

REPORT ON EXAMINATION

OF

ARBELOS INSURANCE INC.

AS OF

DECEMBER 31, 2018

DATE OF REPORT

JULY 8, 2020

EXAMINER

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Department of Financial Services

KATHY HOCHUL
Governor

ADRIENNE A. HARRIS
Acting Superintendent

October 1, 2021

Honorable Adrienne A. Harris
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 32082 dated May 5, 2020, attached hereto, I have made an examination into the condition and affairs of Arbelos Insurance Inc. as of December 31, 2018, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Arbelos Insurance Inc.

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 remotely due to the Governor’s Executive Order of New York State on PAUSE regarding the COVID-19 pandemic.

1. SCOPE OF EXAMINATION

The examination covers the period from June 12, 2013 through December 31, 2018 and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis. Transactions occurring subsequent to this period were reviewed where deemed appropriate. The examination included a review of Company records deemed necessary to accomplish such analysis or verification. Additionally, a review was performed to determine whether the captive insurer was operating within its by-laws, conforming with its plan of operation, as submitted to the New York State Department of Financial Services, and was in compliance with Article 70 of the New York Insurance Law (“the Law”).

Comments and recommendations are limited to those items requiring financial adjustment, procedural recommendations, or instances where the Company was not conforming to the application submitted to the Department or Article 70 of the Law.

The report utilized work performed by the Company’s independent certified public accountant and its opining actuary to the extent considered appropriate.

2. DESCRIPTION OF COMPANY

Arbelos Insurance Inc. was incorporated on April 29, 2013, under the laws of the State of New York and commenced business on June 12, 2013. The Company is a wholly owned subsidiary of LVMH Perfumes & Cosmetics Inc. (the “Parent”).

LVMH Perfumes & Cosmetics Inc. is a house of the Perfumes and Cosmetics division of LVMH Moet Hennessy Louis Vuitton SE. Arbelos Insurance Inc. provides the Parent as well as its ultimate United States parent, LVMH Inc., and its affiliated subsidiaries with workers’ compensation deductible reimbursement coverage, limited to \$500,000 per occurrence.

A. Article of Incorporation

The Company is organized to transact those kinds of insurances specified in paragraph 13, 14,19 and 20 of Section 1113(a) of the New York Insurance Law, subject at all times to the limitations on the business of pure captive insurance companies set forth in Article 70 of the Law.

B. By-Laws

The examination found that the Company was in compliance with its by-laws in all material respects.

C. Capital Structure

As a pure captive insurance company incorporated as a stock insurer, the Company is required to maintain a total surplus as regards policyholders of not less than \$250,000, of which \$100,000 shall represent paid-in capital pursuant to the provisions of Section 7004(a)(1) of the Law.

As of December 31, 2018, the Company's paid-in capital was \$4,000,000, consisting of 1,000 shares of common stock with a par value of \$100 per share and an additional paid-in capital amount of \$3,900,000. The Company had retained earnings of \$7,107,607 for a total capital and surplus (surplus as regards policyholders) of \$11,107,607.

D. Corporate Records

The corporate records reviewed appeared to be substantially accurate and complete in all material respects.

E. Operations

The Company provides workers compensation deductible reimbursement coverage, limited to \$500,000 per occurrence, to the Parent, LVMH Inc. and affiliated subsidiaries.

Effective July 1, 2016, the Company began assuming marine transit coverage on behalf of the Parent. The Company entered into a third-party agreement with AXA Corporate Solutions, S.A. to assume \$500,000 per claim, excess of a \$25,000 deductible, with a \$2 million aggregate. The policy renews every year and the net premium for 2018 policy was \$1,500,000.

F. Management and Control

(i) Captive Manager

Section 7003(b)(4) of the Law provides that no captive insurer shall do any captive insurance business in this State unless it utilizes a captive manager resident in this State that is licensed as an agent or broker under the provisions of Article 21 of the Law, or any other person approved by the Superintendent.

During the period covered by this examination, the Company was managed by Marsh Management Services, Inc. (“Marsh”), which is authorized to act as a manager for captive insurance companies by the Department.

Pursuant to a management agreement effective April 29, 2013, Marsh has the responsibility of providing the Company with underwriting, administrative and other general management and operational services for a fee. These responsibilities also include assisting the Company in complying with the rules, regulations and requirements of the Law and the preparation of the annual financial report required by the Department.

