

REPORT ON EXAMINATION

OF THE

ACE CAPITAL TITLE REINSURANCE COMPANY

AS OF

DECEMBER 31, 2007

DATE OF REPORT

MARCH 4, 2009

EXAMINER

SHEIK H. MOHAMED

## TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1	Scope of examination	2
2.	Description of Company	3
	A. Management	3
	B. Territory and plan of operation	4
	C. Reinsurance	5
	D. Holding company system	5
	E. Significant operating ratios	6
	F. Accounts and records	7
3.	Financial statements	9
	A. Balance sheet	9
	B. Underwriting and investment exhibit	10
4.	Market conduct activities	11
5.	Compliance with prior report on examination	11
6.	Summary of comments and recommendations	12



STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

March 4, 2009

Honorable Eric R. Dinallo  
Superintendent of Insurance  
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 30216 dated October 7, 2008 attached hereto, I have made an examination into the condition and affairs of ACE Capital Title Reinsurance Company as of December 31, 2007, 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 Insurance Department.

The examination was conducted at the Company's office located at 436 Walnut Street, Philadelphia, PA 19106.

## 1. SCOPE OF EXAMINATION

The Department has performed an examination of ACE Capital Title Reinsurance Company. The previous examination was conducted as of December 31, 2002. This examination covered the five-year period from January 1, 2003 through December 31, 2007. 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, 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 accounts and activities of the company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company’s own control environment assessment. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- 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, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

## 2. DESCRIPTION OF COMPANY

The 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 provides structured reinsurance to the title insurance industry.

On April 15, 2004, ACE Capital Re Overseas Ltd. (“ACRO”), the Company’s previous owner, sold one hundred percent of the common stock of the Company to ACE Bermuda Insurance Ltd. (“ACE Bermuda”). ACE Bermuda is one hundred percent owned by ACE Limited (“ACE”), a Cayman Islands domiciled holding company whose shares are traded on the New York Stock Exchange.

At December 31, 2007, paid in capital was \$2,000,000 consisting of 200,000 shares of common stock at \$10 par value per share. The Company has 200,000 authorized shares. Gross paid in and contributed surplus was \$23,000,000 and was unchanged during the examination period.

### 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 nor more than twenty five members.

At December 31, 2007, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Tracy Ann Discepolo Massapequa, NY	Assistant General Counsel, ACE Risk Management
Seth Bradley Gillston New York, NY	Senior Vice President, ACE Financial Solutions
David Alexander Girardot Philadelphia, PA	Senior Vice President, ACE American Insurance Company
Linda Maureen Kane New York, NY	Vice President, ACE Financial Solutions
Matthew George Merna Mendham, NJ	Executive Vice President and Chief Underwriting Officer, ACE Financial Solutions
James Scott Sanpietro Wantagh, NY	Senior Vice President and Assistant General Counsel, ACE Risk Management
Richard Michael Sica Cold Spring Harbor, NY	Executive Vice President and Chief Compliance Officer, ACE Risk Management

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, 2007, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Matthew George Merna	President
James Scott Sanpietro	Secretary
Francis William McDonnell	Treasurer

B. Territory and Plan of Operation

As of December 31, 2007, the Company was licensed to write business in the States of New York, Michigan, Texas and California. According to its certificate of authority, the Company was empowered to transact the kinds of insurance as defined in paragraph 18 of Section 1113(a) of the New York Insurance Law.

During 2004, the Company discontinued solicitation of all reinsurance business to the title insurance industry. The remaining business previously sold continues to be administered by the Company. The Company does not write direct business.

Based on the lines of business for which the Company is licensed, 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

All of the Company's business is assumed reinsurance. It cedes a small portion of its business through a retrocession arrangement.

