



**REPORT ON EXAMINATION
OF
ARIS TITLE INSURANCE CORPORATION
AS OF DECEMBER 31, 2020**

**EXAMINER:
DATE OF REPORT:**

**LEON TAMBUE
AUGUST 16, 2022**

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

August 16, 2022

Honorable Adrienne A. Harris
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 32323 dated December 2, 2021, attached hereto, I have made an examination into the condition and affairs of ARIS Title Insurance Corporation as of December 31, 2020, 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.

1. SCOPE OF EXAMINATION

The Department has performed an examination of Aris Title Insurance Company, a single-state insurer. The previous examination was conducted as of December 31, 2015. This examination covered the five-year period from January 1, 2016, through December 31, 2020. 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 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
- Reinsurance
- Holding company description
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- 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 under the laws of 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.

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 13 members. The board meets at least once during each calendar year. At December 31, 2020, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Timothy David Carter Barrington, Illinois	Chief Underwriting Officer, Argo Group US, Inc.
Lung-Lien William Chen Levittown, New York	Chief Financial Officer, Argo Group US, Inc.
Craig Stephen Comeaux San Antonio, Texas	In-house Counsel and Corporate Secretary, Argo Group US, Inc.
Susan Beth Comparato Glen Ridge, New Jersey	General Counsel, Argo Group US, Inc.
James Kenneth Cornwell Kings Park, New York	Head of Construction Business Unit, Argo Group US, Inc.
Oleg Alexander Ilitchev Brooklyn, New York	Chief Financial Officer - E&S Segment, Argo Group US. Inc.
Patrick James McGinley Bronxville, New York	Professional Lines Claims Leadership, Argo Group US, Inc.

As of December 31, 2020, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Timothy David Carter	President
Austin Warner King	Corporate Secretary
Lauren Therese Welch	Chief Financial Officer
Susan Beth Comparato	General Counsel and Senior Vice President

B. Territory and Plan of Operation

As of December 31, 2020, the Company was licensed to write business solely in New York.

As of the examination date, the Company was only authorized to transact Title insurance as defined in paragraph 18 of Section 1113(a) of the New York Insurance Law:

Based upon the line 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</u>
2016	\$116,523
2017	\$230,587
2018	\$207,758
2019	\$ 38,136
2020	\$ 0

The Company did not assume any premiums during the exam period.

The Company is currently in run-off. Prior to going into run-off, the Company was primarily engaged in the business of issuing art title insurance policies that served the needs of the art marketplace and related fiduciary banking, legal, museum and non-profit communities. The Company distributed its title policies through two brokers that specialized in the placement of insurance coverage for individuals and entities with art related title insurance exposures.

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

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. This cession to its affiliated companies is 100% unauthorized. As such, a funds held account was established for funds deposited from these affiliated unauthorized reinsurers. The funds held account was reviewed and was found adequate to support the total ceded reserves as of the examination date.

The quota share agreement was filed with and was 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.

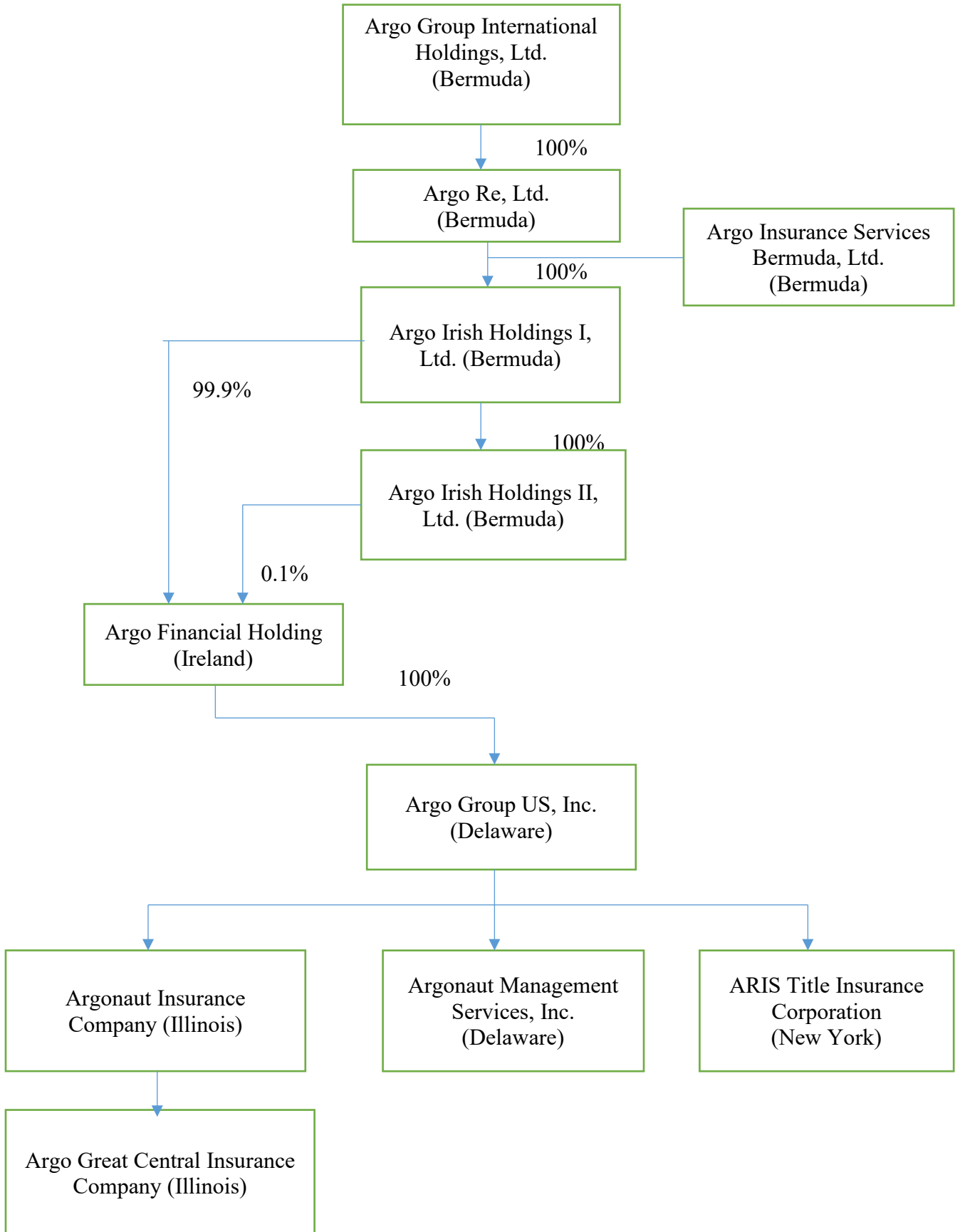
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions.

D. Holding Company System

The Company is a member of the Argo Group. The Company is a wholly owned subsidiary of Argo Group US, Inc., a Delaware corporation, which is ultimately controlled by Argo Group International Holdings, Ltd. (“ARGO”), 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, 2020:



Holding Company Agreements

As of December 31, 2020, 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. (“AMSI”), a Delaware Corporation. Pursuant to this agreement, AMSI 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. The general services agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law and was non-disapproved on February 28, 2012.

This agreement was subsequently amended effective November 1, 2016 (Amendment 1), and in 2018 (Amendment 2). The two amendments were not filed with this Department pursuant to the provisions of Section 1505(d)(3) of New York Insurance Law, which states in pertinent part:

“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...rendering of services on a regular or systematic basis”

It is recommended that the Company file the amendments to its general services agreement with this Department for non-disapproval pursuant to the provisions of Section 1505(d)(3) of the New York Insurance Law.

Tax Allocation Agreement

The Company is a party to a tax allocation agreement with its direct parent, Argo Group US (“AGUS”), and each of the subsidiary insurance companies. Pursuant to this agreement, AGUS 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), and no exceptions were noted. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law and was non-disapproved on January 24, 2012.

E. Significant Ratios

Underwriting Ratios

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>Ratio</u>
Losses and loss adjustment expenses incurred	\$ 285,537	413.94%
Other underwriting expenses incurred	2,411,464	3,495.89%
Net underwriting gain (loss)	<u>(2,628,021)</u>	<u>(3,809.83)%</u>
Premiums earned	<u>\$ 68,980</u>	<u>100.00%</u>

F. Accounts and Records

Minimum capital or minimum surplus to policyholder investments pursuant to Section 1402 of the New York Insurance Law

Pursuant to the provisions of Section 1402 of the New York Insurance Law, before investing its funds in any other investments, the Company is required to maintain investments in an amount equal to or greater than its minimum surplus of \$500,000 in the types of investments specified in Sections 1402(a) and (b) of the New York Insurance Law, which states in pertinent part:

a) Before investing its funds in any other investments, every domestic insurer shall invest and maintain an amount equal to the greater of the minimum capital required by law or the minimum surplus to policyholders required to be maintained by law for a domestic stock corporation authorized to transact the same kinds of insurance, only in investments of the types specified in this section which are not in default as to principal or interest.

b) Not less than sixty percent of the amount of the required minimum capital or surplus to policyholder investments shall consist of the types specified in paragraphs one and two hereof:

- (1) Obligations of the United States or of any agency thereof provided such agency obligations are guaranteed as to principal and interest by the United States.
- (2) Direct obligations of this state or of any county, district, or municipality thereof.

- (3) Direct obligations of any state of the United States.
- (4) Obligations secured by first mortgage loans which meet the standards specified in paragraph four of subsection (a) of section one thousand four hundred four of this article on property located in this state.

As of December 31, 2020, the Company's invested assets consisted of cash in the amount of \$299,086 and cash equivalents comprised of two money market mutual funds in the amount of \$4,601,646. The Company's investments did not include any types of minimum capital or surplus investments specified in Section 1402(b) of the New York Insurance Law, which is required before the Company can invest in any other investments. Cash and cash equivalents are not considered "other investments" pursuant to the statute; however, the two money market mutual funds that the Company has invested in are not included in the National Association of Insurance Commissioners ("NAIC") List of Approved Government Money Market Funds as of December 31, 2020, and therefore, do not qualify as cash equivalents.

It is recommended that the Company either invest an amount equal to or greater than its minimum required capital or surplus to policyholders in the types of investments specified in Section 1402(b) of the New York Insurance Law or invest only in money market funds that are included in the NAIC List of Approved Government Money Market Funds.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2020, 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	\$4,900,732	\$0	\$4,900,732
Receivables for securities	29	0	29
Assessment refunds due	2,666	0	2,666
Total assets	<u>\$4,903,427</u>	<u>\$0</u>	<u>\$4,903,427</u>
 <u>Liabilities, surplus and other funds</u>			
 <u>Liabilities</u>			
Statutory premium reserve			\$ 75,481
Supplemental reserve			135,572
Taxes, licenses and fees (excluding federal and foreign income taxes)			15,604
Current federal and foreign income taxes			238,798
Funds held by company under reinsurance treaties			662,704
Miscellaneous liabilities			<u>19,801</u>
Total liabilities			\$1,147,959
 <u>Surplus and other funds</u>			
Common capital stock	\$ 500,000		
Gross paid in and contributed surplus	11,292,335		
Unassigned funds (surplus)	<u>(8,036,867)</u>		
Surplus as regards policyholders			<u>\$3,755,468</u>
Total liabilities, surplus and other funds			<u>\$4,903,427</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2016 and through 2020. 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 examination period as reported by the Company was \$2,512,380, as detailed below:

Underwriting Income

Title insurance and related income		\$ 68,980
Deductions:		
Losses and loss adjustment expenses incurred	\$ 285,537	
Operating expenses incurred	<u>2,411,464</u>	
Total operating deductions		<u>2,697,001</u>
Net operating gain or (loss)		\$(2,628,021)

Investment Income

Net investment income earned	\$121,767	
Net realized capital gain	<u>(6,126)</u>	
Net investment gain or (loss)		\$ <u>115,641</u>
Net income (loss)		<u>\$(2,512,380)</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$2,911 during the five-year examination period January 1, 2016, through December 31, 2020, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2015			\$3,752,559
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net loss		\$2,512,376	
Change in net unrealized capital gains or (losses)		112	
Change in supplemental reserves		22,700	
Capital changes paid in	<u>\$2,538,099</u>	<u>0</u>	
Total gains and losses	\$2,538,099	\$2,535,188	
Net increase (decrease) in surplus			<u>2,911</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2020			<u>\$3,755,470</u>

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

Capital paid in is \$500,000 consisting of 10,000 shares of \$50 par value per share common stock. Gross paid in and contributed surplus is \$11,292,335. During the examination period, the Company's gross paid in and contributed surplus increased by \$2,538,097 as a result of surplus contributions from its parent, Argo Group US, Inc., as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
12/31/2015	Beginning gross paid in and contributed surplus	\$ 8,754,238
2016	Surplus contribution	\$ 841,180
2017	Surplus contribution	739,324
2018	Surplus contribution	595,433
2019	Surplus contribution	342,041
2020	Surplus contribution	<u>20,119</u>
	Total surplus contributions	<u>2,538,097</u>
12/31/2020	Ending gross paid in and contributed surplus	<u>\$11,292,335</u>

The surplus contributions received in 2016, 2017, 2018, and 2019 exceeded 5% of the Company's admitted assets as of the prior year-end.

Section 1505(c) of the New York Insurance Law states:

"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 New York Insurance Law states, in part:

"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..."

The Company did not receive the superintendent's prior approval for the surplus contributions involving 5% or more of its admitted assets as of the prior year-end, pursuant to the provisions of Section 1505(c) of the New York Insurance Law. Additionally, the Company did not notify the superintendent in writing, at least 30 days prior thereto, of its intention to receive the surplus contributions that were less than 5% of its admitted assets as of the prior year-end, pursuant to the provisions of Section 1505(d)(1) of the New York Insurance Law.

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

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

A. Known Claims Reserve

The Company reported no liability under this caption as of December 31, 2020. The Department approved the Company's request for exemption from filing Statement of Actuarial Opinion for the year ending December 31, 2020.

B. Statutory Premium Reserve

The examination reserve for the captioned item of \$75,481 is the same as reported by the Company as of December 31, 2020. 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 \$135,572 is the same as reported by the Company as of December 31, 2020. 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. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus ("COVID-19") pandemic. The pandemic presented significant uncertainty to the U.S. and global insurance and COVID-19 still unknown. The Department has been in communication with the Syndicate regarding the impact of COVID-19 on its operations and financial position.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM

PAGE NO.

A. Surplus Contributions

It was 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

The Company has not complied with this recommendation. A similar comment is made in this report.

B. Accounts and Records

It is recommended that the Company fully comply with the annual statement instructions when completing all future financial statements filed with the Department. 10

The Company has complied with this recommendation.

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>General Services Agreement</u>	
	It is recommended that the Company file the amendments to its general services agreement with this Department for non-disapproval pursuant to the provisions of Section 1505(d)(3) of the New York Insurance Law	13
B.	<u>Accounts and Records</u>	
	It is recommended that the Company either invest an amount equal to or greater than its minimum required capital or surplus to policyholders in the types of investments specified in Section 1402(b) of the New York Insurance Law or invest only in money market funds that are included in the NAIC List of Approved Government Money Market Funds.	9
C.	<u>Surplus Contributions</u>	
	It is recommended that the Company comply with the requirements of Section 1505 of the New York Insurance Law concerning prior approval and notification for any future surplus contributions.	13

Respectfully submitted,

_____/S/_____
Leon W. Tambue
Senior Insurance Examiner

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

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

_____/S/_____
Leon W. Tambue

Subscribed and sworn to before me

this _____ day of _____, 2024.

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Adrienne A. Harris, 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:

Leon Tambue

as a proper person to examine the affairs of the

ARIS Title Insurance Corporation

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 2nd day of December, 2021

*ADRIENNE A. HARRIS
Acting Superintendent of Financial Services*

By:

Joan Riddell

*Joan Riddell
Deputy Bureau Chief*

