

REPORT ON EXAMINATION

OF

ARIS TITLE INSURANCE CORPORATION

AS OF

DECEMBER 31, 2015

DATE OF REPORT

JANUARY 12, 2017

EXAMINER

ILYA ARONOV

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## Department of Financial Services

**ANDREW M. CUOMO**  
Governor

**LINDA A. LACEWELL**  
Acting Superintendent

April 15, 2019

Honorable Linda A. Lacewell  
Acting Superintendent  
New York State Department of Financial Services  
New York, New York 10004

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31491 dated June 7, 2016, attached hereto, I have made an examination into the condition and affairs of ARIS Title Insurance Corporation as of December 31, 2015, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate ARIS Title 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 administrative office located at 610 Broadway, New York, NY 10012.

## **1. SCOPE OF EXAMINATION**

The Department has performed a single-state examination of the Company. The previous examination was conducted as of December 31, 2010. This examination covered the five-year period from January 1, 2011 through December 31, 2015. 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 Insurance laws, statutory accounting principles, and annual statement instructions.

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 also relied upon audit work performed by the Company’s independent public accountants where deemed appropriate.

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
- Accounts and records
- Financial statement presentation
- Loss review and analysis
- Summary of recommendations

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 in the State of New York on August 4, 2004 and became licensed and commenced business on May 23, 2006. The Company, which was a wholly-owned subsidiary of ARIS Holdings, Ltd, a Delaware corporation, was acquired on November 9, 2010 by Argo Group US, Inc., a Delaware corporation, which is ultimately controlled by Argo Group International Holdings, Ltd., a Bermuda corporation.

At December 31, 2015, capital paid in was \$500,000 consisting of 10,000 shares of common stock at \$50 par value per share. Gross paid in and contributed surplus was \$8,754,238. Gross paid in and contributed surplus increased by \$5,254,238 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2011	Beginning gross paid in and contributed surplus	\$3,500,000
2013	Surplus contribution	\$2,000,000
2014	Surplus contribution	1,753,708
2015	Surplus contribution	<u>1,500,530</u>
	Total surplus contributions	<u>5,254,238</u>
2015	Ending gross paid in and contributed surplus	<u>\$8,754,238</u>

As shown above, total surplus contributions of \$5,254,238 were made to the Company by its parent company, Argo Group US, Inc., during the examination period. The initial contribution of \$2,000,000, in 2013, was approved by the Department. The Company neither requested approval nor notified the Department regarding its surplus contributions made in 2014 and 2015 pursuant to Sections 1505(c) and 1505(d)(1) of the New York Insurance Law (“NYIL”).

Section 1505(c) of the NYIL states,

"[t]The superintendent's prior approval shall be required for the following transactions between a domestic controlled insurer and any person in its holding company system: sales, purchases, exchanges, loans or extensions of credit, or investments, involving five percent or more of the insurer's admitted assets at last year-end."

Section 1505(d)(1) of the NYIL states, in part,

"[t]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 with regard to reinsurance treaties or agreements at least forty-five days prior thereto, or such shorter period as the superintendent may permit, and the superintendent has not disapproved it within such period: (1) sales, purchases, exchanges, loans or extensions of credit, or investments, involving less than five percent of the insurer's admitted assets at last year-end...".

It is recommended that the Company fully comply with the requirements of Section 1505 of the New York Insurance Law concerning prior approval and notification for any future surplus contributions.

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 members. The board meets at least once during each calendar year. At December 31, 2015, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Craig Stephen Comeaux San Antonio, Texas	Vice President and Secretary, Argo Group US, Inc.
Michael Fusco Woodbury, New York	Senior Vice President and Chief Actuary, Argo Group US, Inc.
Oleg Alexander Ilitchev Brooklyn, New York	Director, ARIS Title Insurance Corporation
Anastasios George Omiridis San Antonio, Texas	Corporate Finance, Argo Group US, Inc.
Lawrence Michael Shindell New York, New York	Chairman, ARIS Title Insurance Corporation

Name and ResidencePrincipal Business Affiliation

Barbara Lou Sutherland  
San Antonio, Texas

General Counsel,  
Argo Group US, Inc.

Mark Gerard Wade  
New York, New York

Senior Vice President – Claims,  
ARIS Title Insurance Corporation

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, 2015, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Lawrence Michael Shindell	Chairman
Craig Stephen Comeaux	Secretary and Vice President
Janice Elaine Board	Treasurer and Vice President
Kevin James Rehnberg	Executive Vice President

B. Territory and Plan of Operation

As of December 31, 2015, the Company was licensed to write business in New York State only.