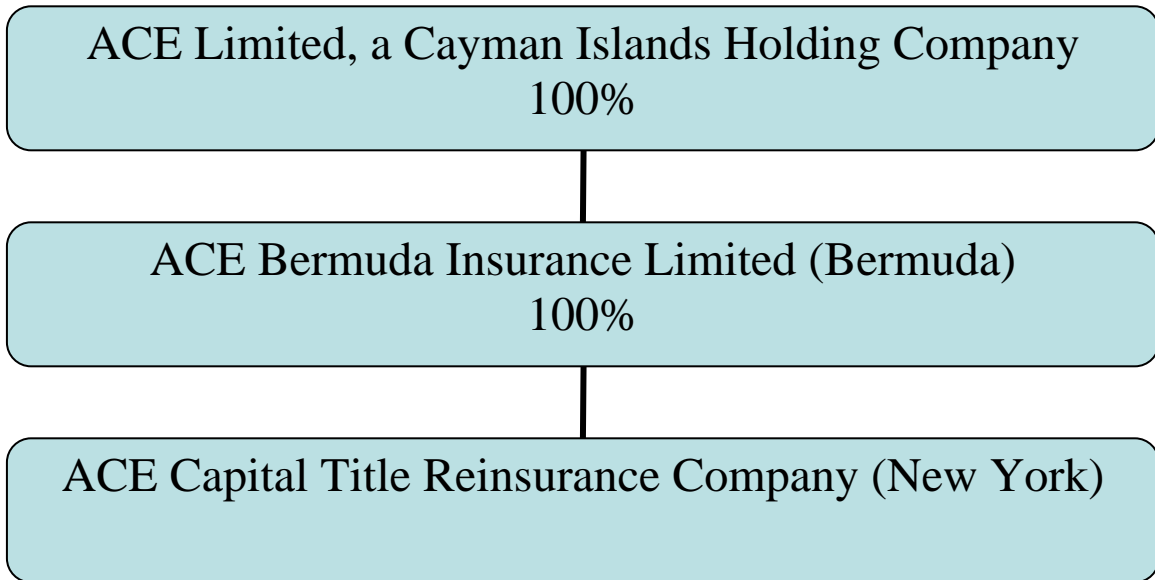
As of December 31, 2007, the Company has only one retrocession agreement in effect. The agreement covers a policy limit of \$195,000,000 excess of \$5,000,000 per risk and was ceded to ACE Bermuda Insurance Limited ("ACE Bermuda"), an affiliated company. The reinsurance treaty met the requirements of Section 1308 of the New York Insurance Law. The agreement was filed with the Department and approved in accordance with Section 1505(d)(2) of the New York Insurance Law.

D. Holding Company System

The Company is a member of the ACE Limited Group of Companies. The Company is 100% owned by, ACE Bermuda Insurance Limited, a Bermuda corporation, which is ultimately controlled by ACE Limited.

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, 2007:



E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2007, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0.01%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	42.42%
Premiums in course of collection to surplus as regards policyholders	0%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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>Ratios</u>
Losses and loss adjustment expenses incurred	\$2,104,942	41.01%
Operating expenses incurred	8,720,146	169.88
Contingent commission expenses incurred	(824,654)	(16.07)
Commission expenses incurred	166,680	3.25
Net underwriting gain or (loss)	<u>(5,034,039)</u>	<u>(98.07)</u>
 Premiums earned	 <u>\$5,133,075</u>	 <u>100.00%</u>

F. Accounts and Records

A review of the Company's accounts, records and annual statement reporting revealed the following:

1. Contract with PricewaterhouseCoopers LLP

The Company retained PricewaterhouseCoopers LLP as its independent certified public accountant ("CPA") for the period under examination. The review of the Company's 2007 contract with PricewaterhouseCoopers LLP revealed that the contract does not comply with the requirements specified in Section 89.2 of Department Regulation 118 and with Section 243.2 of Department Regulation 152. Section 89.2 of Department Regulation 118 states, in part, that:

“. . . such contract must specify that:

- (a) on or before May 31st, the CPA shall provide an audited financial statement of such insurer and of any subsidiary required by section 307(b)(1) of the Insurance Law together with an opinion on the financial statements of such insurer and any such subsidiary for the prior calendar year and an evaluation of the insurer's and any such subsidiary's accounting procedures and internal control systems as are necessary to the furnishing of the opinion;
- (b) any determination by the CPA that the insurer has materially misstated its financial condition as reported to the superintendent or that the insurer does not meet minimum capital or surplus to policyholder requirements set forth in the Insurance Law shall be given by the CPA, in writing, to the superintendent within 15 calendar days following such determination; and

- (c) the workpapers and any communications between the CPA and the insurer relating to the audit of the insurer shall be made available for review by the superintendent at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the superintendent. The CPA must retain for review such workpapers and communications in accordance with the provisions of Part 243 of this Title (Regulation 152). More specifically, such workpapers and communications must be retained by the CPA for the period specified in sections 243.2(b)(7) and (c) of this Title . ”.

It is recommended that the Company ensure that all future contracts entered into with its independent certified public accountants comply with Department Regulation 118.

## 2. Annual Statement Preparation

The Company states on page 13.3 of its 2007 filed Annual Statement that:

“Effective April 1, 2004, a Service Agreement was entered into by and between ACE American Insurance Company (ACE American) and the Company. ACE American provides services including accounting, management, and other administrative services including, but not limited to, auditing litigation, data processing and actuarial services to the Company. In 2007, \$0 was allocated for these services.”

The Company provided a copy of an unexecuted administrative services agreement effective April 1, 2004. The Company also provided a copy of its letter to the Department requesting approval of this agreement. However, there is no letter from the Department to confirm that this agreement was approved. In addition, the Company's certified listing of intercompany agreements does not mention this agreement. It is the Company's position that the administrative services agreement never became effective.