(ii) Board of Directors

Pursuant to its by-laws, the business and affairs of the Company shall be managed under the direction of a board of directors. The number of directors shall not be fewer than three nor more than ten, of which at least two of whom shall be residents of New York State. At December 31, 2018, the board of directors was comprised of the following five members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Claire Aceste Whitestone, NY	Vice President, Treasury & Risk Management, LVMH Moet Hennessy Louis Vuitton Inc.
Elisabeth Desvignes New York, NY	Senior Vice President, LVMH Moet Hennessy Louis Vuitton Inc.
Jeffrey Scott Johnson Bridgewater, NJ	Vice President of Operations, LVMH Perfumes & Cosmetics Inc.
Alain Lagesse Paris, France	Director, Group Risk Management, LVMH Moet Hennessy Louis Vuitton SE
Nisala Weerasooriya Lake Grove, NY	Senior Vice President, Marsh Management Services

During the period covered by this examination, the board of directors met once each year. A review of the board of directors meeting minutes indicated that all meetings were well attended.

(iii) Officers

As of December 31, 2018, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Claire Aceste	President
Louise R. Firestone	Secretary
Elisabeth Desvignes	Treasurer
Maureen Johnson	Senior Vice President - Tax

G. Certified Public Accountant

Deloitte & Touche LLP was the Company's independent certified public accounting firm during the period covered by this examination. Deloitte & Touche LLP stated that in its opinion the statutory-basis financial statements and records present fairly, in all material respects, the financial position of Arbelos Insurance Inc.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America.

Assets

Cash	\$27,472,913	
Loan receivable from affiliate	16,000,000	
Accrued interest receivable	124,870	
Deferred acquisition costs	38,207	
Letter of credit	3,750,000	
Deferred tax asset	<u>910,870</u>	
Total assets		<u>\$48,296,860</u>

Liabilities

Losses and loss adjustment expenses	\$29,077,165	
Unearned premiums	6,894,976	
Losses payable	464,858	
Accounts Payable and accrued expenses	156,655	
Federal Income Tax Payable	595,599	
Total liabilities		<u>37,189,253</u>

Capital and Surplus

Common stock	\$100,000	
Additional paid-in capital	3,900,000	
Surplus	<u>7,107,607</u>	
Total capital and surplus		\$11,107,607
Total liabilities, capital and surplus		<u>\$48,296,860</u>

B. Statement of Income

The Company's net income for the period covered by the examination was \$7,107,607, as detailed below:

Underwriting Income

Premiums earned	\$76,595,108	
Gain on communication	<u>1,274,631</u>	
Total underwriting revenue		\$77,869,739
Deductions		
Loss and LAE	69,031,925	
Policy acquisition cost	460,912	
General and administrative expenses	<u>1,702,630</u>	
Total underwriting deductions		<u>71,195,467</u>
Net underwriting income		6,674,272
Investment income		1,039,640
Income taxes		<u>606,305</u>
Net Income		<u>\$7,107,607</u>

C. Capital and Surplus Account

The Company's capital and surplus increased \$11,107,607 during the period covered by this examination, detailed as follows:

Capital and surplus as of June 12, 2013			\$0
	<u>Increase in surplus</u>	<u>Decrease in surplus</u>	
Net income	\$7,107,607	\$0	
Common stock	100,000		
Paid-in capital	<u>3,900,000</u>	<u> </u>	
Total increase and decrease in surplus	<u>11,107,607</u>	<u>0</u>	
Net increase in surplus			<u>11,107,607</u>
Capital and surplus as of December 31, 2018			<u>\$11,107,607</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2018, the Company reported total loss and loss adjustment expense reserves of \$29,077,165. The Company's opining actuarial firm, Marsh Management Services Inc. noted in its Statement of Actuarial Opinion that, in its opinion, the reported statutory reserves were computed in accordance with accepted actuarial standards and principles. It was also noted that reasonable provision, in the aggregate, had been made for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.

5. ARTICLE 70 COMPLIANCE

Article 70 of the New York State Insurance Law is the governing section of the law for the formation and continued operation of captive insurers in New York State. A review was performed to test the Company's compliance with all applicable parts of Article 70. No material areas of non-compliance were found.

6. SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus (“COVID-19”) pandemic. The COVID-19 pandemic has continued to develop throughout 2020, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination’s review noted that there has not been a significant impact to the Company. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations in this report.

Respectfully submitted,

_____/S/
Wei Cao
Senior Insurance Examiner

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

WEI CAO, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

_____/S/
Wei Cao

Subscribed and sworn to before me

this _____ day of _____, 2021.

APPOINTMENT NO. 32082

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Linda A. Lacewell, 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:

Wei Cao

as a proper person to examine the affairs of the

Arbelos Insurance Inc.

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 May, 2020

LINDA A. LACEWELL
Superintendent of Financial Services

By:

Joan L. Riddell

Joan Riddell
Deputy Bureau Chief