As of the examination date, the Company was authorized to write title insurance business as defined in Section 1113(a)(18) of the New York Insurance Law.

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 Article 64 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$500,000.

The following schedule shows the direct premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
2011	\$ 104,500
2012	\$ 405,836
2013	\$1,215,275
2014	\$ 342,161
2015	\$ 567,644

The Company is primarily engaged in the business of issuing insurance policies covering title to art. The Company primarily distributes its product on a direct basis to holders of title to art (i.e. museums, individual collectors, institutional collectors, etc.). The Company also distributes its title policies through two brokers that specialize in the placement of insurance coverage for individuals and entities with art related title insurance exposures.

The Company did not assume any business during the examination period.

C. Reinsurance Ceded

The Company structured its ceded reinsurance program to limit its maximum exposure through a quota share reinsurance treaty with its affiliates. The Company's reinsurance program has changed since the last examination. Effective September 1, 2012, the Company is a party to a 90% quota share agreement with its affiliates, Argo Re Ltd. ("Argo Re"), a Bermuda domiciled affiliated entity, and Argonaut Great Central Insurance Company ("AGCIC"), an Illinois domiciled affiliated insurer. The reinsurance agreement provides that the Company shall cede 60% and 30% of its business to Argo Re and AGCIC, respectively. The cession to its affiliates is 100% unauthorized. As such, the Company has established a funds held account for its affiliated reinsurers to collateralize the ceded reserve credit taken for the unauthorized reinsurance. The funds held account was reviewed and found to adequately support the total ceded reserves as of the examination date.

The quota share agreement was filed and non-disapproved by the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law. Additionally, the agreement was reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.



The Company cedes 90% of its premiums written. The Company has received approval for this cession pursuant to the provisions of Section 1308(e)(1) of the New York Insurance Law.

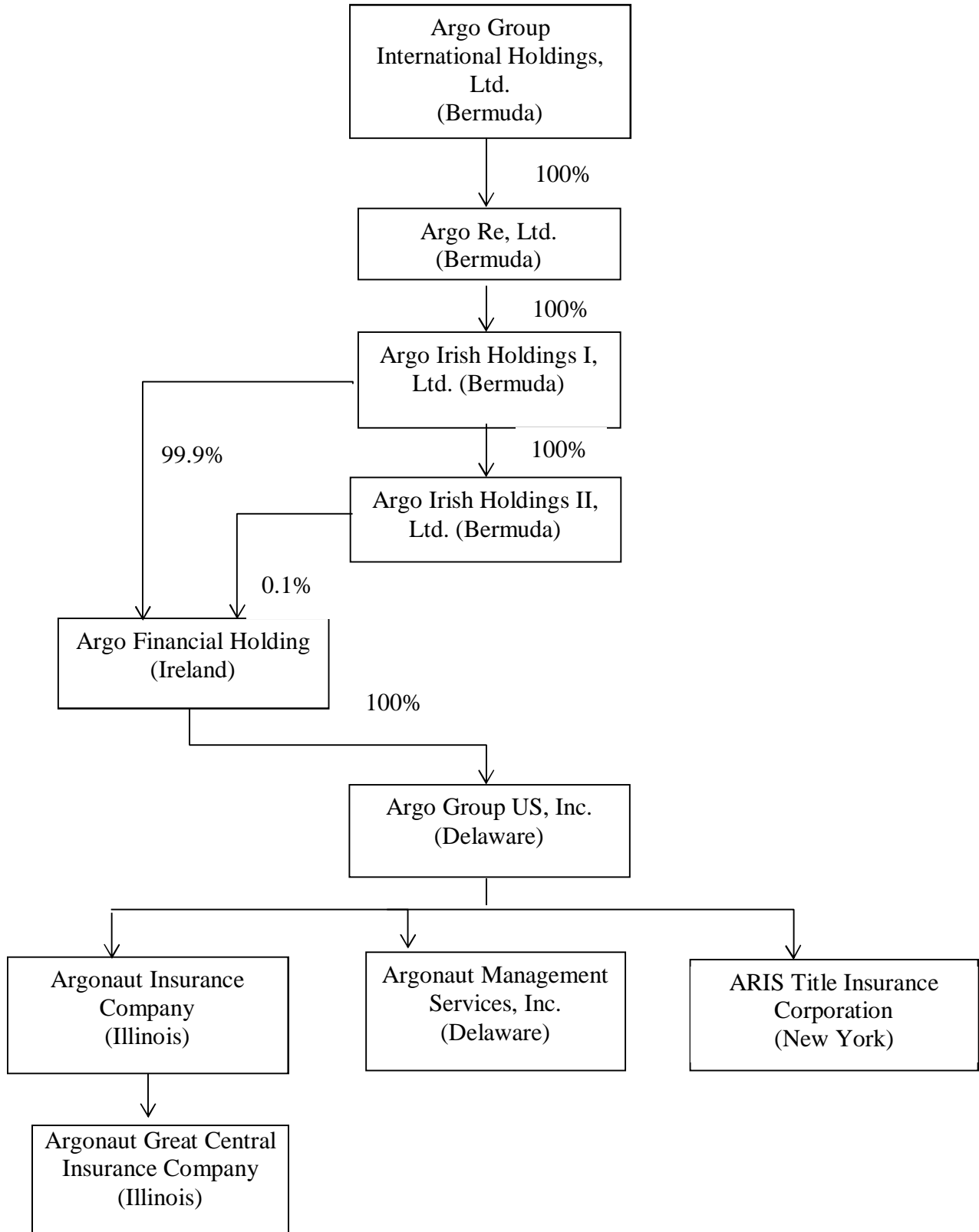
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions.

