

REPORT ON EXAMINATION

OF

AXA ART INSURANCE CORPORATION

AS OF

DECEMBER 31, 2017

DATE OF REPORT

DECEMBER 28, 2018

EXAMINER

MARIBEL C. NUNEZ, C.P.C.U

TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE NO.</u>
1. Scope of examination	2
2. Description of Company	3
A. Corporate governance	3
B. Territory and plan of operation	4
C. Reinsurance ceded	6
D. Holding company system	7
E. Significant operating ratios	11
3. Financial statements	12
A. Balance sheet	12
B. Statement of income	13
C. Capital and surplus account	14
4. Losses and loss adjustment expenses	15
5. Subsequent events	15
6. Compliance with prior report on examination	16
7. Summary of comments and recommendations	17



Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Acting Superintendent

April 1, 2019

Honorable Linda A. Lacewell
Acting Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31791 dated July 5, 2018, attached hereto, I have made an examination into the condition and affairs of AXA Art Insurance Corporation as of December 31, 2017, 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 Department.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2012. This examination covered the five-year period from January 1, 2013 through December 31, 2017. 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 of the Company by obtaining information about the Company including corporate governance, assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with New York Laws, statutory accounting principles, and annual statement instructions.

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

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Holding company description
- Reinsurance
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- 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 under the laws of the State of New York on September 17, 1986, as Nordstern Insurance Company of America. It became licensed on February 9, 1987 and commenced business the same date. The Department approved the present name on April 2, 2001.

On January 1, 2014, the Company effectively ceased the writing of insurance business and sold the right to renew all its U.S. policies to AXA Art Americas Corporation, a related party, for \$12.7 million.

A. Corporate Governance

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, 2017, 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, New York	President, Luhring Augustine Gallery
Christiane Fischer New York, New York	President and Chief Executive Officer, AXA Art Insurance Corporation and AXA Art Americas Corporation
Janine Wolf Hill New York, New York	Director, Fellowship Affairs and Studies Strategic Planning of the Council on Foreign Relations
Alexander Kemper Kansas City, Missouri	Chairman, The Collectors Fund and the Board of Pollenware
Kai Kuklinski Cologne, Germany	Chief Executive Officer, AXA Art Versicherung AG
Ana Carmen Longobardi Sao Paulo, Brazil	Creative Vice President and Partner, Talent Communication
Aaron Milrad Toronto, Canada	Counsel, Dentons Canada, LLP

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Ernest Riefenhauser New York, New York	Chief Financial Officer and Treasurer, AXA Art Americas Corporation and AXA Art Insurance Corporation
Alan Schwartz Toronto, Canada	Managing Director, Terraplan Landscape Architects and Owner of Lonsdale Holdings
Dorit Straus New York, New York	Independent Consultant and advocate for artists and the arts
Marc Mitchell Tract New York, New York	Partner, Katten Muchin Rosenman, LLP
Dr. Alexander Wiebe Cologne, Germany	Chief Financial Officer and Board Member, AXA Art Versicherung AG
Anthony Williams New York, New York	Partner, Dentons US LLP

As of December 31, 2017, 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 Albert Kerr	Corporate Secretary
Colin Quinn	Vice President, Director of Claims Management

Note: All directors and officers, except for Ernest Riefenhauser, resigned as of July 13, 2018 as result of the acquisition of control.

B. Territory and Plan of Operation

As of December 31, 2017, 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 upon 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 and assumed premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2013	\$45,058,072	\$3,277,147	\$48,335,219
2014	2,575,909	2,287,597	4,863,506
2015	2,501,487	(257,373)	2,244,114
2016	2,596,091	(3,007)	2,593,084
2017	614,228	0	614,228

The Company specialized in writing inland marine and related lines of business, with an emphasis on personal and commercial fine art coverage and other insurance floaters. The majority of the Company's business was generated through brokers.

C. Reinsurance Ceded

At December 31, 2017, the Company had the following ceded reinsurance program in effect:

