bernard Kooper is the ultimate controlling person of Arista.

As a member of a holding company system, the Company files registration statements pursuant to Article 15 of the New York Insurance Law and Department Regulation 52. All pertinent files were reviewed and found to be in order.

The following chart depicts the Company's position within the Holding Company System:



E. Significant Operating Ratios

The following ratios have been computed as of December 31, 1999 based upon results of this examination:

Net premiums written in 1999 to Surplus as regards policyholders	Not applicable
Liabilities to Liquid asset (cash and invested assets less investment in affiliates)	20%
Premiums in course of collection to surplus as regards policyholders	Not applicable

The first and third ratios are not applicable, as the company has reinsured all of its operations via a transfer and assumption agreement. The second ratio falls 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 incurred	\$23,298,642	58.78%
Loss adjustment expenses incurred	4,190,774	10.57
Other underwriting expenses incurred	12,755,855	32.18
Net underwriting loss	<u>(608,070)</u>	<u>(01.53)</u>
Premiums earned	<u>\$39,637,201</u>	<u>100.00%</u>

F. Abandoned Property Law

Section 1316 of the Abandoned Property Law requires insurance companies to report to the Office of the State Comptroller annually on or before April 1, any property that is deemed abandoned and has been unclaimed for a three-year period. This filing is required by all insurance companies regardless of whether or not they have any abandoned property to report.

It was noted that the Company filed abandoned property report with the Office of the State Comptroller as required by Section 1316 of the Abandoned Property Law for all years under examination.

G. Extraordinary Dividends and Return Capital

In March of 1999, the Department approved an extraordinary cash dividend of \$4,000,000, based on its review of Arista's December 31, 1998 annual statement, on the condition that there had been no event that significantly impacted Arista's last reported surplus as regards policyholders. The dividend was paid to Arista's parent, Arista Investors Corp., in March and May of 1999.

In April 1999, and June 1999, the Department approved extraordinary dividends of \$1,200,000 and \$150,000, respectively, based on its review of Arista's filed March 31, Quarterly Statement, on the condition that there had been no event that significantly impacted Arista's reported March 31, 1999 surplus as regards policyholders. The dividends were paid in May 1999 and June 1999.

On January 26, 1999, the Company made a return of capital in the amount of \$2,492,000 to Arista Investors Corp. The transaction was approved by the Department.

H. Section 1307 Loan

On December 29, 1995, the Company issued a surplus note to The Cologne Underwriting Management Company in the amount of \$3,000,000. The surplus note plus accrued interest was repaid on December 18, 1998. Both transactions were properly approved by the New York Insurance Department.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities, and surplus as regards policyholders as determined by this examination as of December 31, 1999. This statement is the same as the balance sheet filed by the Company.

<u>Assets</u>	<u>Ledger</u> <u>Assets</u>	<u>Non-Ledger</u> <u>Assets</u>	<u>Not-admitted</u> <u>Assets</u>	<u>Admitted</u> <u>Assets</u>
		\$	\$	
Bonds	\$175,112			\$175,112
Cash and short-term investments	217,454			217,454
Interest and dividends, due and accrued		2,063		2,063
Receivable from parent, subsidiaries and affiliates	399,584		600	398,984
Other assets	160,400		160,400	
Cash advanced to officers	<u>6,250</u>	<u>        </u>	<u>6,250</u>	<u>        </u>
Total assets	<u>\$958,800</u>	<u>\$2,063</u>	<u>\$167,250</u>	<u>\$793,613</u>

Liabilities

Other expenses	\$ 4,370
Taxes, licenses and fees	1,864
Drafts outstanding	<u>70,530</u>
Total liabilities	<u>\$ 76,764</u>

Surplus and Other Funds

Common capital stock	\$200,000
Gross paid in and contributed surplus	253,000
Unassigned funds	<u>263,849</u>
Surplus as regards policyholders	<u>\$716,849</u>
Total liabilities, surplus and other funds	<u>\$793,613</u>

Note: The Internal Revenue Service has completed its audits of the Company's federal income tax returns through tax year 1998. All material adjustments, if any, made subsequent to the date of the examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 1999 and 2000 have yet to commence. The examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established relative to such contingency.

Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$2,144,856 during the five-year examination period, January 1, 1995 through December 31, 1999, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned \$39,637,201

Deductions:

Losses incurred \$23,298,642  
Loss adjustment expenses incurred 4,190,774  
Other underwriting expenses incurred 12,755,855

Total underwriting deductions 40,245,271

Net underwriting loss \$(608,070)

Investment Income

Net investment income earned \$719,241  
Net realized capital gains 450,891

Net investment gain 1,170,132

Other income

Cession allowance on business transfer to Guardian 3,421,486

Miscellaneous income 1,115,310

Net income before federal income taxes \$5,098,858

Federal income taxes incurred 1,068,079

Net income \$4,030,779

Capital and Surplus Accounts

Surplus as regards policyholders, December 31, 1995 per report on examination			\$2,861,705
	<u>Gain in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$4,030,779	\$	
Net unrealized capital gains	90,570		
Change in non admitted assets	2,134,956		
Dividends to stockholders		5,909,161	
Change in paid-in-capital		1,750,000	
Change in paid-in surplus		<u>742,000</u>	
Total gain and losses	<u>\$6,256,305</u>	<u>\$8,401,161</u>	
Net decrease in surplus as regards policyholders			<u>(2,144,856)</u>
Surplus as regards policyholders, December 31, 1999 per report on examination			<u>\$716,849</u>

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

Pursuant to the Assumption Reinsurance Agreement, described in Section C herein, all liabilities associated with policies underwritten by the Company have been eliminated.

#### **5 COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

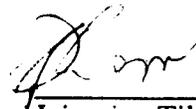
The prior report on examination as of December 31, 1994, contained comments and recommendations as follows (page numbers refer to prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Attendance of Board of Directors' Meetings</u>	
It was recommended that board members who are unable or unwilling to attend board meetings consistently should resign or be replaced.	5
Meetings during the period of the examination were well attended.	
B. <u>Approval of Board of Directors' Meetings</u>	
It was recommended that the meetings of the prior board of directors' meetings indicate that the immediately preceding minutes be approved.	5
The Company has complied with this recommendation.	
C. <u>Reinsurance</u>	
It was recommended that the Company file all applicable parts of Schedule F with the Department and in the future, prepare a complete and accurate Schedule F.	7-8
Since the Company is no longer writing business, it did not complete Schedule F.	
D. <u>Reinsurance</u>	
It was also recommended that the Company incorporate certain language in its ceded contracts so that the broad offset clause is accepted by the Department.	8
The Company no longer has any cession of reinsurance.	

<u>ITEM</u>		<u>PAGE NO.</u>
E.	<u>Holding Company System</u>	
	It was recommended that the Company refile with the Department Parts 1 and 2 of Schedule Y and reflects in Parts 1 and 2 transactions between the Company and Bernard Kooper Life Agency, Inc.	9
	The Company has complied with this recommendation.	
F.	<u>Annual Statement Reporting</u>	
	It was recommended the Company comply with the instructions to the annual statement so that consistent reporting is achieved from one year to the next.	11
	The Company has complied with this recommendation.	
G.	<u>Custodial Agreement</u>	
	It was recommended that the Company amend its custodial agreement so that it complies fully with the provisions of Section 1314 of the New York Insurance Law.	11
	The Company has complied with this recommendation.	



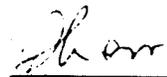
Respectfully submitted,



Jainarine Tilakdharry  
Senior Insurance Examiner

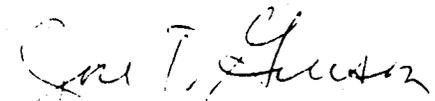
STATE OF NEW YORK )  
                                  ) SS.  
                                  )  
COUNTY OF NEW YORK)

Jainarine Tilakdharry, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.



Jainarine Tilakdharry

Subscribed and sworn to before me  
this 1<sup>st</sup> day of April 2001



JOSE T. GUESON  
NOTARY PUBLIC, State of New York  
No. 01GU4951406  
Qualified in Queens County  
Commission Expires May 22, 2001

Appointment No. 21698

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, First Deputy 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*

**ARISTA INSURANCE COMPANY**

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

**Company**

*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 1st day of February, 2001*



A handwritten signature in black ink, appearing to read 'Gregory V. Serio', written over a horizontal line.

**GREGORY V. SERIO**  
*First Deputy Superintendent of Insurance*