

REPORT ON EXAMINATION

OF THE

ARIS TITLE INSURANCE CORPORATION

AS OF

DECEMBER 31, 2010

DATE OF REPORT

OCTOBER 28, 2011

EXAMINER

ADEBOLA AWOFESO

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

October 28, 2011

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 30703 dated April 11, 2011, attached hereto, I have made an examination into the condition and affairs of ARIS Title Insurance Corporation as of December 31, 2010, 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 ARIS Title Insurance Corporation. This is the first financial examination of the Company after the report on organization, which was conducted as of April 14, 2006. This examination covered the period from April 14, 2006 through December 31, 2010. 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 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
- Pensions, stock ownership and insurance plans
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- 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

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, 2010, 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 \$3,500,000. Gross paid in and contributed surplus increased by \$500,000 during the examination period, as follows:

| <u>Year</u> | <u>Description</u> | | <u>Amount</u> |
|-------------|---|-----------|--------------------|
| 2006 | Beginning gross paid in and contributed surplus | | \$3,000,000 |
| 2010 | Surplus contribution | \$500,000 | |
| | Total Surplus Contributions | | <u>500,000</u> |
| 2010 | Ending gross paid in and contributed surplus | | <u>\$3,500,000</u> |

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 members. At December 31, 2010, the board of directors was comprised of the following seven members:

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|-------------------------------------|--|
| Jay S. Bullock Hamilton, Bermuda | Executive Vice President - Chief Financial Officer, Argo Group US, Inc. |
| Michael Fusco New York, NY | Senior Vice President and Chief Actuary, Argo Group US, Inc. |
| Louis D. Levinson New York, NY | President - E&S Lines, Argo Group US, Inc. |

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|--|--|
| Judith L. Pearson Greenwood Village, CO | President, ARIS Title Insurance Corporation |
| Lawrence M. Shindell New York, NY | Chairman, ARIS Title Insurance Corporation |
| Kevin Silva Hamilton, Bermuda | Senior Vice President - Human Resources, Argo Group US, Inc. |
| Brian Speck Greenwood Village, CO | Senior Vice President - Chief Operating Officer, ARIS Title Insurance Corporation |

Section 3.4 of the Company's by-laws states:

“Regular meetings of the Board of Directors shall be held in each fiscal quarter at such times and places as fixed by resolution of the Board of Directors, at any place, either within or without the State of New York.”

The board met twice in 2006, once in 2007, none in 2008 and 2009 and twice in 2010, respectively. It is recommended that the Company comply with its by-law by conducting regular meetings of the board of directors at least once in each quarter of the year.

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 has an acceptable record of attendance.

As of December 31, 2010, the principal officers of the Company were as follows:

| <u>Name</u> | <u>Title</u> |
|-----------------------|--------------|
| Lawrence M. Shindell | Chairman |
| Judith L. Pearson | President |
| Craig Stephen Comeaux | Secretary |

B. Territory and Plan of Operation

As of December 31, 2010, the Company was licensed only in the State of New York to write title insurance as defined in paragraph 18 of Section 1113(a) of the New York Insurance Law.

Based on the line of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 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> |
|----------------------|------------------------------------|
| 2006 | \$ 0 |
| 2007 | \$ 6,675 |
| 2008 | \$ 316,975 |
| 2009 | \$ 315,850 |
| 2010 | \$ 6,250 |

The Company primarily engaged in the business of issuing art title insurance policies that serves the needs of art marketplace and related fiduciary banking, legal, museum and non-profit communities.

C. Reinsurance

Assumed

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

Ceded

The Company structured its ceded reinsurance program on its Art Title Protection Insurance to limit its maximum exposure through an excess of loss reinsurance treaty. The following is a description of the Company's ceded reinsurance program in effect at December 31, 2010:

Type of Treaty

Cession

Fine Art/Collectible

Excess of Loss – Liability
100% Authorized

\$150,000 excess of \$5,000,000 per loss.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required standard clauses including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

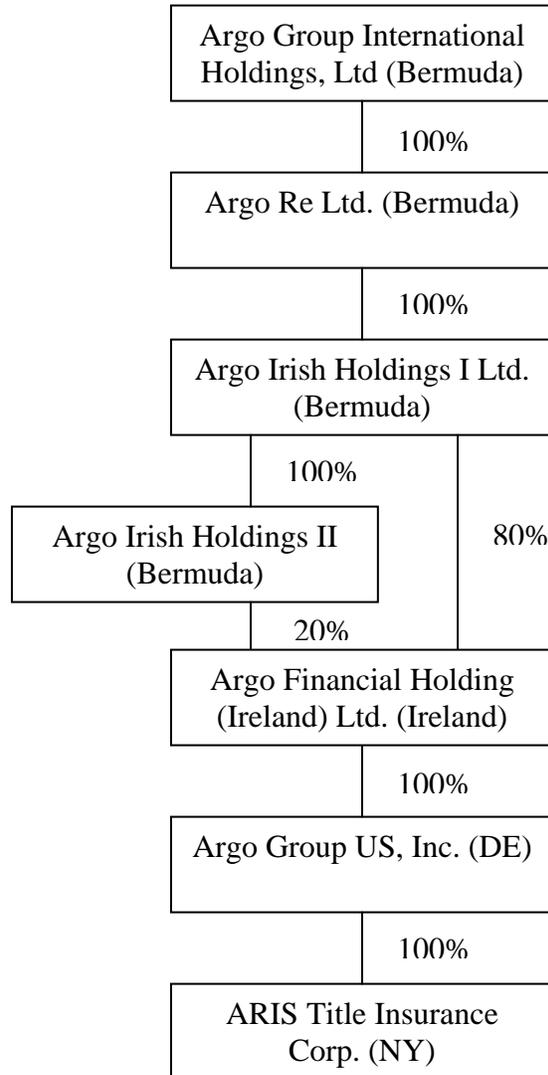
Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles (“SSAP”) No. 62.

