

REPORT ON EXAMINATION

OF

ACE CAPITAL TITLE REINSURANCE COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT

MAY 10, 2019

EXAMINER

SABU CHERIAN

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## Department of Financial Services

ANDREW M. CUOMO  
Governor

LINDA A. LACEWELL  
Acting Superintendent

May 10, 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 31865 dated February 1, 2019, attached hereto, I have made an examination into the condition and affairs of ACE Capital Title Reinsurance Company 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 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 administrative office located at 436 Walnut Street, Philadelphia, Pennsylvania 19106.

## **1. SCOPE OF EXAMINATION**

The Department has performed an individual examination of the ACE Capital Title Reinsurance Company, a multi-state reinsurer. 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 and identify current and 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 New York laws, statutory accounting principles, and annual statement instructions.

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
- Reserve review and analysis
- Financial statement presentation
- 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

ACE Capital Title Reinsurance 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 provided structured reinsurance to the title insurance industry.

On April 15, 2004, ACE Capital Re Overseas Ltd. (“ARCO”), the Company’s previous owner, sold the Company to Chubb Bermuda Insurance Ltd. (formerly known as ACE Bermuda Insurance Ltd.) (“Chubb Bermuda”). Chubb Bermuda is wholly-owned by Chubb Limited (formerly known as ACE Limited).

In 2004, the Company discontinued solicitation of all reinsurance business to the title industry as a result of a change in product strategy initiated by its parent.

On January 14, 2016, ACE Limited, now known as Chubb Limited, completed the acquisition of Chubb Corporation.

### 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 seven nor more than 25 members. The board meets four times during each calendar year. At December 31, 2017, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Scott R. Anthony Marlton, New Jersey	Vice President, Finance, Chubb Group NA
Seth Bradley Gillston New York, New York	Executive Vice President, Private Equity & Real Estate, Chubb Group NA
Matthew George Merna Mendham, New Jersey	Division President, Chubb Group NA
James Scott Sanpietro Wantagh, New York	Managing Deputy General Counsel, Chubb Group NA

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Richard Michael Sica Cold Spring Harbor, New York	Executive Vice President, Casualty Underwriting, Chubb Group NA
Carmin Gragnaniello Staten Island, New York	Vice President, North America Major Accounts, Chubb Group NA
Vincent Cascio Staten Island, New York	Vice President, VP Global Casualty, Chubb Group NA

At December 31, 2017, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Matthew George Merna	President
James Scott Sanpietro	Secretary
John Paul Taylor	Treasurer

Section 312(b) of the New York Insurance Law states, in part:

“A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer’s files confirming that such member has received and read such report.”

The Company was unable to provide the signed statement for each member of the board of directors, indicating that each member has received and read the prior report on examination. It is recommended that the Company obtain and maintain the signed statements for each member of its board of directors, confirming that each member has received and read the report on examination pursuant to the provisions of Section 312(b) of the New York Insurance Law.

B. Territory and Plan of Operation

As of December 31, 2017, the Company was licensed to write business in the states of New York, Michigan, Texas and California, and was authorized as an accredited reinsurer in Connecticut, Florida, Louisiana, Maryland, North Carolina, South Carolina, and Virginia. According to its certificate of

authority, the Company was authorized 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 stopped writing reinsurance business to the title insurance industry. The legacy business is administered by an affiliate through a service agreement (refer to section D of this report).