<u>Type of Contract</u>	<u>Cession</u>
<u>Treaties with AXA Art Versicherung AG</u> 100% Unauthorized	
<u>Terrorism Excess of Loss</u> 2 layers	\$385,500,000 excess of \$14,500,000 ultimate net loss, each loss occurrence.
<u>Reporter Excess of Loss</u>	\$385,500,000 excess of \$14,500,000 each risk and \$348,000,000 excess of \$14,500,000 for warehouse and storage risks.
<u>1st Lower Excess of Loss Layer</u>	\$12,000,000 excess of \$2,500,000 each risk, each loss occurrence.
<u>Lower CAT Excess of Loss Layer</u>	\$7,250,000 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>Per Occurrence Excess of Loss</u> 4 layers	\$113,250,000 excess of \$21,750,000 ultimate net loss, each occurrence. 2 nd layer excludes Flood UK; 3 rd layer excludes European windstorm and Flood UK; 4 th layer covers natural Catastrophe, but excludes bush fires, California Earthquake, European windstorm, and UK Flood.
<u>Non-Art Excess of Loss</u> 3 layers	\$27,550,000 excess of \$1,450,000 ultimate net loss, each risk.
<u>Jewelry Excess of Loss</u>	\$14,000,000 excess of \$500,000 ultimate net loss, each risk.
<u>Warehouse Excess of Loss</u>	\$125,000,000 excess of \$362,500,000 all risks and \$125,000,000 excess of \$400,000,000 for terrorism ultimate net loss, each risk, each loss occurrence.
<u>Quota-Share</u> 100% Authorized	60% quota share of all business written.

The majority of the Company's premiums written was ceded to an 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.

Reinsurance agreements with affiliates 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.

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 found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. 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. 62R.

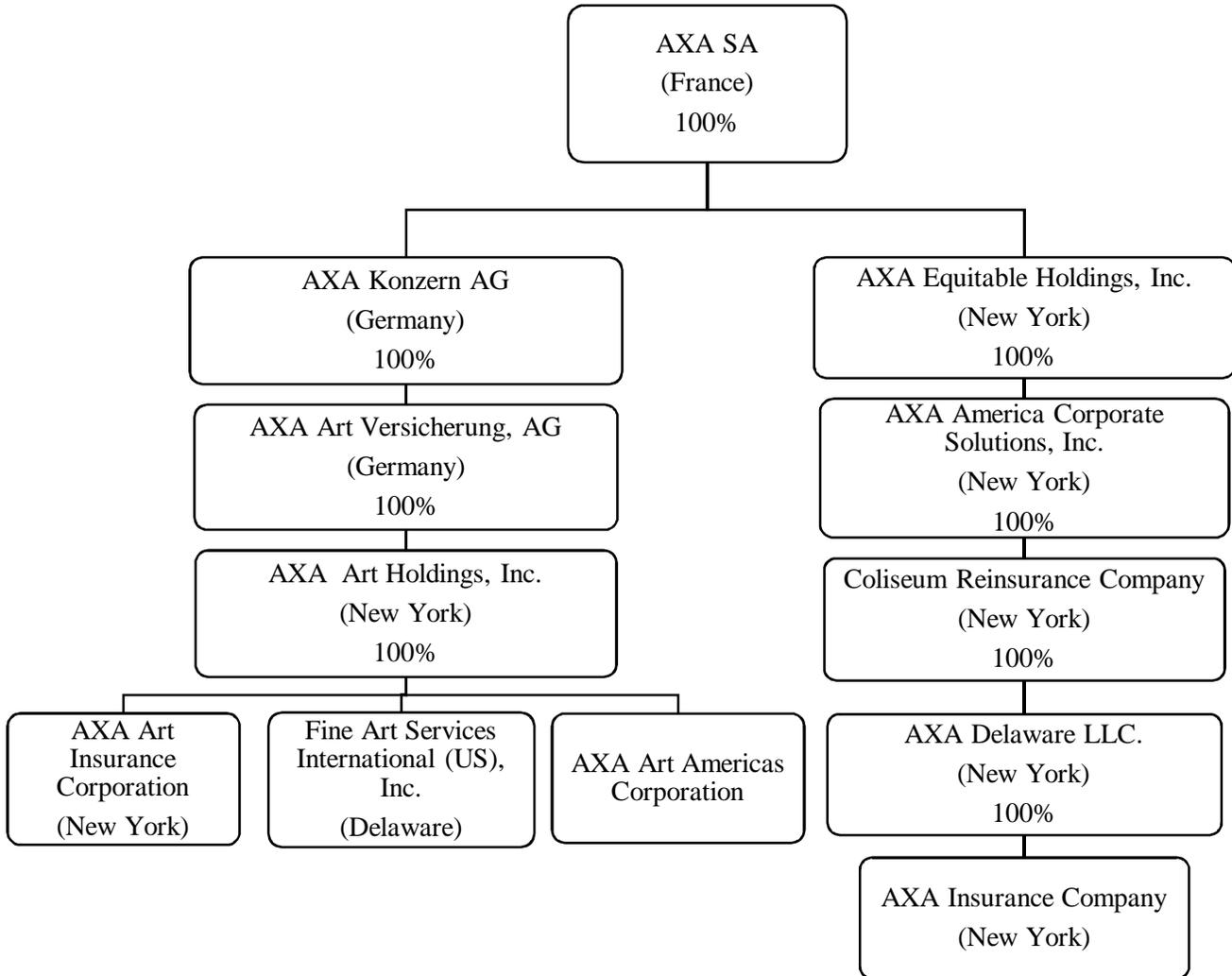
During the period under examination, the Company did not commute any reinsurance agreements.