D. Holding Company System

The Company is a wholly owned subsidiary of Argo Group US, Inc., Delaware corporation, which is ultimately controlled by Argo Group International Holdings, Ltd., a publicly traded Bermuda holding corporation.

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, 2015:



## Holding Company Agreements

At December 31, 2015, the Company was party to the following agreements with other members of its holding company system:

### General Services Agreement

Effective April 1, 2012, the Company is a party to a general services agreement with Argonaut Management Services, Inc. (“AMS”), a Delaware Corporation. Pursuant to the agreement, AMS provides the Company with legal, accounting, tax and other financial services; services pertaining to personnel employment and administration, including payroll services, benefits and benefit plans, executive oversight, corporate and business development strategy consulting services; services pertaining to marketing, corporate communication and public relations; investment services; and facilities services. Additionally, pursuant to this agreement, a fee is allocated to the Company on a basis approximating the cost of providing the services. For the year ended December 31, 2015, a total fee of \$1,500,530 was incurred. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law and non-disapproved on February 28, 2012.

### Tax Allocation Agreement

The Company is a party to a tax allocation agreement with its direct parent, Argo Group US (“Argo Group”), and each of the subsidiary insurance companies. Pursuant to the agreement, Argo Group agrees to file a consolidated federal income tax return including its subsidiaries for the taxable years ending December 31, 2011, and for each year thereafter for which a consolidated return is filed. The agreement further states that no subsidiary will be charged more in federal income taxes by the consolidated entity than it would have paid if it filed a separate return. The agreement was reviewed for compliance with Circular Letter No. 33 (1979) with no exceptions noted. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law and non-disapproved on January 12, 2012.

E. Significant Operating RatiosUnderwriting Ratios

The underwriting ratios presented below are on 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	\$ (110,381)	(52.13)%
Operating expenses incurred	2,556,563	1,207.51
Net underwriting loss	<u>(2,234,460)</u>	<u>(1,055.37)</u>
Premiums earned	\$ <u>211,722</u>	<u>100.00%</u>

F. Accounts and Records

The examiner's review of the 2015 annual statement filed with this Department revealed the following:

1. Schedule Y, Part 2 of the annual statement was designed to provide an overview of transactions among insurance holding company system members. However, the Company did not report any transactions in this schedule in its filed 2015 annual statement despite having intercompany transactions with its affiliates.
2. The Company reported \$172,100 of reinsurance payable amount as "other expenses" on the liability page, line 6, of its annual statement. The Company has indicated that the "title insurance version" of the annual statement did not have a line on page two that was specifically assigned for reinsurance premium payable. The Company, however, should use the "detail write-ins" line to report the balance.
3. The Company did not properly classify some of the expenses reported in the expense exhibit of its 2015 filed annual statement.

It is recommended that the Company fully comply with the NAIC annual statement instructions when completing all future financial statements filed with the Department.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2015 as reported by the Company:

<u>Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 552,034
Cash, cash equivalents and short-term investments	4,043,667
Investment income due and accrued	820
Uncollected premiums and agents' balances in the course of collection	115,366
Receivables from parent, subsidiaries and affiliates	5,371
Aggregate write-ins for other than invested assets	<u>9,778</u>
Totals assets	<u>\$4,727,036</u>
 <u>Liabilities, Surplus and Other Funds</u>	
Known claims reserve	\$ 36,000
Statutory premium reserve	85,161
Supplemental reserve	112,871
Other expenses (excluding taxes, licenses and fees)	172,100
Taxes, licenses and fees (excluding federal and foreign income taxes)	25,887
Current federal and foreign income taxes	238,798
Funds held by company under reinsurance treaties	303,592
Payable to parent, subsidiaries and affiliates	<u>69</u>
Total liabilities	\$ 974,478
 <u>Surplus and Other Funds</u>	
Common capital stock	\$ 500,000
Gross paid in and contributed surplus	8,754,238
Unassigned funds (surplus)	<u>(5,501,680)</u>
Surplus as regards policyholders	<u>3,752,558</u>
Total liabilities, surplus and other funds	<u>\$4,727,036</u>

Note: The Internal Revenue Service has not audited the tax returns covering tax years 2011 through 2015. 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 loss for the five-year examination period as reported by the Company was \$2,466,603 as detailed below:

Underwriting Income

Title insurance premiums earned		\$ 211,722
Other operating income		<u>142</u>
		211,864
Deductions:		
Losses and loss adjustment expenses incurred	\$ (110,381)	
Operating expenses incurred	<u>2,556,563</u>	
Total operating expenses		<u>2,446,182</u>
Net underwriting gain (loss)		\$(2,234,318)

Investment Income

Net investment income earned	\$ <u>6,930</u>	
Net investment gain		6,930
Net income before all other federal income taxes		\$(2,227,388)
Federal and foreign income taxes incurred		<u>239,215</u>
Net income (loss)		<u>\$(2,466,603)</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$2,724,760 during the five-year examination period January 1, 2011 through December 31, 2015 as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2010			\$1,027,798
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net loss		\$2,466,603	
Change in non-admitted assets	\$ 50,000		
Change in surplus notes		112,875	
Surplus contributions	<u>5,254,238</u>	<u>0</u>	
Net increase (decrease) in surplus	\$5,304,238	\$2,579,478	<u>2,724,760</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2015			<u>\$3,752,558</u>

4. **KNOWN CLAIMS RESERVE, STATUTORY PREMIUM RESERVE, and  
SUPPLEMENTAL RESERVE**

A. Known Claims Reserve

The examination liability for the captioned item of \$36,000 is the same as reported by the Company as of December 31, 2015. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

B. Statutory Premium Reserve

The examination reserve for the captioned item of \$85,161 is the same as reported by the Company as of December 31, 2015. The reserve was calculated based on a formula pursuant to Section 6405 (a) of 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.

C. Supplemental Reserve

The examination reserve for the captioned item of \$112,871 is the same as reported by the Company as of December 31, 2015. A supplemental reserve is required to be established when the sum of the Company’s known claims reserves plus the statutory premium reserve is not sufficient to cover the Company’s ultimate losses for all known and incurred but not reported claims and related loss adjustment expenses.



## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
<u>Board of Directors' Meetings</u>	
It was recommended that the Company comply with its by-laws by conducting regular meetings of the board of directors at least once in each quarter of the year.	4
The Company has complied with this recommendation.	

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Surplus Contributions</u>	
It is recommended that the Company fully comply with the requirements of Section 1505 of the New York Insurance Law concerning prior approval and notification for any future surplus contributions.	3
B. <u>Accounts and Records</u>	
It is recommended that the Company fully comply with the annual statement instructions when completing all future financial statements filed with the Department.	10

Respectfully submitted,

\_\_\_\_\_  
/S/

Ilya Aronov, INS  
Financial Services Examiner 2

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

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

\_\_\_\_\_  
/S/

Ilya Aronov

Subscribed and sworn to before me

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

*APPOINTMENT NO. 31491*

**NEW YORK STATE**  
**DEPARTMENT OF FINANCIAL SERVICES**

*I, Maria T. Vullo, Acting 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:*

***Ilya Aronov***

*as a proper person to examine the affairs of the*

***ARIS Title Insurance Company***

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

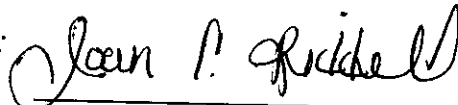
***COMPANY***

*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 June, 2016*

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

By: 

*Joan Riddell*  
*Deputy Chief Insurance Examiner*