Holding Company System

The Company is a wholly owned subsidiary of Argo Group US, Inc (Delaware), which is ultimately controlled by Argo Group International Holdings, Ltd. (Bermuda), the ultimate parent.

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, 2010:



Management Agreement

The Company is party to a management agreement with Art Risk Insurance and Information Service Corporation (“Agency”). Pursuant to the agreement, the Agency will perform the functions necessary to underwrite insurance policies, including, performing title searches and examinations, determine exclusions, assess risks, and offer and issue policies. Additionally, the Agency will also collect premiums, and administer and manage claims. Pursuant to Section 1505(d)(3) of the New York Insurance Law, the subject agreement was non-disapproved.

The aforementioned agreement expired as of November 9, 2010, as the result of acquisition of the Company by Argo Group US, Inc., the Company and its current parent are in process of

procuring a similar agreement and all other relevant inter-company agreements as required by Article 15 of New York Insurance Law.

E. Significant Operating Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the period covered by this examination:

| | <u>Amounts</u> | <u>Ratios</u> |
|--|--------------------|-----------------|
| Losses and loss adjustment expenses incurred | \$ 147,881 | 35.77% |
| Other underwriting expenses incurred | 3,478,029 | 841.24 |
| Net underwriting loss | <u>(3,212,468)</u> | <u>(777.01)</u> |
| Premiums earned | <u>\$ 413,442</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, 2010 as determined by this examination and as reported by the Company:

| <u>Assets</u> | <u>Assets</u> | <u>Assets Not Admitted</u> | <u>Net Admitted Assets</u> |
|---|--------------------|----------------------------|----------------------------|
| Cash, cash equivalents and short-term investments | \$1,249,623 | \$ 0 | \$1,249,623 |
| Uncollected premiums and agents' balances in the course of collection | 6,461 | 0 | 6,461 |
| Prepaid reinsurance | <u>50,000</u> | <u>50,000</u> | <u>0</u> |
| Totals assets | <u>\$1,306,084</u> | <u>\$50,000</u> | <u>\$1,256,084</u> |

Liabilities, Surplus and Other Funds

Liabilities

| | |
|---|------------|
| Known claims reserve | \$ 147,882 |
| Statutory premium reserve | 17,840 |
| Amounts withheld or retained by company for account of others | 31,371 |
| Payable to parent, subsidiaries and affiliates | 31,194 |
| Total liabilities | \$ 228,287 |

Surplus and Other Funds

| | | |
|--|--------------------|--------------------|
| Common capital stock | \$ 500,000 | |
| Gross paid in and contributed surplus | 3,500,000 | |
| Unassigned funds (surplus) | <u>(2,972,202)</u> | |
| Surplus as regards policyholders | | <u>1,027,798</u> |
| Total liabilities, surplus and other funds | | <u>\$1,256,085</u> |

NOTE: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2006 through 2010. 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 decreased \$2,472,202 during the five-year examination period April 14, 2006 through December 31, 2010, detailed as follows:

Underwriting Income

| | | |
|--|------------------|------------------|
| Premiums and fees earned | | \$ 413,442 |
| Deductions: | | |
| Loss and loss adjustment expenses incurred | \$ 147,881 | |
| Operating expenses incurred | <u>3,478,029</u> | |
| Total underwriting deductions | | <u>3,625,910</u> |
| Net underwriting gain or (loss) | | \$(3,212,468) |

Investment Income

| | | |
|--|----------------|----------------------|
| Net investment income earned | \$ 50,693 | |
| Net realized capital gains (losses) | <u>239,573</u> | |
| Net investment gain or (loss) | | <u>290,266</u> |
| Net income before federal income taxes | | \$(2,922,202) |
| Net income (loss) | | <u>\$(2,922,202)</u> |

| | | | |
|--|-------------------------|--------------------------|---------------------|
| Surplus as regards policyholders per report on organization as of April 14, 2006 | | | \$ 3,500,000 |
| | <u>Gains in Surplus</u> | <u>Losses in Surplus</u> | |
| Net income | | \$2,922,202 | |
| Change in non-admitted assets | | 50,000 | |
| Paid in capital changes | \$500,000 | <u>0</u> | |
| Total gains and losses | \$500,000 | \$2,972,202 | |
| Net increase (decrease) in surplus | | | <u>(2,472,202)</u> |
| Surplus as regards policyholders per report on examination as of December 31, 2010 | | | <u>\$ 1,027,798</u> |

4. KNOWN CLAIM RESERVES

The examination liability for the captioned items of \$147,882 is the same as reported by the Company as of December 31, 2010. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. STATUTORY PREMIUM RESERVE

The examination reserve for the captioned items of \$17,840 is the same as reported by the Company as of December 31, 2010. 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.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONSITEMPAGE NO.A. ManagementBoard of Directors' Meetings

It is recommended that the Company comply with its by-law by conducting regular meeting of the board of directors at least once in each quarter of the year.

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Respectfully submitted,

_____/s/_____
Adebola Awofeso,
Senior Insurance Examiner

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

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

_____/s/_____
Adebola Awofeso,

Subscribed and sworn to before me

this _____ day of _____, 2011.

Appointment No. 30703

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

*I, James J. Wrynn Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:*

Adebola Awofeso

as proper person to examine into the affairs of the

ARIS TITLE 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 11th day of April, 2011



James J. Wrynn

JAMES J. WRONN
Superintendent of Insurance