

REPORT ON EXAMINATION AS TO THE CONDITION OF

ARI CASUALTY COMPANY

AS OF DECEMBER 31, 2017

NAIC COMPANY CODE 37680

NAIC GROUP CODE 2538

FILED

June 20, 2019

Commissioner
Department of Banking & Insurance

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State of New Jersey

DEPARTMENT OF BANKING AND INSURANCE OFFICE OF SOLVENCY REGULATION

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May 28, 2019

Honorable Marlene Caride
Commissioner of Banking and Insurance
20 West State Street
P.O. Box 325
Trenton, NJ 08625-0325

Commissioner:

In accordance with the authority vested in you by N.J.S.A. 17:23-22, an examination has been made relative to the affairs of the:

ARI Casualty Company
125 Pheasant Run
Newtown, PA 18940

hereinafter referred to as the "Company" or "ARI Casualty Company".

SCOPE OF EXAMINATION

This examination was called in accordance with N.J.S.A. 17:23-22 to evaluate the business, affairs and operations of ARI Casualty Company.

The New Jersey Department of Banking and Insurance ("NJDOBI") conducted a risk focused examination of ARI Casualty Company for the period of January 1, 2016, through December 31, 2017, and transactions occurring subsequent to that period were reviewed where deemed appropriate by the examiners.

The examination took place concurrently with the examination of other affiliated companies of AmTrust Financial Services, Inc. This group examination was led by the Delaware Insurance Department.

The examination was conducted in accordance with the NAIC Financial Condition Examiner's Handbook. The Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identification, and assessment of inherent risks within the company and evaluation of system controls and procedures used to mitigate those risks. An examination also includes assessment of inherent risks within the Company and evaluation of systems controls and procedures used to mitigate those risks. An examination also includes assessment of the principles used and significant estimates made by management, as well as evaluation of the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations. The general procedure of the examination followed the rules established by the Financial Condition, Examination and Reporting Committee of the NAIC, and included such other examination procedures as were deemed necessary.

During the course of this examination, consideration was given to work performed by both the Company's Internal Audit Department as regards to its oversight of compliance with the Annual Financial Reporting Model Regulation risk analysis, documentation, test work, remediation efforts over weaknesses identified and by the Company's external accounting firm. Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. However, the examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements. In addition, a review was made of the following matters to develop an understanding of the Company's operations and its conformity with the insurance laws of the various jurisdictions in which it operates:

- History and Kind of Business
- Territory and Plan of Operation
- Holding Company System
- Corporate Records
- Management and Control
- Continuity of Operations
- Policy on Conflict of Interest
- Fidelity Bond and Other Insurance Coverages
- Accounts and Records

HISTORY AND KIND OF BUSINESS

The Company was incorporated on June 7, 1904, as Farmers' Reliance of West Jersey. The Company merged with Farmers' Mutual Fire Insurance Company of Warren, New Jersey in 1958 and with Shrewsbury Mutual Fire Insurance Company of Eatontown, New Jersey in 1961.

In 1979 three subsidiaries were formed, Farmers Reliance Holding Company as a holding company, Farmers Reliance Casualty Company, an insurance company offering coverage for casualty lines, and Farmers Reliance Computer Corporation.

On November 1, 1984, the name of the organization was changed to better reflect the image that had evolved. The names were changed to American Reliance Insurance Company (“Mutual”), American Reliance Casualty Company (“Casualty”) and American Reliance Group, Inc. (“Group”). The name of the computer corporation was changed to Farmers Reliance Insurance Computer Corporation to preserve the historical names. In 1986 the Group became a public company with Mutual retaining a majority interest.

In 1989 American Reliance Indemnity Company (“Indemnity”) was formed. The insurance business was reorganized in 1991 such that all of the New Jersey personal automobile business was moved to Indemnity. Indemnity was transferred from the Group to the Mutual.

In 1993, the Company sold substantially all of its insurance business written in 1989 to 1993 (primarily as a result of the significant losses incurred from the 1992 Hurricane Andrew) except the New Jersey private passenger automobile and Florida business, which went into run off. The Company also ceased writing new business at that time.

The right to market the name “American Reliance” was sold and the corporate names were changed to ARI Mutual Insurance Company, ARI Casualty Company, ARI Indemnity Company, ARI Services and ARI Holdings.

In April 1997, Mutual and the Company recommenced issuing insurance policies in the State of New Jersey. Indemnity was sold in the fourth quarter of 2005.

In 2011, it was determined that there was no longer a need for two companies for rating flexibility. The Companies terminated the pooling agreement effective October 1, 2011, and all business was assumed by Mutual through an Assumption Reinsurance agreement.

In 2014, Mutual re-domesticated to Pennsylvania to reflect the location of its corporate headquarters and to have access to more capital alternatives. The Company remains a New Jersey domestic company and may be reactivated to handle New Jersey business in the future.

Effective January 22, 2016, the Company, its parent, Mutual and its affiliate, ARI Services, Inc., were acquired by AmTrust Financial Services, Inc. (“AFSI” or “AmTrust”), a multinational publicly traded property and casualty insurer holding company headquartered in New York, New York. As part of the acquisition Mutual was converted from a mutual insurer to a stock company through demutualization and was renamed ARI Insurance Company.

TERRITORY AND PLAN OF OPERATION

The Company is authorized as a full line property and casualty company including surety and worker's compensation insurance. The Company converted its operations to commercial automobile liability and auto physical damage. On December 1, 2011, the Company entered into an assumption reinsurance novation with its affiliate, ARI Mutual Insurance Company (“ARI Mutual”) whereby all premiums and losses were ceded and assumed by ARI Mutual.

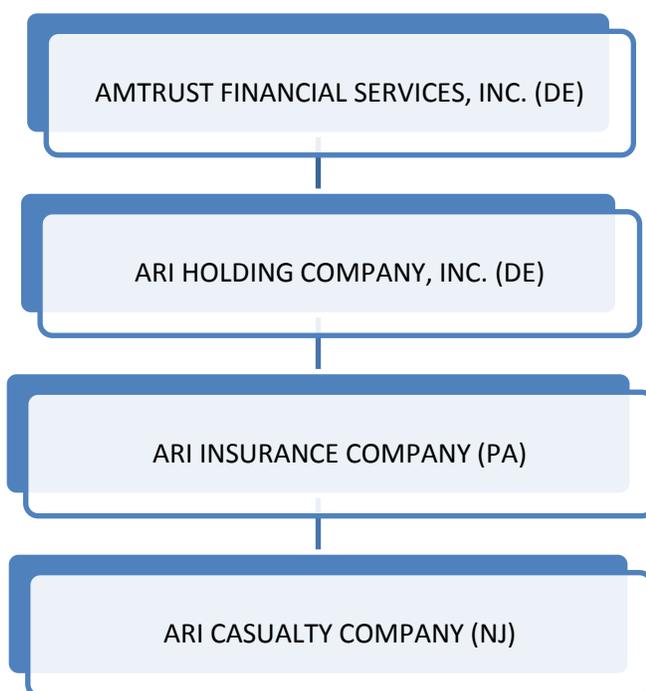
The Company is no longer writing any business although it still maintains licenses in Delaware, Maryland, New Jersey, Pennsylvania, Virginia and the District of Columbia.

The registered agent upon whom process may be served is the Corporation Service Company.

HOLDING COMPANY SYSTEM

The Company is a member of an insurance company holding system as defined in N.J.S.A. 17:27A-1 et seq. Accordingly, the Company has filed with the State of New Jersey an insurance holding company registration as is required under N.J.S.A. 17:27A-3. In accordance with N.J.S.A. 17:27A-4(d)(3) the Company is to maintain a Board of Directors (“Board”) consisting of at least 1/3 independent non-affiliated directors. In accordance with N.J.S.A. 17:27A-4(d)(4) it is also required to maintain a committee(s) consisting fully of independent non-affiliated members to recommend the selection of external auditors, reviewing the Company’s financial condition, evaluating the Company’s officers’ performance and recommending their compensation and other duties as outlined within that N.J.S.A. 17:27A-4(d)(4). Both N.J.S.A. 17:27A-4(d)(3) and N.J.S.A. 17:27A-4(d)(4) were complied with either on the Company level or ultimate parent level (in accordance with N.J.S.A. 17:27A-4(d)(5)).

The following abbreviated organizational chart at December 31, 2017, identifies the insurance companies within the holding company organization:



The Company entered into a tax allocation agreement (“Agreement”) with AmTrust Financial Services, Inc. effective April 19, 2016. Under the Agreement the Company’s tax liability benefit or liability will be based upon its tax obligations in accordance with its filing as a separate entity, however its tax liability could not exceed its tax obligation as if filing a separate return.

CORPORATE RECORDS

The Company’s Certificate of Incorporation and Bylaws were provided and reviewed for compliance.

Minutes of meetings held by the Board revealed adequate approval of the Company's events and transactions.

MANAGEMENT AND CONTROL

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of December 31, 2017:

<u>DIRECTOR</u>	<u>OCCUPATION</u>
Donald DeCarlo	Private Practice Attorney
Stephen Ungar	Senior Vice President, General Counsel and Secretary of AmTrust
Harry Schlachter	Senior Vice President and Treasurer, AmTrust

Officers elected and serving as of December 31, 2017 are indicated below:

Jeffrey Leo-President and Chief Executive Officer
Kerry Heitz-Senior Vice President and Assistant Treasurer
Jeffrey Mayer-Chief Actuary
Barry Moses-Vice President, Regulatory & Compliance and Assistant Secretary
Harry Schlachter-Senior Vice President and Assistant Treasurer
John Tucker Ericson-Senior Vice President, Underwriting and Marketing
Stephen Ungar-Secretary
David Gerth-Senior Vice President, Treasurer, Chief Financial Officer
Patrick Cusack-Senior Vice President, Claims

CONTINUITY OF OPERATIONS

The Company has a disaster plan in place which is tested at least annually.

POLICY ON CONFLICT OF INTEREST

The Company has a Code of Business and Ethics in place as of December 31, 2017, to provide guidelines for all global activities. The Company has a conflict of interest policy in place, which annually requires exempt-salaried employees, officers and directors to file a statement to disclose any possible instance of conflict. Completed questionnaires are to be forwarded to the Chief Compliance Officer for review.

FIDELITY BOND AND INSURANCE COVERAGES

Fidelity Coverage is maintained on a consolidated basis with other subsidiaries of AmTrust Financial Services, Inc. in an amount of \$15 million per single loss with a \$30 million aggregate limit of liability, which is well above the suggested minimum coverage as designated by the NAIC.

ACCOUNTS AND RECORDS

The Company's accounts and records are maintained at its ultimate parent's (AmTrust Financial Services, Inc.) office at 59 Maiden Lane, New York, New York 10038.

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EXHIBIT A

Comparative Statement of Assets, Liabilities and Surplus for the Period Ending December 31, 2017

<u>ASSETS</u>	<u>Balance Per</u> <u>Examination</u>	<u>Balance Per</u> <u>Company</u>	<u>Examination</u> <u>Change</u>	<u>Note</u> <u>Number</u>
Bonds	\$ 7,568,221	\$ 7,568,221	\$	1
Cash and Cash Equivalents	553,369	553,369		
Investment Income Due and Accrued	21,962	21,962		
Current Federal Tax Recoverable	181,014	181,014		
Net Deferred Tax Assets	97,990	97,990		
Aggregate Write Ins for Assets	<u>500</u>	<u>500</u>	<u> </u>	
 Total Assets	 <u>\$ 8,423,056</u>	 <u>\$ 8,423,056</u>	 <u>\$</u>	
 <u>LIABILITIES</u>				
 Total Liabilities	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$</u>	
 <u>SURPLUS</u>				
Common Capital Stock	\$ 3,525,000	\$ 3,525,000	\$	
Gross Paid In and Contributed Surplus	11,085,186	11,085,186		
Unassigned Funds	<u>(6,187,130)</u>	<u>(6,187,130)</u>	<u> </u>	
 Total Surplus	 <u>\$ 8,423,056</u>	 <u>\$ 8,423,056</u>	 <u>\$</u>	
 Total Liabilities and Surplus	 <u>\$ 8,423,056</u>	 <u>\$ 8,423,056</u>	 <u>\$</u>	

Exhibit B
SUMMARY OF OPERATIONS FOR THE TWO YEAR PERIOD ENDING
DECEMBER 31, 2017

	<u>December</u> <u>31, 2016</u>	<u>December</u> <u>31, 2017</u>
<u>UNDERWRITING INCOME</u>	\$	\$
<u>INVESTMENT INCOME</u>		
Net Investment Income Earned	\$ 114,188	\$ 202,800
Net Realized Capital Gains	<u>32,952</u>	<u>6,834</u>
Net Investment Income	\$ 147,140	\$ 209,634
<u>OTHER INCOME</u>	<u>\$</u>	<u>\$</u>
<u>Net Income Before Federal Income Taxes</u>	\$ 147,140	\$ 209,634
Federal Income Taxes Incurred	<u>\$ (6,109)</u>	<u>\$ (174,905)</u>
<u>Net Income</u>	<u>\$ 153,249</u>	<u>\$ 384,539</u>

Exhibit C

CAPITAL AND SURPLUS ACCOUNT FOR THE TWO YEAR PERIOD ENDING

DECEMBER 31, 2017

	<u>December</u> <u>31, 2016</u>	<u>December</u> <u>31, 2017</u>
<u>NET INCOME</u>	<u>\$ 153,249</u>	<u>\$ 384,539</u>
 <u>OTHER SURPLUS GAINS AND LOSSES</u>		
Change in Net Unrealized Capital Gains	\$ 2	-
Change in Net Deferred Income Tax	1,226,877	(638,934)
Change in Non Admitted Assets	<u>(1,063,560)</u>	<u>573,607</u>
Total Other Surplus Gains and Losses	<u>\$ 163,319</u>	<u>\$ (65,327)</u>
 Change In Surplus As Regards to Policyholders For the Current Year	 <u>\$ 316,568</u>	 <u>\$ 319,212</u>
 Surplus As Regards Policyholders for December 31, Previous Year	 <u>\$ 7,787,276</u>	 <u>\$ 8,103,844</u>
 Surplus As Regards Policyholders for December 31, Current Year	 <u>\$ 8,103,844</u>	 <u>\$ 8,423,056</u>

NOTES TO FINANCIAL STATEMENTS

Note 1-Statutory Deposits

The following securities were held on deposit by states on behalf of the Company as of December 31, 2017:

STATE	TYPE OF DEPOSIT	BOOK VALUE
Delaware	Cash and Cash Equivalents	\$ 258,173
New Jersey	Bond	568,355
Virginia	Cash and Cash Equivalents	225,000

SUBSEQUENT EVENTS

On November 29, 2018 the Company's ultimate parent AFSI announced the purchase of all publicly held shares by Evergreen Parent L.P. (a private equity firm managed by Stone Point Capital LLC), AFSI Chairman and CEO Barry Zyskind, George Karfunkel and Leah Karfunkel (collectively the "Zyskind-Karfunkel Family") These shares represent 45% of the shares not already owned or controlled by the Zyskind-Karfunkel Family and its certain affiliates and related parties. Under the terms of the agreement each shareholder of AmTrust stock received \$14.75 per share valuing AFSI at \$2.95 billion. This transaction was approved by AFSI stockholders on June 21, 2018, and on November 27, 2018, AFSI announced it had received all regulatory approvals of the transaction.

CONCLUSION

The examination of ARI Casualty Insurance Company as of December 31, 2017 was conducted by the undersigned. The courteous cooperation and assistance extended during the course of this examination by the Officers of the Company and members of the office staff are hereby acknowledged.

Respectfully submitted.



Robert A. Pietras

NOTARIZATION – ARI CASUALTY COMPANY

I, Robert A. Pietras, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of ARI Casualty Company as of December 31, 2017 to the best of my information, knowledge and belief.

Respectfully submitted.



Robert A. Pietras, CFE
Certified Financial Examiner
New Jersey Department of Banking and Insurance

SWORN AND SUBSCRIBED BEFORE ME
ON THIS DAY 22 MAY of 2020

MY COMMISSION EXPIRES ON 3/31/2024 Notary Public Signature Linda L. Boone