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 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 Ceded

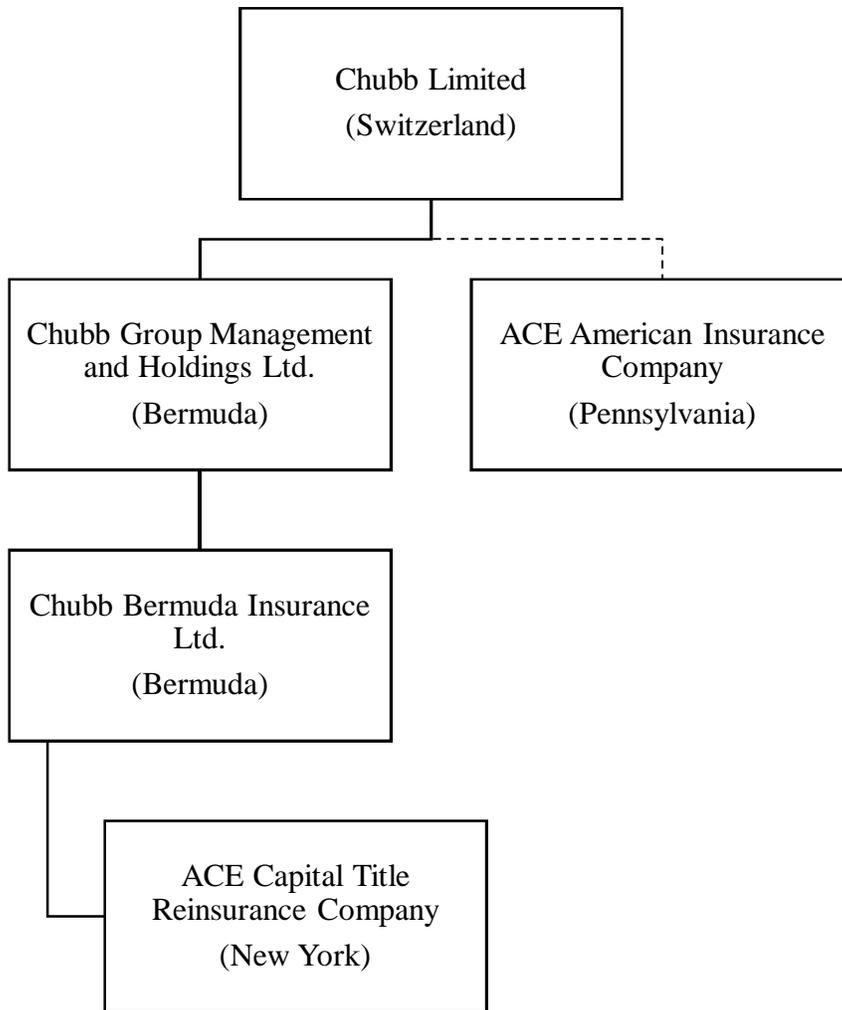
The Company has been in run-off since 2004; therefore, any reinsurance in effect relates to legacy business.

D. Holding Company System

The Company is a member of the Chubb Group of Companies. The Company is a wholly-owned subsidiary of Chubb Bermuda Insurance Ltd. (formerly known as ACE Bermuda Insurance Ltd.), a Bermuda corporation which is ultimately controlled by Chubb Limited, a public company domiciled in Switzerland. The Chubb Group of Companies is a global insurance and reinsurance organization that operates in 54 countries and territories.

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:



### Holding Company Agreements

At December 31, 2017, the Company was party to the following agreement with other members of its holding company system:

#### Administrative Service Agreement

Effective July 1, 2009, the Company entered into a service agreement with ACE American Insurance Company (“ACE American”), an affiliated company domiciled in Pennsylvania, whereby ACE American provides the Company services including, but not limited to: accounting, data processing, tax and auditing, and functional support services. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Ratios

The underwriting financial information presented below is on an earned/incurred basis and encompass the five-year period covered by this examination (ratios are not presented because they do not represent meaningful information):

	<u>Amounts</u>
Losses and loss adjustment expenses incurred	\$ 601,702
Other underwriting expenses incurred	1,465,571
Net underwriting gain	<u>3,073,335</u>
Premiums earned	<u>\$5,140,608</u>

Premiums earned is due to the amortization of the statutory premium reserve.