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 publicly-traded company based in 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 holding company system at December 31, 2017:



At December 31, 2017, 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 Fine Art with 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. The agreement and amendment were filed with the Department pursuant to Section 1505(d) of the New York Insurance Law.

Effective 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 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(d) 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(d) of the New York Insurance Law and was non-objected to on January 5, 2004.

Tax Allocation Agreement

Effective October 1, 1994, the Company filed a consolidated federal income tax return with AXA Art Holdings, Inc., and Fine Art Services International (U.S.), Inc. This 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.

Administrative Service Agreement

Effective January 1, 2013, the Company and AXA Art Americas entered into an administrative service agreement, whereby AXA Art Americas would provide the following services: claims handling, premium collection, underwriting, policyholder services, producer management, investments, accounting and financial, information and technology, and legal and government relations services. This agreement was filed with the Department pursuant to Section 1505(d) of the New York Insurance Law and was non-objected to on January 2, 2013.

Sale and Purchase of Rights to Renew Agreement

Effective January 1, 2014, the company and AXA Art Americas Corporation entered into a sale and purchase of rights to renew agreement, whereby the Company sold the rights to renew its books of business to AXA Art Americas for a consideration of \$12.7 million. This agreement was filed with the Department pursuant to Section 1505(d) of the New York Insurance Law and was approved on April 8, 2013.

Assumption Reinsurance Agreement

On April 2, 2017, the Company transferred via an assumption reinsurance and business transfer agreement the entirety of its Canadian book of business to its affiliate, AXA Insurance Company (“AIC”), thereby ceasing to actively write insurance business.

Effective December 31, 2017, the Company entered into an assumption reinsurance agreement with its affiliate AIC, whereby, the Company ceded to AIC 100% of its business written in the State of New York. As consideration, the Company transferred an amount equal to all gross outstanding loss reserves, loss adjustment expense reserves, unearned premium reserves, and IBNR reserves relating to the policies as of the effective date of the agreement.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2017, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners, except for the two-year overall operating ratio, which is outside the benchmark range as a result of the Company's ceasing to write insurance business and transferring 100% of its losses to AIC.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to surplus as regards policyholders	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	15%
Two-year overall operating	999%

Underwriting Ratios

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>Ratio</u>
Losses and loss adjustment expenses incurred	\$ 6,105,831	27.79%
Other underwriting expenses incurred	14,277,924	64.99
Net underwriting gain	<u>1,586,930</u>	<u>7.22</u>
Premiums earned	<u>\$21,970,685</u>	<u>100.00%</u>

The Company's reported risk based capital score (RBC) was 15,205.80% at 12/31/2017. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action.

There were no financial adjustments in this report that impacted the company's RBC score.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2017 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 9,103,355	\$ 0	\$ 9,103,355
Cash, cash equivalents and short-term investments	280,216		280,216
Receivables for securities	3,000,000		3,000,000
Investment income due and accrued	48,050		48,050
Current federal and foreign income tax recoverable and interest thereon	198,114		198,114
Receivables from parent, subsidiaries and affiliates	<u>104,503</u>	<u>0</u>	<u>104,503</u>
Total assets	<u>\$12,734,238</u>	<u>\$ 0</u>	<u>\$12,734,238</u>

Liabilities, surplus and other funds

Liabilities

Other expenses (excluding taxes, licenses and fees)	\$ 31,673
Net deferred tax liability	<u>1,882,296</u>
Total liabilities	\$ 1,913,969

Surplus and Other Funds

Common capital stock	\$3,000,001
Gross paid in and contributed surplus	4,931,809
Unassigned funds (surplus)	<u>\$2,888,459</u>
Surplus as regards policyholders	<u>10,820,269</u>
Total liabilities, surplus and other funds	<u>\$12,734,238</u>

B. Statement of Income

The net income for the examination period as reported by the Company was \$15,706,980 as detailed below:

Underwriting Income

Premiums earned		\$21,970,685
Deductions:		
Losses and loss adjustment expenses incurred	\$ 6,105,831	
Other underwriting expenses incurred	<u>14,277,924</u>	
Total underwriting deductions		<u>20,383,755</u>
Net underwriting gain or (loss)		\$ 1,586,930