It is recommended that the Company exercise greater care in the preparation its Annual Statement.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2007 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>
Bonds	\$39,445,234	\$ 0	\$39,445,234
Cash and short-term investments	6,696,889	2,225,170	4,471,719
Receivables for securities	9,375	0	9,375
Investment income due and accrued	546,303	0	546,303
Current federal and foreign income tax recoverable and interest thereon	234,729	0	234,729
Net deferred tax asset	5,028,001	5,028,001	0
Receivables from parent, subsidiaries and affiliates	<u>4,617</u>	<u>4,617</u>	<u>0</u>
Total assets	<u>\$51,965,148</u>	<u>\$7,257,788</u>	<u>\$44,707,360</u>
 <u>Liabilities, Surplus and Other Funds</u>			
<u>Liabilities</u>			
Known claims reserve		\$ 114,400	
Statutory premium reserve		12,845,129	
Payable to parent, subsidiaries and affiliates		218,544	
Contingent commissions payable		4,094,364	
Other liabilities		<u>1,359,480</u>	
Total liabilities		\$18,631,917	
 <u>Surplus and Other Funds</u>			
Common capital stock	\$ 2,000,000		
Gross paid in and contributed surplus	23,000,000		
Unassigned funds (surplus)	<u>1,075,443</u>		
Surplus as regards policyholders		<u>26,075,443</u>	
Total liabilities, surplus and other funds		<u>\$44,707,360</u>	

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2004. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2005 through 2007. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$1,510,352 during the five-year examination period January 1, 2003 through December 31, 2007, detailed as follows:

Underwriting Income

Title insurance premiums earned		\$5,133,075
Deductions:		
Losses and loss adjustment expenses incurred	\$2,104,942	
Operating expenses incurred	8,720,146	
Contingent commission expenses incurred	(824,654)	
Commission expenses incurred	<u>166,680</u>	
Total underwriting deductions		<u>10,167,114</u>
Net underwriting gain or (loss)		\$(5,034,039)

Investment Income

Net investment income earned	\$11,342,252	
Net realized capital gain	<u>(542,260)</u>	
Net investment gain or (loss)		10,799,992

Other Income

Other income	<u>\$ 400</u>	
Total other income		<u>400</u>
Net income before federal income taxes		\$5,766,353
Federal and foreign income taxes incurred		<u>267,355</u>
Net income		<u>\$5,498,998</u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2002			\$27,585,795
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income	\$5,498,998		
Change in net deferred income tax	\$5,028,001		
Change in non-admitted assets		\$7,257,788	
Change in net unrealized foreign exchange capital gain (loss)		410	
Dividends to stockholders		2,500,000	
Prior period adjustment	<u>0</u>	<u>2,279,153</u>	
Total gains and losses	<u>\$10,526,999</u>	<u>\$12,037,351</u>	
Net decrease in surplus			<u>\$(1,510,352)</u>
Surplus as regards policyholders per report on examination as of December 31, 2007			<u>\$26,075,443</u>

**4. MARKET CONDUCT ACTIVITIES**

A market conduct review was not deemed necessary because the Company has been in run-off since 2004, and there were no complaints filed against the Company with the Department's Consumer Services Bureau during the exam period.

**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. It is recommended that the Company report contingent commissions payable at current value, and not discount for future value.	8

The Company has complied with this recommendation.

**6. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Accounts and Records</u>	
1.	<u>Contract with PricewaterhouseCoopers LLP</u>	
	It is recommended that the Company ensure that all future contracts entered into with its independent certified public accountants comply with Department Regulation 118.	8
2.	<u>Annual Statement Preparation</u>	
	It is recommended that the Company exercise greater care in the preparation its Annual Statement.	8

Respectfully submitted,

/s/

Sheik H. Mohamed, CFE, CPCU  
Senior Insurance Examiner

STATE OF NEW YORK     )  
  )SS:  
  )  
COUNTY OF NEW YORK )

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

/s/

Sheik H. Mohamed

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2009.

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, Eric R. Dinallo, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Sheik Mohamed**

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

**ACE CAPITAL TITLE REINSURANCE COMPANY**

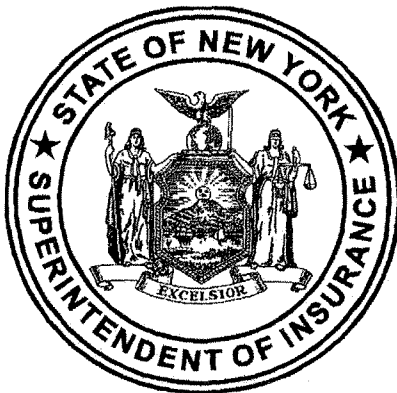
*and to make a report to me in writing of the condition of the said*

**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 7th day of October, 2008*



*Eric Dinallo*

---

ERIC R. DINALLO  
Superintendent of Insurance