### 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	\$46,453,383	\$ 0	\$46,453,383
Cash, cash equivalents and short-term investments	2,968,700	0	2,968,700
Receivables for securities	7,500	0	7,500
Investment income due and accrued	518,722	0	518,722
Net deferred tax asset	<u>4,053,178</u>	<u>\$775,365</u>	<u>3,277,813</u>
Totals	<u>\$54,001,483</u>	<u>\$775,365</u>	<u>\$53,226,118</u>

#### Liabilities, Surplus and Other Funds

##### Liabilities

Known claims reserve	\$ 3,060
Statutory premium reserve	2,556,954
Other expenses (excluding taxes, licenses and fees)	42,025
Current federal and foreign income taxes	12,220
Payable to parent, subsidiaries and affiliates	<u>238,941</u>
Total liabilities	\$2,853,200

##### Surplus and Other Funds

Common capital stock	\$ 2,000,000
Gross paid in and contributed surplus	23,000,000
Unassigned funds (surplus)	<u>25,372,918</u>
Surplus as regards policyholders	<u>50,372,918</u>
Total liabilities, surplus and other funds	<u>\$53,226,118</u>

Note: The Internal Revenue Service has not performed an audit of any year under examination. 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

The net income for the examination period as reported by the Company was \$8,601,597 as detailed below:

Underwriting income

Title insurance and related income		\$ 5,140,608
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Deductions:

Losses and loss adjustment expenses incurred	\$ 601,702	
Operating expenses incurred	<u>1,465,571</u>	

Total underwriting deductions		<u>2,067,273</u>
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Net underwriting gain or (loss)		\$ 3,073,335
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Investment income

Net investment income earned	\$7,100,780	
Net realized capital gain or (loss)	<u>(29,340)</u>	

Net investment gain		<u>7,071,440</u>
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Net income after capital gains tax and before all other federal income taxes		\$10,144,775
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Federal and foreign income taxes incurred		<u>1,543,178</u>
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Net income		<u>\$ 8,601,597</u>
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C. Capital and Surplus

Surplus as regards policyholders increased \$11,851,401 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			\$38,521,517
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$8,601,597		
Change in net deferred income tax		\$443,814	
Change in non-admitted assets	3,721,627		
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>28,009</u>	
Total gains and losses	<u>\$12,323,224</u>	<u>\$471,823</u>	
Net increase (decrease) in surplus			<u>11,851,401</u>
Surplus as regards policyholders, as reported by the Company as of December 31, 2017			<u>\$50,372,918</u>

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

**4. KNOWN CLAIMS RESERVE AND STATUTORY PREMIUM RESERVE****A. Known Claims Reserve**

The examination liability for the captioned items of \$3,060 is the same as reported by the Company as of December 31, 2017. The examination analysis was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory of Accounting Principle No. 55.

**B. Statutory Premium Reserve**

The examination reserve of \$2,556,954 is the same as the amount reported by the Company as of December 31, 2017. The reserve was calculated based on a formula pursuant to Section 6405(a) of the New York Insurance Law, which includes a provision for the application of a dollar amount for each policy written and a percentage amount of the face amount of each policy.

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

The prior report on examination contained no recommendations.

**6. SUMMARY OF COMMENTS AND RECOMMENDATIONS****ITEM****PAGE NO.****A. Corporate Governance**

It is recommended that the Company obtain and maintain the signed statements for each member of its board of directors, confirming that each member has received and read the report on examination pursuant to the provisions of Section 312(b) of the New York Insurance Law.

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Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Sabu Cherian  
Senior Insurance Examiner

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

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

\_\_\_\_\_/S/\_\_\_\_\_  
Sabu Cherian

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2019.

**APPOINTMENT NO. 31865**

**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:

**Sabu Cherian**

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 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 1st day of February, 2019

**MARIA T. VULLO**  
Superintendent of Financial Services



By: Joan P. Riddell

Joan Riddell  
Deputy Bureau Chief