Investment Income

Net investment income earned	\$ 1,593,579	
Net realized capital gain	<u>14,591,578</u>	
Net investment gain or (loss)		\$16,185,157

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ 301,571	
Realized foreign exchange gain/loss	(1,261,804)	
Gain on sale of reinsurance recoverable	<u>126,145</u>	
Total other income		<u>(834,088)</u>
Net income before federal and foreign income taxes		\$16,937,999
Federal and foreign income taxes incurred		<u>1,231,019</u>
Net income		<u>\$15,706,980</u>

C. Capital and Surplus

Surplus as regards policyholders decreased \$19,061,961 during the five-year examination period January 1, 2013 through December 31, 2017 as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2012			\$29,882,230
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$15,706,980		
Net unrealized capital gains or (losses)		2,021,986	
Change in net unrealized foreign exchange capital gain (loss)		111,754	
Change in net deferred income tax	1,224,987		
Change in non-admitted assets	2,245,218		
Cumulative effect of changes in accounting principles		1,225,878	
Surplus adjustments paid in		4,002,990	
Dividends to stockholders		27,408,703	
Change in status of funded pension	991,097		
Correction of errors	551,209		
Correction of deferred tax item		3,810,113	
Duplication of deferred tax non-admitted change		<u>1,200,028</u>	
Total gains and losses	<u>\$20,719,491</u>	<u>\$39,781,452</u>	
Net increase (decrease) in surplus			<u>\$(19,061,961)</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2017			<u>\$ 10,820,269</u>

No adjustments were made to surplus as a result of this examination

At December 31, 2017, capital paid in was \$3,000,001 consisting of 2,332 Shares of \$1,286.45 par value per share common stock. Gross paid in and contributed surplus decreased by \$4,002,990 during the examination period, as follows:

<u>Year</u>	<u>Description</u>		<u>Amount</u>
2012	Beginning gross paid in and contributed surplus		\$8,934,800
2016	Stock redemption *	\$(4,002,990)	
	Net decrease to paid in and contributed surplus		<u>(4,002,990)</u>
2017	Ending gross paid in and contributed surplus		<u>\$4,931,810</u>

* In 2016, the Company entered into a stock redemption plan with its parent, AXA Art Holdings, Inc., pursuant to which, the Company reduced the number of its outstanding shares from 3,000 to 2,332 and increased the par value per share from \$1,000 to \$1,286.45. The consideration paid by the Company was \$4,002,990.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$0 is the same as reported by the Company as of December 31, 2017.

On December 31, 2017, the Company transferred via 100% assumption reinsurance agreement all gross outstanding loss reserves, loss adjustment expense reserves, unearned premium reserves, and IBNR reserves relating to the policies as of the effective date of the agreement.

5. SUBSEQUENT EVENTS

On July 13, 2018, the Department approved the acquisition of control of the Company by Munich Re Digital Partners US Holding Corporation (“MRDP”), a Delaware domiciled company whereby, MRDP acquired 100% of the issued and outstanding common stock of the Company for a consideration of an amount equal to the sum of:

- a) The statutory capital and surplus of the domestic insurer; plus
- b) An amount equal to the product of \$150,000 multiplied by the number of states or jurisdictions in which the Company holds an active license; plus
- c) An amount equal to the product of \$125,000 multiplied by the number of states or jurisdictions in which the Company holds a restricted license.

The purchase price of \$21 million was paid in cash and was funded via a capital contribution to MRDP from its parent company.

As result of the acquisition of control, on July 31, 2018, the Company amended the Restated Assumption Reinsurance Agreement whereby the Company transferred 100% of its business written in New York to AXA Insurance Company; at the same time, it entered into and Administrative Services Agreement, whereby AIC provides the Company administrative services and claim processing of policies.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Reinsurance</u>	
i.	It was recommended that the Company execute a written agreement before entering into any reinsurance arrangement.	7
ii.	It was recommended that the Company comply with Section 1505(b) of the New York Insurance Law.	7
iii.	It was 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 was 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 was 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 was 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 the Department Regulation 30 Part 107.4(e).	14

- | | | |
|-----|---|----|
| iv. | It was recommended that the Company report its salaries and payroll taxes independently as prescribed in Department Regulation 30, Part 105.9. | 15 |
| v. | It was recommended that the Company maintains its records as required by Department Regulation 152(b)(7). | 16 |
| C. | <u>Risk Management and Internal Control</u> | |
| i. | It was 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 |

Note: The prior report comments are no longer applicable due to the sale of the Company.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

APPOINTMENT NO. 31791

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, 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:

Maribel Nuñez

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 she 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 5th day of July, 2018

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief